UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-32108

Hornbeck Offshore Services, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**72-1375844**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

103 NORTHPARK BOULEVARD, SUITE 300
COVINGTON, LA 70433
(Address of Principal Executive Offices) (Zip Code)
(985) 727-2000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The total number of shares of common stock, par value $.01 per share, outstanding as of October 31, 2017 was 37,050,416.

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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PART 1—FINANCIAL INFORMATION

Item 1—Financial Statements

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	September 30, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 112,836	$ 217,027
Accounts receivable, net of allowance for doubtful accounts of $6,052 and $2,120, respectively	50,229	36,550
Other current assets	13,152	16,978
Total current assets	176,217	270,555
Property, plant and equipment, net	2,522,042	2,578,388
Deferred charges, net	12,760	19,077
Other assets	10,169	10,255
Total assets	$ 2,721,188	$ 2,878,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,023	$ 11,774
Accrued interest	13,709	14,763
Accrued payroll and benefits	9,275	8,596
Other accrued liabilities	10,756	10,010
Total current liabilities	48,763	45,143
Long-term debt, including deferred gain of $19,689 and $0, and net of original issue discount of $7,598 and $31,093 and deferred financing costs of $10,971 and $10,197, respectively	1,014,031	1,083,710
Deferred tax liabilities, net	308,717	343,020
Other liabilities	3,996	3,406
Total liabilities	1,375,507	1,475,279
Stockholders' equity:		
Preferred stock: $0.01 par value; 5,000 shares authorized; no shares issued and outstanding	—	—
Common stock: $0.01 par value; 100,000 shares authorized; 37,028 and 36,467 shares issued and outstanding, respectively	370	365
Additional paid-in-capital	758,690	754,394
Retained earnings	574,840	637,992
Accumulated other comprehensive income	11,781	10,245
Total stockholders' equity	1,345,681	1,402,996
Total liabilities and stockholders' equity	$ 2,721,188	$ 2,878,275

The accompanying notes are an integral part of these consolidated statements.

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Revenues:				
Vessel revenues	$ 45,637	$ 43,670	$ 110,825	$ 157,170
Non-vessel revenues	8,029	8,257	24,346	25,250
	53,666	51,927	135,171	182,420
Costs and expenses:				
Operating expenses	30,082	29,375	89,385	104,134
Depreciation	24,682	23,467	74,038	68,298
Amortization	2,473	4,580	9,463	16,675
General and administrative expenses	12,899	9,031	36,573	30,084
	70,136	66,453	209,459	219,191
Gain (loss) on sale of assets	(197)	81	(178)	36
Operating loss	(16,667)	(14,445)	(74,466)	(36,735)
Other income (expense):				
Gain on early extinguishment of debt	—	—	15,478	—
Interest income	447	401	1,312	1,164
Interest expense	(11,956)	(12,820)	(39,194)	(34,888)
Other income (expense), net	106	1,592	(163)	2,048
	(11,403)	(10,827)	(22,567)	(31,676)
Loss before income taxes	(28,070)	(25,272)	(97,033)	(68,411)
Income tax benefit	(9,120)	(8,769)	(30,696)	(23,808)
Net loss	$ (18,950)	$ (16,503)	$ (66,337)	$ (44,603)
Loss per share:				
Basic loss per common share	$ (0.51)	$ (0.45)	$ (1.80)	$ (1.23)
Diluted loss per common share	$ (0.51)	$ (0.45)	$ (1.80)	$ (1.23)
Weighted average basic shares outstanding	37,013	36,338	36,794	36,205
Weighted average diluted shares outstanding	37,013	36,338	36,794	36,205

The accompanying notes are an integral part of these consolidated statements.

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net loss	$ (18,950)	$ (16,503)	$ (66,337)	$ (44,603)
Other comprehensive income:				
Foreign currency translation income (loss)	2,743	(908)	1,536	19,770
Total comprehensive loss	$ (16,207)	$ (17,411)	$ (64,801)	$ (24,833)

The accompanying notes are an integral part of these consolidated statements.

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30, 2017	2016
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (66,337)	$ (44,603)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	74,038	68,298
Amortization	9,463	16,675
Stock-based compensation expense	5,740	6,557
Gain on early extinguishment of debt	(15,478)	—
Provision for bad debts	3,932	(719)
Deferred tax benefit	(33,766)	(21,097)
Amortization of deferred financing costs and deferred gain	7,013	8,131
(Gain) loss on sale of assets	178	(36)
Changes in operating assets and liabilities:		
Accounts receivable	(23,898)	50,321
Other current and long-term assets	4,062	591
Deferred drydocking charges	(6,950)	(3,214)
Accounts payable	11,157	(8,406)
Accrued liabilities and other liabilities	2,697	(14,073)
Accrued interest	(1,054)	(1,264)
Net cash provided by (used in) operating activities	(29,203)	57,161
CASH FLOWS FROM INVESTING ACTIVITIES:		
Costs incurred for OSV newbuild program	(12,363)	(73,198)
Net proceeds from sale of assets	34	506
Vessel capital expenditures	(1,299)	(18,706)
Non-vessel capital expenditures	(1,468)	(414)
Net cash used in investing activities	(15,096)	(91,812)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from first-lien credit facility	980	—
Repurchase of senior notes	(5,057)	—
Repurchase of convertible notes	(49,631)	—
Deferred financing costs	(5,636)	(1,102)
Shares withheld for payment of employee withholding taxes	(575)	(450)
Net cash proceeds from other shares issued	258	732
Net cash used in financing activities	(59,661)	(820)
Effects of exchange rate changes on cash	(231)	1,131
Net decrease in cash and cash equivalents	(104,191)	(34,340)
Cash and cash equivalents at beginning of period	217,027	259,801
Cash and cash equivalents at end of period	$ 112,836	$ 225,461
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Cash paid for interest	$ 40,028	$ 38,871
Cash paid for income taxes	$ 1,044	$ 2,688
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:		
Exchange of convertible notes for first-lien term loan	$ 127,096	$ —

The accompanying notes are an integral part of these consolidated statements.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by United States generally accepted accounting principles, or GAAP. The interim financial statements and notes are presented as permitted by instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements have been included and consist only of normal recurring items. The unaudited quarterly financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Annual Report on Form 10-K of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the “Company”) for the year ended December 31, 2016. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. Certain reclassifications have been made to prior period results to conform to current year presentation.

The consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

2. Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that could have a material effect on our financial statements:

Standard	Description	Required Date of Adoption	Effect on the financial statements and other significant matters
Standards that have been adopted			
Accounting Standards Update (ASU) No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"	This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures and classification of related amounts within the statement of cash flows.	January 1, 2017	The adoption of this ASU had the following impact on our consolidated financial statements: 1) The Company recorded a $3.2 million adjustment to equity to recognize excess tax deductions related to stock based compensation expense from prior years. The prior period presentation has not been restated. 2) The Company recorded $1.9 million of tax shortfall in its provision for income taxes rather than as a decrease to equity. The prior period presentation has not been restated. 3) The Company recorded $0.6 million related to employee withholding taxes paid as a financing activity in the nine months ended September 30, 2017. The prior year statement of cash flows was restated to reflect $0.5 million related to employee taxes paid. There was no impact on the calculation of earnings per share as all outstanding stock options were anti-dilutive at September 30, 2017. In addition, the Company has elected to continue estimating the forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Standard	Description	Required Date of Adoption	Effect on the financial statements and other significant matters
Standards that have not been adopted			
ASU No. 2017-04, "Simplifying the Accounting for Goodwill Impairment"	The standard removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 requires prospective application. Early adoption is permitted for any impairment tests performed after January 1, 2017.	January 1, 2020	The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.
ASU No. 2017-01, "Business Combinations" (Topic 805): Clarifying the Definition of a Business	This standard provides guidance to assist entities with evaluating when a set of transferred assets and activities is a business. ASU 2017-01 requires prospective application.	January 1, 2018	The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.
ASU No. 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory"	The standard requires the recognition of the tax effects of an intra-entity asset transfer in the period in which the transfer takes place. The new guidance does not apply to intra-entity transfers of inventory. ASU No. 2016-16 requires a modified retrospective approach. Early adoption is permitted.	January 1, 2018	The Company is evaluating the effect of this new standard on its financial statements and related disclosures.
ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments"	The standard clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. ASU No. 2016-15 requires retrospective application. Early adoption is permitted.	January 1, 2018	The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.
ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	This standard requires measurement and recognition of expected credit losses for financial assets held. ASU No. 2016-13 requires modified retrospective application. Early adoption is permitted.	January 1, 2020	The Company believes that the implementation of this new guidance will not have a material impact on its consolidated financial statements.
ASU No. 2016-02, "Leases" (Topic 842)	This standard requires lessees to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. ASU 2016-02 requires a modified retrospective application. Early adoption is permitted.	January 1, 2019	While the Company is continuing to evaluate the effect this new standard will have on its financial statements and related disclosures, it has identified long-term operating leases, which under the new standard, will be treated as capital leases on date of adoption.

Standard	Description	Required Date of Adoption	Effect on the financial statements and other significant matters
Standards that have not been adopted			
ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606)	This standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 requires retrospective application.	January 1, 2018	The Company has performed an initial evaluation of this standard and its impact on the financial statements. This included tasks such as identifying contracts, identifying performance obligations and reviewing the applicable revenue streams. In this review, nothing has been identified that would require a significant change in the current accounting for revenue. The Company will continue to review these new requirements including the new revenue disclosure requirements prior to implementation which is expected under the modified retrospective method.

3. Loss Per Share

Basic loss per common share was calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share was calculated by dividing net loss by the weighted average number of common shares outstanding during the year plus the effect of dilutive stock options and restricted stock unit awards. When reporting a net loss, the Company uses weighted average basic shares outstanding to calculate diluted earnings per share. Weighted average number of common shares outstanding was calculated by using the sum of the shares determined on a daily basis divided by the number of days in the period. The table below reconciles the Company’s loss per share (in thousands, except for per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	$ (18,950)	$ (16,503)	$ (66,337)	$ (44,603)
Weighted average number of shares of common stock outstanding	37,013	36,338	36,794	36,205
Add: Net effect of dilutive stock options and unvested restricted stock (1)(2)(3)	—	—	—	—
Weighted average number of dilutive shares of common stock outstanding	37,013	36,338	36,794	36,205
Loss per common share:				
Basic loss per common share	$ (0.51)	$ (0.45)	$ (1.80)	$ (1.23)
Diluted loss per common share	$ (0.51)	$ (0.45)	$ (1.80)	$ (1.23)

(1) Due to a net loss, the Company excluded from the calculation of loss per share the effect of equity awards representing the rights to acquire 990 and 988 shares of common stock for the three and nine months ended September 30, 2017 and 988 and 974 shares of common stock for the three and nine months ended September 30, 2016, respectively.
(2) For the three and nine months ended September 30, 2017 and 2016, the 2019 convertible senior notes were not dilutive, as the average price of the Company’s stock was less than the effective conversion price of such notes. It is the Company's stated intention to redeem the principal amount of its 2019 convertible senior notes in cash and the Company has used the treasury method for determining potential dilution in the diluted earnings per share computation.
(3) Dilutive unvested restricted stock units are expected to fluctuate from quarter to quarter depending on the Company’s performance compared to a predetermined set of performance criteria. See Note 6 to these financial statements for further information regarding certain of the Company’s restricted stock grants.

4. Property, Plant and Equipment

Asset Impairment Assessment

In accordance with ASC 360, the Company periodically reviews long-lived asset valuations when events or changes in circumstances indicate that an asset’s carrying value may not be recoverable. If indicators of impairment exist, the Company assesses the recoverability of its long-lived assets by comparing the projected future undiscounted cash flows associated with the related long-lived asset group over their remaining estimated useful lives. If the sum of the estimated undiscounted cash flows are less than the carrying amounts of the asset group, the assets are written down to their estimated fair values based on the expected discounted future cash flows or appraised values attributable to the assets. The future cash flows are subjective and are based on the Company's current assumptions regarding future dayrates, utilization, operating expense, G&A expense and recertification costs that could differ from actual results.

During the second quarter of 2016, the Company determined that it observed indicators of impairment related to its vessels. This resulted from the rapid deterioration of its second quarter 2016 operating results, as well as the uncertainty regarding future market conditions and the related impact on the Company's projected operating results. As a result, the Company calculated the probability-weighted undiscounted cash flows for its two vessel groups, OSVs and MPSVs, to test for recoverability. After reviewing the results of this calculation, the Company determined that each of its asset groups had sufficient projected undiscounted cash flows to recover the remaining book value of the Company's long-lived assets within such groups. While the Company has not observed any new impairment indicators since the second quarter of 2016, the Company does review and update, as necessary, the assumptions used in determining its undiscounted cash flow projections for each asset group to reflect current market conditions. After reviewing the result of these projections, the Company determined that each of its asset groups has sufficient projected undiscounted cash flows to recover the remaining book value of the Company's long-lived assets within such group.

5. Long-Term Debt

As of the dates indicated, the Company had the following outstanding long-term debt (in thousands):

	September 30, 2017	December 31, 2016
5.875% senior notes due 2020, net of deferred financing costs of $2,286 and $3,025	$ 364,656	$ 371,975
5.000% senior notes due 2021, net of deferred financing costs of $3,384 and $4,111	446,616	445,889
1.500% convertible senior notes due 2019, net of original issue discount of $7,579 and $31,093 and deferred financing costs of $1,698 and $3,061	90,370	265,846
First-lien credit facility due 2023, including deferred gain of $19,689 and $0, and net of original issue discount of $19 and $0, and deferred financing costs of $3,603 and $0	112,389	—
	$ 1,014,031	$ 1,083,710

The table below summarizes the Company's cash interest payments (in thousands):

	Cash Interest Payments	Payment Dates
5.875% senior notes due 2020	$ 10,779	April 1 and October 1
5.000% senior notes due 2021	11,250	March 1 and September 1
1.500% convertible senior notes due 2019	747	March 1 and September 1
First-lien credit facility due 2023 (1)	581	Variable

(1) The interest rate on the first-lien credit facility is variable based on the Company's election. The amount reflected in this table is the monthly amount payable based on the 30-day LIBOR interest rate that was elected and in effect on September 30, 2017. Please see further discussion of the variable interest rate below.

First-Lien Credit Facility

On June 15, 2017, the Company closed on a new $300 million first-lien delayed-draw term loan credit facility by and among the Company, as Parent Borrower, Hornbeck Offshore Services, LLC, or HOS, as Co-Borrower, certain holders of the Company's outstanding notes, or the Initial Lenders, and Wilmington Trust, National Association, as Administrative Agent and Collateral Agent for the lenders, or the New Credit Facility. The Company concurrently terminated its then-existing $200 million senior secured revolving credit facility, dated February 6, 2015 as subsequently amended, or the Old Credit Facility. The New Credit Facility is guaranteed by the Parent Borrower's significant domestic subsidiaries other than HOS. The six-year term of the New Credit Facility extended the February 2020 maturity that was applicable under the Old Credit Facility to June 2023.

The New Credit Facility enhanced the Company's financial flexibility by (i) increasing liquidity from the then-applicable borrowing base of $75.0 million under the Old Credit Facility, (ii) extending the maturity date that existed under the Old Credit Facility by over three years, and (iii) eliminating all of the existing financial ratio maintenance covenants and the anti-cash hoarding provision of the Old Credit Facility. The New Credit Facility contains customary representations and warranties, covenants and events of default.

The Company can use the amounts it draws under the New Credit Facility for working capital and general corporate purposes, including the acquisition of distressed assets and/or the refinancing of existing debt, subject to, among other things, compliance with certain covenants requiring the Company to maintain access to liquidity (cash and credit availability) of $25.0 million at all times. The minimum liquidity level required for prepayment of the Company's existing indebtedness and/or certain other restricted payments is $65.0 million.

The Company is required to draw on a cumulative basis (i) at least $68.0 million of the delayed-draw commitments under the New Credit Facility by December 31, 2017, (ii) at least $136.0 million of such commitments by December 31, 2018, and (iii) the full amount of the remaining $203.7 million of such commitments by September 1, 2019. The right to borrow any amount of the delayed-draw commitments not drawn by the respective minimum funding dates will be terminated.

The New Credit Facility is collateralized by 51 domestic high-spec OSVs and MPSVs, including a security interest in two pending MPSV newbuilds, and associated personalty, as well as by certain deposit and securities accounts, or the Collateral. Subject to the foregoing and certain limitations, the Company's other assets that do not arise from, are not required for use in connection with, and are not necessary for, the operation of mortgaged vessels are unencumbered by liens, including ten low-spec domestic OSVs and eleven foreign-flagged vessels.

Borrowings under the New Credit Facility accrue interest, at the Company's option, at either:

- an adjusted London Interbank Offered Rate (subject to a 1.00% floor) plus (a) 6.00% during the first year of the New Credit Facility, (b) 6.50% during the second year of the New Credit Facility, (c) 7.00% during the third year of the New Credit Facility, (d) 7.25% during the fourth year of the New Credit Facility, and (e) 7.50% thereafter; or
- the greatest of (a) the prime rate announced by The Wall Street Journal, (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%, and (c) the London Interbank Offered Rate plus, 1%, plus, for either (a), (b), or (c), a margin of (i) 5.00% during the first year of the New Credit Facility, (ii) 5.50% during the second year of the New Credit Facility, (iii) 6.00% during the third year of the New Credit Facility, (iv) 6.25% during the fourth year of the New Credit Facility, and (v) 6.50% thereafter.

The Company also has the option, exercisable anytime or from time-to-time during the six-year term of the loan, of paying interest on the New Credit Facility "in-kind" (accruing to the outstanding principal of the loan, or PIK Interest), subject to a 100 basis-point step-up in interest rate and a minimum 3% cash-pay coupon for so long as the Company elects to pay PIK Interest, subject to any and all debt incurrence and permitted lien restrictions then in effect under any outstanding loan agreements or bond indentures as of the time of such increase in principal.

The New Credit Facility may be prepaid at (i) 102% of the principal amount repaid if such repayment occurs on or prior to June 15, 2018, (ii) at 101% of the principal amount repaid if such repayment occurs after June 15, 2018 but on or prior to June 15, 2019, and (iii) at par of the principal repaid thereafter.

Upon closing the New Credit Facility, $95.3 million of borrowings under such facility were exchanged for $127.1 million in face value of its 2019 convertible senior notes. In accordance with applicable accounting guidance, this debt-for-debt exchange has been accounted for as a debt modification, requiring the Company to defer the $31.8 million gain. Such gain was reduced by $11.1 million of original issue discount that was associated with the 2019 convertible senior notes that were exchanged. The net credit of $20.7 million has been deferred and will be amortized prospectively as a yield adjustment to interest expense over the life of the New Credit Facility.

The agreement governing the New Credit Facility and the indentures governing the Company's 2020 senior notes and 2021 senior notes impose certain restrictions on the Company. Such restrictions affect, and in many cases limit or prohibit, among other things, the Company's ability to incur additional indebtedness, make capital expenditures, redeem equity, create liens, sell assets and make dividend or other restricted payments.

Convertible Note and Senior Note Repurchases

Concurrently with the closing of the New Credit Facility, the Company arranged for the repurchase of $73.3 million of its outstanding 2019 convertible senior notes and $8.1 million of its outstanding 2020 senior notes for an aggregate total of $54.1 million of cash. The Company recorded a gain on early extinguishment of debt of $15.5 million ($10.5 million or $0.29 per diluted share after-tax), which was comprised of a $27.2 million gain on the repurchase of the 2019 convertible senior notes and the 2020 senior notes, offset in part by the write-off of $2.3 million in deal costs and unamortized financing costs related to the credit facilities and $9.4 million of original issue discount, deal costs and unamortized financing costs related to the notes repurchased.

The Company estimates the fair value of its 2020 senior notes, 2021 senior notes, 2019 convertible senior notes and New Credit Facility by primarily using quoted market prices. Given the observability of the inputs to these estimates, the Company has assigned a Level 2 of the three-level valuation hierarchy for such outstanding notes.

As of the dates indicated below, the Company had the following face values, carrying values and fair values (in thousands):

	September 30, 2017			December 31, 2016		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
5.875% senior notes due 2020	$ 366,942	$ 364,656	$ 239,668	$ 375,000	$ 371,975	$ 270,938
5.000% senior notes due 2021	450,000	446,616	226,125	450,000	445,889	301,343
1.500% convertible senior notes due 2019	99,647	90,370	78,970	300,000	265,846	216,195
First-lien credit facility due 2023 (1)	96,322	112,389	96,201	—	—	—
	$ 1,012,911	$ 1,014,031	$ 640,964	$ 1,125,000	$ 1,083,710	$ 788,476

(1) The carrying value of the first-lien credit facility due 2023 includes a deferred gain of $19,689 less original issue discount and deferred financing costs of $3,622.

Capitalized Interest

During the three and nine months ended September 30, 2017, the Company capitalized approximately $2.7 million and $7.6 million, respectively, of interest costs related to the construction of vessels. During the three and nine months ended September 30, 2016, the Company capitalized approximately $4.2 million and $14.3 million, respectively, of interest costs related to the construction of vessels.

6. Incentive Compensation

Stock-Based Incentive Compensation Plan

The Company's stock-based incentive compensation plan covers a maximum of 4.95 million shares of common stock that allows the Company to grant restricted stock awards, restricted stock unit awards, or collectively restricted stock, stock options, stock appreciation rights and fully-vested common stock to employees and directors. As of September 30, 2017, the Company has granted awards covering 4.86 million shares of common stock under such plan.

During the nine months ended September 30, 2017, the Company granted phantom restricted stock units, time-based restricted stock units and fully-vested common stock as noted in the table below.

	Directors	Executive Officers	Certain Managers
Performance-based phantom restricted stock units		X	
Time-based phantom restricted stock units		X	X
Time-based restricted stock units		X	
Fully-vested common stock	X		

The shares to be received under the performance-based phantom restricted stock units are calculated based on the Company's performance compared to two pre-determined criteria, as defined by the phantom restricted stock agreements governing such awards. The actual number of shares that could be received by the award recipients can range from 0% to 150% of the awards granted depending on the Company's performance. During the nine months ended September 30, 2017, the Company granted 341,136 time-based restricted stock units, 394,027 time-based and 454,849 performance-based phantom restricted stock units and 246,999 shares of fully-vested common stock.

The fair value of the Company's performance-based restricted stock units and performance-based phantom restricted stock units, which is the stock price on the date of grant, is applied to the total shares that are expected to fully vest and is amortized over the vesting period, which is generally three years, based on the Company's internal performance measured against the pre-determined criteria, as applicable. The compensation expense related to time-based restricted stock units and time-based phantom restricted stock units are amortized over a vesting period of up to three years, as applicable, and is determined based on the market price of the Company's stock on the date of grant applied to the total shares that are expected to fully vest. In addition, all phantom restricted stock units are re-measured quarterly and classified as a liability, due to the settlement of these awards in cash. In addition to the restricted stock units granted in 2017, the Company granted performance-based and time-based restricted stock units and phantom stock units in prior years. During the nine months ended September 30, 2017, the Company issued 561,466 shares, in the aggregate, of common stock due to: 1) vestings of restricted stock units, 2) employee purchases under the Company's Employee Stock Purchase Plan and 3) the issuance of fully-vested common stock.

The impact of stock-based compensation expense charges on the Company's operating results are reflected in the table below (in thousands, except for per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Income before taxes	$ 2,726	$ 2,341	$ 5,740	$ 6,557
Net income	$ 1,840	$ 1,529	$ 3,924	$ 4,275
Earnings per common share:				
Basic earnings per common share	$ 0.05	$ 0.04	$ 0.11	$ 0.12
Diluted earnings per common share	$ 0.05	$ 0.04	$ 0.11	$ 0.12

7. Commitments and Contingencies

Vessel Construction

The remaining two vessels under the Company's fifth OSV newbuild program are expected to be delivered in 2018. The aggregate cost of this nearly completed 24-vessel newbuild program, before construction period interest, is expected to be approximately $1,335.0 million, of which $4.8 million, and $60.7 million are expected to be incurred in the remainder of 2017 and fiscal 2018 respectively. From the inception of this program through September 30, 2017, the Company had incurred $1,269.5 million, or 95.1%, of total expected project costs.

Contingencies

In the normal course of its business, the Company becomes involved in various claims and legal proceedings in which monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect the Company's financial position or results of operations. The Company insures against losses relating to its vessels, pollution and third party liabilities, including claims by employees under Section 33 of the Merchant Marine Act of 1920, or the Jones Act. Third party liabilities and pollution claims that relate to vessel operations are covered by the Company's entry in a mutual protection and indemnity association, or P&I Club, as well as by marine liability policies in excess of the P&I Club's coverage. The Company provides reserves for any individual claim deductibles for which the Company remains responsible by using an estimation process that considers Company-specific and industry data, as well as management's experience, assumptions and consultation with outside counsel. As additional information becomes available, the Company will assess the potential liability related to its pending claims and revise its estimates. Although historically revisions to such estimates have not been material, changes in estimates of the potential liability could materially impact the Company's results of operations, financial position or cash flows.

During 2013, the Company commenced the process of assigning the in-country vessel management services for its four vessels then operating in Brazil from a third-party provider to a wholly-owned subsidiary of the Company. As a result, this assignment has been interpreted by local authorities as a new importation of these vessels resulting in an importation assessment. The Company disagrees with this interpretation. During the third quarter of 2015, the Brazilian court ruled in the Company's favor related to these claims and this decision was appealed by local authorities to another court. During the third quarter of 2017, the Brazilian court made a final ruling in the Company's favor relating to the importation of three of the vessels. As of September 30, 2017, no decision has been made on the fourth vessel which could result in an assessment ranging from $0.5 million to $1.0 million. This potential assessment has not been assessed or recorded in the Company's financial statements. While the Company cannot estimate the amounts or timing of the resolution of this matter, the Company believes that the outcome will not have a material impact on its liquidity or financial position.

During 2012, a customer, ATP Oil and Gas, Inc., initiated a reorganization proceeding under Chapter 11 of the United States Bankruptcy Code, which in June 2014 was converted to a Chapter 7 case. The Company believes its receivables from ATP, of $4.8 million, are secured under the Louisiana Oil Well Lien Act. A legal challenge related to the Company's liens was raised in the bankruptcy proceedings by parties whose interests are affected by the liens. The Company pursued this claim in Bankruptcy Court and during the first quarter of 2017 a district court judge ruled that the Company's claim is not secured. That ruling has been appealed by the Company. As a result of such ruling, the Company increased its reserve related to this receivable to $4.8 million.

8. Other Accrued Liabilities

Other accrued liabilities include the following (in thousands):

	September 30, 2017	December 31, 2016
Accrued lease expense	$ 5,049	$ 4,763
Deferred revenue	1,156	2,245
Other	4,551	3,002
Total	$ 10,756	$ 10,010

9. Condensed Consolidating Financial Statements of Guarantors

The following tables present the condensed consolidating balance sheets as of September 30, 2017 and December 31, 2016, the condensed consolidating statements of operations and the condensed consolidating statements of comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016 and the condensed consolidating statements of cash flows for the nine months ended September 30, 2017 and 2016, respectively, for the domestic subsidiaries of the Company that serve as co-borrower and/or guarantors of the Company's 2019 convertible senior notes, 2020 senior notes, 2021 senior notes and the New Credit Facility and the financial results for the Company's subsidiaries that do not serve as guarantors. The co-borrower and/or guarantor subsidiaries of the 2019 convertible senior notes, 2020 senior notes, 2021 senior notes and the New Credit Facility are 100% owned by the Company. The guarantees are full and unconditional and joint and several. The non-guarantor subsidiaries of such notes include all of the Company's foreign subsidiaries.

Condensed Consolidating Balance Sheet
(In thousands, except per share data)

	As of September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 22	$ 103,497	$ 9,317	$ —	$ 112,836
Accounts receivable, net of allowance for doubtful accounts of $6,052	—	45,983	4,331	(85)	50,229
Other current assets	45	12,228	879	—	13,152
Total current assets	67	161,708	14,527	(85)	176,217
Property, plant and equipment, net	—	2,394,845	127,197	—	2,522,042
Deferred charges, net	—	11,188	1,572	—	12,760
Intercompany receivable	1,715,528	644,733	41,814	(2,402,075)	—
Investment in subsidiaries	684,734	8,602	—	(693,336)	—
Other assets	1,743	6,096	2,330	—	10,169
Total assets	$ 2,402,072	$ 3,227,172	$ 187,440	$ (3,095,496)	$ 2,721,188
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ —	$ 13,861	$ 1,162	$ —	$ 15,023
Accrued interest	13,709	—	—	—	13,709
Accrued payroll and benefits	—	8,732	543	—	9,275
Other accrued liabilities	—	10,328	513	(85)	10,756
Total current liabilities	13,709	32,921	2,218	(85)	48,763
Long-term debt, including deferred gain of $19,689, and net of original issue discount of $7,598 and deferred financing costs of $10,971	1,014,031	—	—	—	1,014,031
Deferred tax liabilities, net	—	302,373	6,344	—	308,717
Intercompany payables	40,432	2,176,490	193,755	(2,410,677)	—
Other liabilities	—	3,996	—	—	3,996
Total liabilities	1,068,172	2,515,780	202,317	(2,410,762)	1,375,507
Stockholders' equity:					
Preferred stock: $0.01 par value; 5,000 shares authorized; no shares issued and outstanding	—	—	—	—	—
Common stock: $0.01 par value; 100,000 shares authorized; 37,028 shares issued and outstanding	370	—	—	—	370
Additional paid-in capital	758,693	37,977	8,600	(46,580)	758,690
Retained earnings	574,837	673,415	(35,258)	(638,154)	574,840
Accumulated other comprehensive income	—	—	11,781	—	11,781
Total stockholders' equity	1,333,900	711,392	(14,877)	(684,734)	1,345,681
Total liabilities and stockholders' equity	$ 2,402,072	$ 3,227,172	$ 187,440	$ (3,095,496)	$ 2,721,188

Condensed Consolidating Balance Sheet
(In thousands, except per share data)

	As of December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 9	$ 212,196	$ 4,822	$ —	$ 217,027
Accounts receivable, net of allowance for doubtful accounts of $2,120	—	30,846	5,704	—	36,550
Other current assets	15	16,176	787	—	16,978
Total current assets	24	259,218	11,313	—	270,555
Property, plant and equipment, net	—	2,449,473	128,915	—	2,578,388
Deferred charges, net	2,581	15,724	772	—	19,077
Intercompany receivable	1,779,872	680,663	107,038	(2,567,573)	—
Investment in subsidiaries	768,718	8,602	(4,283)	(773,037)	—
Other assets	1,744	6,239	2,272	—	10,255
Total assets	$ 2,552,939	$ 3,419,919	$ 246,027	$ (3,340,610)	$ 2,878,275
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ —	$ 11,325	$ 449	$ —	$ 11,774
Accrued interest	14,763	—	—	—	14,763
Accrued payroll and benefits	—	8,104	492	—	8,596
Other accrued liabilities	—	8,463	1,547	—	10,010
Total current liabilities	14,763	27,892	2,488	—	45,143
Long-term debt, net of original issue discount of $31,093 and deferred financing costs of $10,197	1,083,710	—	—	—	1,083,710
Deferred tax liabilities, net	—	337,503	5,517	—	343,020
Intercompany payables	61,715	2,264,900	245,276	(2,571,891)	—
Other liabilities	—	3,416	(10)	—	3,406
Total liabilities	1,160,188	2,633,711	253,271	(2,571,891)	1,475,279
Stockholders' equity:					
Preferred stock: $0.01 par value; 5,000 shares authorized; no shares issued and outstanding	—	—	—	—	—
Common stock: $0.01 par value; 100,000 shares authorized; 36,467 shares issued and outstanding	365	—	—	—	365
Additional paid-in capital	754,394	37,978	4,319	(42,297)	754,394
Retained earnings	637,992	748,080	(21,658)	(726,422)	637,992
Accumulated other comprehensive income	—	150	10,095	—	10,245
Total stockholders' equity	1,392,751	786,208	(7,244)	(768,719)	1,402,996
Total liabilities and stockholders' equity	$ 2,552,939	$ 3,419,919	$ 246,027	$ (3,340,610)	$ 2,878,275

Condensed Consolidating Statement of Operations
(In thousands)

	Three Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	$ —	$ 53,564	$ 102	$ —	$ 53,666
Costs and expenses:					
Operating expenses	—	27,427	2,655	—	30,082
Depreciation	—	23,355	1,327	—	24,682
Amortization	—	2,245	228	—	2,473
General and administrative expenses	—	12,259	640	—	12,899
	—	65,286	4,850	—	70,136
Gain on sale of assets	—	(198)	1	—	(197)
Operating income (loss)	—	(11,920)	(4,747)	—	(16,667)
Other income (expense):					
Gain on early extinguishment of debt	—	—	—	—	—
Interest income	—	351	96	—	447
Interest expense	(11,956)	—	—	—	(11,956)
Equity in earnings (losses) of consolidated subsidiaries	(6,994)	—	—	6,994	—
Other income (expense), net	—	(222)	328	—	106
	(18,950)	129	424	6,994	(11,403)
Income (loss) before income taxes	(18,950)	(11,791)	(4,323)	6,994	(28,070)
Income tax expense (benefit)	—	(9,393)	273	—	(9,120)
Net income (loss)	$ (18,950)	$ (2,398)	$ (4,596)	$ 6,994	$ (18,950)

Condensed Consolidating Statement of Comprehensive Income (Loss)
(In thousands)

	Three Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	$ (18,950)	$ (2,398)	$ (4,596)	$ 6,994	$ (18,950)
Other comprehensive income:					
Foreign currency translation gain	—	—	2,743	—	2,743
Total comprehensive income (loss)	$ (18,950)	$ (2,398)	$ (1,853)	$ 6,994	$ (16,207)

Condensed Consolidating Statement of Operations
(In thousands)

	Nine Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	$ —	$ 123,611	$ 11,823	$ (263)	$ 135,171
Costs and expenses:					
Operating expenses	—	80,293	9,359	(267)	89,385
Depreciation	—	70,077	3,961	—	74,038
Amortization	—	8,460	1,003	—	9,463
General and administrative expenses	110	34,579	1,891	(7)	36,573
	110	193,409	16,214	(274)	209,459
Gain on sale of assets	—	(180)	2	—	(178)
Operating income (loss)	(110)	(69,978)	(4,389)	11	(74,466)
Other income (expense):					
Gain on early extinguishment of debt	15,478	—	—	—	15,478
Interest income	—	1,039	273	—	1,312
Interest expense	(39,194)	—	—	—	(39,194)
Equity in earnings of consolidated subsidiaries	(42,511)	—	—	42,511	—
Other income (expense), net	—	3,424	(3,576)	(11)	(163)
	(66,227)	4,463	(3,303)	42,500	(22,567)
Income (loss) before income taxes	(66,337)	(65,515)	(7,692)	42,511	(97,033)
Income tax expense (benefit)	—	(31,488)	792	—	(30,696)
Net income (loss)	$ (66,337)	$ (34,027)	$ (8,484)	$ 42,511	$ (66,337)

Condensed Consolidating Statement of Comprehensive Income (Loss)
(In thousands)

	Nine Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	$ (66,337)	$ (34,027)	$ (8,484)	$ 42,511	$ (66,337)
Other comprehensive income:					
Foreign currency translation gain (loss)	—	(149)	1,685	—	1,536
Total comprehensive income (loss)	$ (66,337)	$ (34,176)	$ (6,799)	$ 42,511	$ (64,801)

Condensed Consolidating Statement of Operations
(In thousands)

	Three Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	$ —	$ 50,798	$ 1,467	$ (338)	$ 51,927
Costs and expenses:					
Operating expenses	—	26,282	3,414	(321)	29,375
Depreciation	—	22,188	1,279	—	23,467
Amortization	—	4,269	311	—	4,580
General and administrative expenses	36	7,542	1,468	(15)	9,031
	36	60,281	6,472	(336)	66,453
Gain on sale of assets	—	81	—	—	81
Operating loss	(36)	(9,402)	(5,005)	(2)	(14,445)
Other income (expense):					
Interest income	—	259	142	—	401
Interest expense	(12,820)	—	—	—	(12,820)
Equity in earnings (losses) of consolidated subsidiaries	(3,647)	—	—	3,647	—
Other income (expense), net	—	(790)	2,381	1	1,592
	(16,467)	(531)	2,523	3,648	(10,827)
Income (loss) before income taxes	(16,503)	(9,933)	(2,482)	3,646	(25,272)
Income tax benefit	—	(7,279)	(1,490)	—	(8,769)
Net income (loss)	$ (16,503)	$ (2,654)	$ (992)	$ 3,646	$ (16,503)

Condensed Consolidating Statement of Comprehensive Income (Loss)
(In thousands)

	Three Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	$ (16,503)	$ (2,654)	$ (992)	$ 3,646	$ (16,503)
Other comprehensive income:					
Foreign currency translation loss	—	(3)	(905)	—	(908)
Total comprehensive income (loss)	$ (16,503)	$ (2,657)	$ (1,897)	$ 3,646	$ (17,411)

Condensed Consolidating Statement of Operations
(In thousands)

	Nine Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Revenues	$ —	$ 171,034	$ 9,386	$ 2,000	$ 182,420
Costs and expenses:					
Operating expenses	—	89,666	12,525	1,943	104,134
Depreciation	—	65,040	3,258	—	68,298
Amortization	—	15,671	1,004	—	16,675
General and administrative expenses	148	26,978	2,901	57	30,084
	148	197,355	19,688	2,000	219,191
Gain on sale of assets	—	36	—	—	36
Operating loss	(148)	(26,285)	(10,302)	—	(36,735)
Other income (expense):					
Interest income	—	732	432	—	1,164
Interest expense	(34,886)	—	(2)	—	(34,888)
Equity in earnings (losses) of consolidated subsidiaries	(9,655)	—	—	9,655	—
Other income	—	(560)	2,523	85	2,048
	(44,541)	172	2,953	9,740	(31,676)
Income (loss) before income taxes	(44,689)	(26,113)	(7,349)	9,740	(68,411)
Income tax benefit	—	(22,803)	(1,005)	—	(23,808)
Net income (loss)	$ (44,689)	$ (3,310)	$ (6,344)	$ 9,740	$ (44,603)

Condensed Consolidating Statement of Comprehensive Income (Loss)
(In thousands)

	Nine Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
Net income (loss)	$ (44,689)	$ (3,310)	$ (6,344)	$ 9,740	$ (44,603)
Other comprehensive income:					
Foreign currency translation gain	—	31	19,739	—	19,770
Total comprehensive income (loss)	$ (44,689)	$ (3,279)	$ 13,395	$ 9,740	$ (24,833)

Condensed Consolidating Statement of Cash Flows
(In thousands)

	Nine Months Ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	$ 59,674	$ (93,378)	$ 4,501	$ —	$ (29,203)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Costs incurred for OSV newbuild program #5	—	(12,755)	392	—	(12,363)
Net proceeds from sale of assets	—	33	1	—	34
Vessel capital expenditures	—	(998)	(301)	—	(1,299)
Non-vessel capital expenditures	—	(1,451)	(17)	—	(1,468)
Net cash provided by (used in) investing activities	—	(15,171)	75	—	(15,096)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from first-lien credit facility	980	—	—	—	980
Repurchase of senior notes	(5,057)	—	—	—	(5,057)
Repurchase of convertible notes	(49,631)	—	—	—	(49,631)
Deferred financing costs	(5,636)	—	—	—	(5,636)
Shares withheld for employee withholding taxes	(575)	—	—	—	(575)
Net cash proceeds from other shares issued	258	—	—	—	258
Net cash used in financing activities	(59,661)	—	—	—	(59,661)
Effects of exchange rate changes on cash	—	(150)	(81)	—	(231)
Net increase (decrease) in cash and cash equivalents	13	(108,699)	4,495	—	(104,191)
Cash and cash equivalents at beginning of period	9	212,196	4,822	—	217,027
Cash and cash equivalents at end of period	$ 22	$ 103,497	$ 9,317	$ —	$ 112,836
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:					
Cash paid for interest	$ 40,028	$ —	$ —	$ —	$ 40,028
Cash paid for income taxes	$ —	$ 463	$ 581	$ —	$ 1,044
SUPPLEMENTAL DISCLOUSURES OF NON-CASH FINANCING ACTIVITIES:					
Exchange of convertible notes for term loan	$ 127,096	$ —	$ —	$ —	$ 127,096

Condensed Consolidating Statement of Cash Flows
(In thousands)

	Nine Months Ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by operating activities	$ 827	$ 54,277	$ 2,057	$ —	$ 57,161
CASH FLOWS FROM INVESTING ACTIVITIES:					
Costs incurred for OSV newbuild program #5	—	(72,584)	(614)	—	(73,198)
Net proceeds from sale of assets	—	506	—	—	506
Vessel capital expenditures	—	(18,282)	(424)	—	(18,706)
Non-vessel capital expenditures	—	(473)	59	—	(414)
Net cash used in investing activities	—	(90,833)	(979)	—	(91,812)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Deferred financing costs	(1,102)	—	—	—	(1,102)
Shares withheld for employee withholding taxes	(450)	—	—	—	(450)
Net cash proceeds from other shares issued	732	—	—	—	732
Net cash provided by financing activities	(820)	—	—	—	(820)
Effects of exchange rate changes on cash	—	31	1,100	—	1,131
Net increase (decrease) in cash and cash equivalents	7	(36,525)	2,178	—	(34,340)
Cash and cash equivalents at beginning of period	10	252,651	7,140	—	259,801
Cash and cash equivalents at end of period	$ 17	$ 216,126	$ 9,318	$ —	$ 225,461
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:					
Cash paid for interest	$ 38,871	$ —	$ —	$ —	$ 38,871
Cash paid for income taxes	$ —	$ 484	$ 2,204	$ —	$ 2,688

Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited consolidated financial statements and notes to unaudited consolidated financial statements in this Quarterly Report on Form 10-Q and our audited financial statements and notes thereto included in our Annual Report on Form 10-K as of and for the year ended December 31, 2016. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements. See "Forward Looking Statements" for additional discussion regarding risks associated with forward-looking statements. In this Quarterly Report on Form 10-Q, "company," "we," "us," "our" or like terms refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated. Please refer to Item 5—Other Information for a glossary of terms used throughout this Quarterly Report on Form 10-Q.

In this Quarterly Report on Form 10-Q, we rely on and refer to information regarding our industry from the BOEM, EIA and IHS-Petrodata, Inc. These organizations are not affiliated with us and are not aware of and have not consented to being named in this Quarterly Report on Form 10-Q. We believe this information is reliable. In addition, in many cases we have made statements in this Quarterly Report on Form 10-Q regarding our industry and our position in the industry based on our experience in the industry and our own evaluation of market conditions.

General

Oil prices remain at low levels compared to prices that prevailed between 2005 and late 2014. These lower oil prices have caused major and independent oil companies with deepwater operations to significantly reduce their capital spending budgets, which are the principal demand drivers for our services. Less spending by our customers combined with a global oversupply of OSVs for current market conditions, including high-spec OSVs in our core markets, have resulted in significant reductions in our dayrates and utilization.

The principal issue facing the industry is the ultimate duration of the current downturn. While we have taken extensive measures to reduce costs, these reductions alone will not be sufficient to mitigate the full impact of revenue loss over an extended period of time. Even in light of our currently depressed operating levels, cash generated from operations together with cash on hand and availability under the New Credit Facility should be sufficient to fund our operations and commitments through the end of 2019. However, absent a significant recovery of market conditions such that cash flows from operations were to increase materially from projected levels and/or further management of our funded debt obligations, we do not currently expect to have sufficient liquidity to repay the full amount of our remaining tranches of 2020 senior notes and 2021 senior notes when they mature in fiscal years 2020 and 2021, respectively. The New Credit Facility was the first step in addressing the maturities of our unsecured notes. We remain fully cognizant of the challenges currently facing the offshore oil and gas industry and continue to review our capital structure and assess our strategic options.

In the GoM, four high-spec OSVs have been delivered into the domestic market during 2017. We expect an additional nine high-spec OSVs to be delivered into domestic service through 2018. We do not anticipate significant growth in the supply of high-spec OSVs beyond the currently anticipated level of 199 of such vessels by the end of 2018. During the third quarter of 2017, there was an average of roughly 32 floating rigs available in the GoM, while an average of 20.6 were working. As of November 1, 2017, there were 32 rigs available and 21 were working. However, seven floating rigs have contracts that will expire during the remainder of 2017. We do not know whether the remaining rigs will receive contract renewals for operations in the GoM. We expect one new rig to arrive in the GoM during the fourth quarter of 2017 and another rig to arrive during the first quarter of 2018. We expect three rigs to depart from the GoM during the fourth quarter of 2017 and another rig to depart during the first quarter of 2018. Once a rig arrives in the GoM, it can take s everal months to commence work and, therefore, we do not know the timing of when operations of newly arrived rigs will begin, if at all. Given these market conditions, we anticipate our average dayrates and utilization levels will continue to be depressed for the foreseeable future. However, the GoM is one of the premier deepwater markets in the world and we are committed to supporting our customers in this market. We believe that once the current supply and demand fundamentals return to more normal conditions, our results from operations will improve.

In recognition of these weak market conditions, we stacked OSVs and MPSVs on various dates commencing on October 1, 2014. As of September 30, 2017, we had 44 OSVs stacked. As of November 1, 2017, we had 43 OSVs stacked. These 43 stacked vessels represent 61% of our fleetwide vessel headcount, and 44% of our total OSV and MPSV deadweight tonnage. We may consider stacking additional vessels or reactivating vessels as market conditions warrant. By stacking vessels, we have significantly reduced our on-going cash outlays and lowered our risk profile; however, we also have fewer revenue-producing units in service that can contribute to our results and produce cash flows to cover our fixed costs and commitments. While we may choose to stack additional vessels should market conditions warrant, our current expectation is to retain our active fleet in the market to accept contracts at the best available terms even if such contracts are below our breakeven cash cost of operations.

There have been five auctions completed since energy reform began in Mexico in 2013, including one deepwater and two shallow water tenders. So far, these auctions have yielded 39 contracts with forecasted investment over their lifetime of $48.8 billion. Despite current oil prices, eight of ten blocks were awarded to major and national oil companies during the first deepwater auction held in December 2016. Capital investment commitments made by the winning bidders in the first deepwater auction totaled about $4.0 billion, however, questions remain on the timing of the incremental activity expected in the Mexican deepwater GoM as a result of this auction. The next deepwater lease auction is scheduled for January 2018 and is expected to be comprised of 30 blocks in four areas. As a result of leases awarded during the initial shallow water lease round in 2016, two operators announced major discoveries in mid-July 2017. We recently observed a dispute over resource ownership between the country of Mexico and the new international companies that have experienced recent drilling success in fields adjacent to PEMEX-owned fields. This dispute may slow down drilling plans until the ownership issue is resolved. We consider Mexico to be a long-term market for our services, especially in light of energy reforms expected to be carried out there. We continue to explore opportunities to place additional vessels into Mexico to support PEMEX in its ongoing shallow water activity and non-PEMEX customers in support of future shelf and deepwater activity there.

In Brazil, Petrobras has moved towards an "all Brazilian flag" vessel fleet, which has limited opportunities in Brazil for foreign-flagged vessels, except where highly specialized services are required. In January 2016, we placed one of our newbuild HOSMAX 310 class OSVs into Brazilian registry and have imported that vessel into Brazil. In October 2016, Brazil enacted new legislation that will allow international oil companies to participate as operators of pre-salt offshore developments, reversing a policy that reserved such properties to Petrobras, exclusively. By doing so, the Brazilian government has created the possibility that foreign operators might spur additional exploration and development activity that has been dampened by low oil prices and Petrobras' difficulties. Recently, the Brazilian National Petroleum Agency conducted and announced the results of two bid rounds for production sharing in pre-salt areas. The outcome of this bidding process is viewed positively for growing the participation of international oil companies in the Brazilian offshore sector, which is one of our core markets.

Our Vessels

All of our current vessels are qualified under the Jones Act to engage in U.S. coastwise trade, except for nine foreign-flagged new generation OSVs and two foreign-flagged MPSVs. As of September 30, 2017, our 18 active new generation OSVs, eight MPSVs and four managed OSVs were operating in domestic and international areas as noted in the following table:

Operating Areas

Domestic	
GoM	19
Other U.S. coastlines (1)	7
	26
Foreign	
Brazil	1
Middle East	1
Other Latin America	2
	4
Total Vessels (2)	30

(1) Includes three owned vessels and four managed vessels supporting the military.
(2) Excluded from this table are 44 new generation OSVs that were stacked as of September 30, 2017.

Critical Accounting Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based on available information. We base our estimates and judgments on historical experience and various other factors that we believe are reasonable based upon the information available. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies and estimates are discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Results of Operations

The tables below set forth the average dayrates, utilization rates and effective dayrates for our owned new generation OSVs and the average number and size of vessels owned during the periods indicated. These vessels generate a substantial portion of our revenues and operating profit. Excluded from the OSV information below are the results of operations for our MPSVs, our shore-base facility and vessel management services, including the four vessels managed for the U.S. Navy. The Company does not provide average or effective dayrates for its MPSVs. MPSV dayrates are impacted by highly variable customer-required cost-of-sales associated with ancillary equipment and services, such as ROVs, accommodation units and cranes, which are typically recovered through higher dayrates charged to the customer. Due to the fact that each of our MPSVs have a workload capacity and significantly higher income generating potential than each of the Company's new generation OSVs, the utilization and dayrate levels of our MPSVs can have a very large impact on our results of operations. For this reason, our consolidated operating results, on a period-to-period basis, are disproportionately impacted by the level of dayrates and utilization achieved by our eight MPSVs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Offshore Supply Vessels:				
Average number of new generation OSVs (1)	62.0	62.0	62.0	61.9
Average number of active new generation OSVs (2)	19.0	17.9	19.6	22.0
Average new generation OSV fleet capacity (DWT)	220,172	221,629	220,172	220,885
Average new generation OSV capacity (DWT)	3,551	3,575	3,551	3,570
Average new generation OSV utilization rate (3)	26.3%	22.0%	22.8%	27.0%
Effective new generation OSV utilization rate (4)	85.8%	76.3%	71.9%	76.0%
Average new generation OSV dayrate (5)	$ 18,483	$ 25,639	$ 20,709	$ 25,488
Effective dayrate (6)	$ 4,861	$ 5,641	$ 4,722	$ 6,882

(1) We owned 62 new generation OSVs as of September 30, 2017. Excluded from this data are eight MPSVs owned and operated by the Company as well as four vessels managed for the U.S. Navy.

(2) In response to weak market conditions, we elected to stack certain new generation OSVs on various dates since October 2014. Active new generation OSVs represent vessels that are immediately available for service during each respective period.

(3) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.

(4) Effective utilization rate is based on a denominator comprised only of vessel-days available for service by the active fleet, which excludes the impact of stacked vessel days.

(5) Average new generation OSV dayrates represent average revenue per day, which includes charter hire, crewing services, and net brokerage revenues, based on the number of days during the period that the OSVs generated revenues.

(6) Effective dayrate represents the average dayrate multiplied by the average utilization rate.

Non-GAAP Financial Measures

We disclose and discuss EBITDA as a non-GAAP financial measure in our public releases, including quarterly earnings releases, investor conference calls and other filings with the Securities and Exchange Commission. We define EBITDA as earnings (net income) before interest, income taxes, depreciation and amortization. Our measure of EBITDA may not be comparable to similarly titled measures presented by other companies. Other companies may calculate EBITDA differently than we do, which may limit its usefulness as a comparative measure.

We view EBITDA primarily as a liquidity measure and, as such, we believe that the GAAP financial measure most directly comparable to it is cash flows provided by operating activities. Because EBITDA is not a measure of financial performance calculated in accordance with GAAP, it should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

EBITDA is widely used by investors and other users of our financial statements as a supplemental financial measure that, when viewed with our GAAP results and the accompanying reconciliations, we believe EBITDA provides additional information that is useful to gain an understanding of the factors and trends affecting our ability to service debt, pay deferred taxes and fund drydocking charges and other maintenance capital expenditures. We also believe the disclosure of EBITDA helps investors meaningfully evaluate and compare our cash flow generating capacity from quarter to quarter and year to year.

EBITDA is also a financial metric used by management (i) as a supplemental internal measure for planning and forecasting overall expectations and for evaluating actual results against such expectations; (ii) as a significant criteria for annual incentive cash bonuses paid to our executive officers and other shore-based employees; (iii) to compare to the EBITDA of other companies when evaluating potential acquisitions; and (iv) to assess our ability to service existing fixed charges and incur additional indebtedness.

The following table provides the detailed components of EBITDA as we define that term for the three and nine months ended September 30, 2017 and 2016, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Components of EBITDA:				
Net loss	$ (18,950)	$ (16,503)	$ (66,337)	$ (44,603)
Interest, net				
Debt obligations	11,956	12,820	39,194	34,888
Interest income	(447)	(401)	(1,312)	(1,164)
Total interest, net	11,509	12,419	37,882	33,724
Income tax benefit	(9,120)	(8,769)	(30,696)	(23,808)
Depreciation	24,682	23,467	74,038	68,298
Amortization	2,473	4,580	9,463	16,675
EBITDA	$ 10,594	$ 15,194	$ 24,350	$ 50,286

The following table reconciles EBITDA to cash flows provided by operating activities for the three and nine months ended September 30, 2017 and 2016, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
EBITDA Reconciliation to GAAP:				
EBITDA	$ 10,594	$ 15,194	$ 24,350	$ 50,286
Cash paid for deferred drydocking charges	(995)	(897)	(6,950)	(3,214)
Cash paid for interest	(13,829)	(13,784)	(40,028)	(38,871)
Cash paid for taxes	(334)	(446)	(1,044)	(2,688)
Changes in working capital	(3,336)	13,711	97	45,396
Stock-based compensation expense	2,726	2,341	5,740	6,557
Gain on early extinguishment of debt	—	—	(15,478)	—
(Gain) loss on sale of assets	197	(81)	178	(36)
Changes in other, net	(100)	(1,573)	3,932	(719)
Net cash flows provided by (used in) operating activities	$ (5,077)	$ 14,465	$ (29,203)	$ 56,711

In addition, we have also historically made certain adjustments, as applicable, to EBITDA for losses on early extinguishment of debt, stock-based compensation expense and interest income, to internally evaluate our performance based on the computation of ratios used in certain financial covenants of our credit agreements with various lenders. We believe that such ratios can, at times, be material components of financial covenants and, when applicable, failure to comply with such covenants could result in the acceleration of indebtedness or the imposition of restrictions on our financial flexibility.

The following table provides certain detailed adjustments to EBITDA, as defined in our first-lien credit facility, for the three and nine months ended September 30, 2017 and 2016, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gain on early extinguishment of debt	$ —	$ —	$ 15,478	$ —
Stock-based compensation expense	2,726	2,341	5,740	6,557
Interest income	447	401	1,312	1,164

Set forth below are the material limitations associated with using EBITDA as a non-GAAP financial measure compared to cash flows provided by operating activities.

- EBITDA does not reflect the future capital expenditure requirements that may be necessary to replace our existing vessels as a result of normal wear and tear,
- EBITDA does not reflect the interest, future principal payments and other financing-related charges necessary to service the debt that we have incurred in acquiring and constructing our vessels,
- EBITDA does not reflect the deferred income taxes that we will eventually have to pay once we are no longer in an overall tax net operating loss carryforward position, as applicable, and
- EBITDA does not reflect changes in our net working capital position.

Management compensates for the above-described limitations in using EBITDA as a non-GAAP financial measure by only using EBITDA to supplement our GAAP results.

Summarized financial information for the three months ended September 30, 2017 and 2016, respectively, is shown below in the following table (in thousands, except percentage changes):

	Three Months Ended September 30,		Increase (Decrease)	
	2017	2016	$ Change	% Change
Revenues:				
Vessel revenues				
Domestic	$ 29,788	$ 34,978	$ (5,190)	(14.8) %
Foreign	15,849	8,692	7,157	82.3 %
	45,637	43,670	1,967	4.5 %
Non-vessel revenues	8,029	8,257	(228)	(2.8) %
	53,666	51,927	1,739	3.3 %
Operating expenses	30,082	29,375	707	2.4 %
Depreciation and amortization	27,155	28,047	(892)	(3.2) %
General and administrative expenses	12,899	9,031	3,868	42.8 %
	70,136	66,453	3,683	5.5 %
Gain (loss) on sale of assets	(197)	81	(278)	100.0 %
Operating loss	(16,667)	(14,445)	(2,222)	15.4 %
Interest expense	11,956	12,820	(864)	(6.7) %
Interest income	447	401	46	11.5 %
Income tax benefit	(9,120)	(8,769)	(351)	4.0 %
Net loss	$ (18,950)	$ (16,503)	$ (2,447)	14.8 %

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Revenues. Revenues for the three months ended September 30, 2017 increased by $1.7 million, or 3.3%, to $53.7 million compared to the same period in 2016. Our weighted-average active operating fleet for the three months ended September 30, 2017 and 2016 was 27.0 and 24.3 vessels, respectively.

Vessel revenues increased $2.0 million, or 4.5%, to $45.6 million for the three months ended September 30, 2017 compared to $43.7 million for the same period in 2016. The increase in vessel revenues was primarily due to improved market conditions for our MPSVs. Revenue from our fleet of MPSVs increased by $6.4 million or 55.1% compared to the same period in 2016. The increase was primarily attributable to a seasonal increase in demand for such vessels. These higher revenues were partially offset by weak market conditions worldwide and the repricing or stacking of four OSVs, which concluded long-term contracts that were working at dayrates above current market levels. For the three months ended September 30, 2017, we had an average of 43.0 vessels stacked compared to 44.1 vessels stacked in the prior-year quarter. Average new generation OSV dayrates were $18,483 for the third quarter of 2017 compared to $25,639 for the same period in 2016. Our new generation OSV utilization was 26.3% for the third quarter of 2017 compared to 22.0% for the same period in 2016. Our new generation OSVs were stacked for an aggregate of 3,956 days during the third quarter of 2017 compared to 4,060 days for the same period in 2016. Excluding stacked vessel days, our new generation OSV effective utilization was 85.8% and 76.3% for the same periods, respectively. Domestic vessel revenues decreased $5.2 million from the year-ago quarter primarily due to lower dayrates earned by OSVs operating in our fleet during the three months ended September 30, 2017. Foreign vessel revenues increased $7.2 million primarily due to one MPSV working in a foreign market during the three months ended September 30, 2017. Foreign vessel revenues for the third quarter of 2017 comprised 34.7% of our total vessel revenues compared to 19.9% for the year-ago period.

Non-vessel revenues decreased $0.2 million, or 2.8%, to $8.0 million for the three months ended September 30, 2017 compared to $8.2 million for the same period in 2016. This decrease is primarily attributable to a decrease in shorebase activity driven by continued weak market conditions during 2017 compared to the year-ago period.

Operating Expenses. Operating expenses were $30.1 million, an increase of $0.7 million, or 2.4%, for the three months ended September 30, 2017 compared to $29.4 million for the same period in 2016. Operating expenses increased primarily due to a higher number of active vessels in our fleet. Aggregate cash operating expenses for our vessels are projected to be in the approximate annual range of $119.4 million to $124.4 million for the year ending December 31, 2017. Such cash operating expense estimate is exclusive of any additional repositioning expenses we may incur in connection with the potential relocation of more of our vessels into international markets or back to the GoM, and any customer-required cost-of-sales related to future contract fixtures that are typically recovered through higher dayrates.

Depreciation and Amortization. Depreciation and amortization expense of $27.2 million was $0.9 million, or 3.2%, lower for the three months ended September 30, 2017 compared to the same period in 2016. Depreciation increased by $1.2 million primarily due to the addition of two vessels that were placed in service under our fifth OSV newbuild program since June 2016. The depreciation increase was more than offset by a decrease in amortization expense of $2.1 million, which was mainly driven lower by postponed recertifications for certain of our stacked OSVs. Depreciation expense is expected to increase from current levels as the two remaining vessels under our current newbuild program are placed in service. Amortization expense is expected to decrease as the result of the deferral of regulatory recertification activities for vessels that have been stacked. We expect amortization expense to increase temporarily whenever market conditions warrant reactivation of currently stacked vessels, which will then require us to drydock such vessels, and thereafter to revert back to historical levels.

General and Administrative Expense. G&A expense of $12.9 million was $3.9 million higher during the three months ended September 30, 2017 compared to the same period in 2016. The increase in G&A expense was attributable to higher professional fees related to our on-going liability management activities, short-term incentive compensation, long-term incentive compensation and bad debt expense. Long-term incentive compensation was higher due to a "mark to market" adjustment on cash-settled awards to reflect the increase in our stock price during the three months ended September 30, 2017.

Operating Loss. Operating loss increased by $2.2 million to $16.7 million during the three months ended September 30, 2017 compared to the same period in 2016 for the reasons discussed above. Operating loss as a percentage of revenues was 31.1% for the three months ended September 30, 2017 compared to 27.8% for the same period in 2016.

Interest Expense. Interest expense of $12.0 million decreased $0.9 million during the three months ended September 30, 2017 compared to the same period in 2016 due to the write-off of fees associated with the amendment to our revolving credit facility during the year-ago period and lower interest expense associated with the debt exchange and termination of the then-existing credit facility that was completed during the three months ended June 30, 2017. These favorable variances were partially offset by a decrease in capitalized interest during the three months ended September 30, 2017. We recorded $2.7 million of capitalized construction period interest, or roughly 18.4% of our total interest costs, for the third quarter of 2017 compared to $4.2 million, or roughly 24.7% of our total interest costs, for the year-ago period.

Interest Income. Interest income was $0.4 million during the three months ended September 30, 2017, which was flat compared to the same period in 2016. Our average cash balance decreased to $122.5 million for the three months ended September 30, 2017 compared to $230.1 million for the same period in 2016. The average interest rate earned on our invested cash balances was 1.5% and 0.7% during the three months ended September 30, 2017 and 2016, respectively. The decrease in average cash balance was primarily due to cash outflows associated with the repurchase of a portion of our 2019 convertible senior notes and 2020 senior notes during the second quarter of 2017 and cash outflows associated with our fifth OSV newbuild program since September 30, 2016.

Income Tax Benefit. Our effective tax benefit rate was 32.5% and 34.7% for the three months ended September 30, 2017 and 2016, respectively. Our income tax benefit primarily consisted of deferred taxes. Our income tax rate differs from the federal statutory rate primarily due to expected state tax liabilities and items not deductible for federal income tax purposes.

Net Loss. Net loss increased by $2.4 million for a reported net loss of $19.0 million for the three months ended September 30, 2017 compared to a net loss of $16.5 million for the same period during 2016. This year-over-year increase in net loss for the third quarter of 2017 was primarily driven by higher G&A expense discussed above.

Summarized financial information for the nine months ended September 30, 2017 and 2016, respectively, is shown below in the following table (in thousands, except percentage changes):

	Nine Months Ended September 30,		Increase (Decrease)	
	2017	2016	$ Change	% Change
Revenues:				
Vessel revenues				
Domestic	$ 84,355	$ 127,102	$ (42,747)	(33.6) %
Foreign	26,470	30,068	(3,598)	(12.0) %
	110,825	157,170	(46,345)	(29.5) %
Non-vessel revenues	24,346	25,250	(904)	(3.6) %
	135,171	182,420	(47,249)	(25.9) %
Operating expenses	89,385	104,134	(14,749)	(14.2) %
Depreciation and amortization	83,501	84,973	(1,472)	(1.7) %
General and administrative expenses	36,573	30,084	6,489	21.6 %
	209,459	219,191	(9,732)	(4.4) %
Gain (loss) on sale of assets	(178)	36	(214)	>(100.0) %
Operating loss	(74,466)	(36,735)	(37,731)	>100.0 %
Gain on early extinguishment of debt	15,478	—	15,478	100.0 %
Interest expense	39,194	34,888	4,306	12.3 %
Interest income	1,312	1,164	148	12.7 %
Income tax benefit	(30,696)	(23,808)	(6,888)	28.9 %
Net loss	$ (66,337)	$ (44,603)	$ (21,734)	48.7 %

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Revenues. Revenues for the nine months ended September 30, 2017 decreased by $47.2 million, or 25.9%, to $135.2 million compared to the same period in 2016. Our weighted-average active operating fleet for the nine months ended September 30, 2017 and 2016 was 26.6 and 28.1 vessels, respectively.

Vessel revenues decreased $46.3 million, or 29.5%, to $110.8 million for the nine months ended September 30, 2017 compared to $157.2 million for the same period in 2016. The decrease in vessel revenues primarily resulted from weak market conditions worldwide, which led to our decision to stack an average of 3.5 incremental vessels on various dates from December 31, 2015 through September 30, 2017. For the nine months ended September 30, 2017, we had an average of 43.4 vessels stacked compared to an average of 39.9 vessels stacked in the prior-year period. Revenue from our MPSV fleet decreased $9.7 million, or 23.6%, for the nine months ended September 30, 2017 compared to the prior-year period. Average new generation OSV dayrates were $20,709 for the first nine months of 2017 compared to $25,488 for the same period in 2016, a decrease of $4,779, or 18.8%. Our new generation OSV dayrate includes a redelivery fee related to the completion of a long-term contract for one of our OSVs that was recognized during the first nine months of 2017. Excluding such revenue, average new generation OSV dayrates would have been $18,276. Our new generation OSV utilization was 22.8% for the first nine months of 2017 compared to 27.0% for the same period in 2016. This decrease in utilization is primarily due to weak market conditions for high-spec OSVs operating in the GoM and the incremental vessels that were stacked during the current-year period. Our new generation OSVs incurred 139 days of aggregate downtime for regulatory drydockings and were stacked for an aggregate of 11,567 days during the first nine months of 2017. Excluding stacked vessel days, our new generation OSV effective utilization was 71.9% and 76.0% during the nine months ended September 30, 2017 and 2016, respectively. Domestic vessel revenues decreased $42.7 million from the year-ago period primarily due to lower dayrates earned by vessels operating in our fleet during the nine months ended September 30, 2017 and the stacking of vessels since December 2015. Foreign vessel revenues decreased $3.6 million primarily due to lower dayrates earned by vessels working in foreign regions during the nine months ended September 30, 2017. Foreign vessel revenues for the first nine months of 2017 comprised 23.9% of our total vessel revenues compared to 19.1% for the year-ago period.

Non-vessel revenues decreased $0.9 million, or 3.6%, to $24.3 million for the nine months ended September 30, 2017 compared to $25.3 million for the same period in 2016. The decrease in non-vessel revenues is primarily attributable to a decrease in shorebase activity driven by continued weak market conditions during 2017 compared to the year-ago period.

Operating Expenses. Operating expenses were $89.4 million, a decrease of $14.7 million, or 14.2%, for the nine months ended September 30, 2017 compared to $104.1 million for the same period in 2016. Operating expenses were primarily driven lower by vessels that were removed from our active fleet count through our stacking strategy since December 2015, which resulted in a substantial reduction in mariner headcount, mariner pay cuts and reductions in other operating expenses.

Depreciation and Amortization. Depreciation and amortization expense of $83.5 million was $1.5 million, or 1.7%, lower for the nine months ended September 30, 2017 compared to the same period in 2016. Depreciation increased by $5.7 million primarily due to the contribution of four vessels that were placed in service under our fifth OSV newbuild program since December 2015. The depreciation increase was more than offset by a decrease in amortization expense of $7.2 million, which was mainly driven by postponed recertifications for certain of our stacked OSVs. Amortization expense is expected to decrease further in the near term as a result of the deferral of regulatory recertification activities for vessels that have been stacked. We expect amortization expense to increase temporarily whenever market conditions warrant reactivation of currently stacked vessels, which will then require us to drydock such vessels, and thereafter to revert back to historical levels.

General and Administrative Expense. G&A expense of $36.6 million was $6.5 million higher during the nine months ended September 30, 2017 compared to the same period in 2016. The increase in G&A expense was primarily attributable to additional bad debt reserves due to an unfavorable ruling in a bankruptcy proceeding related to a receivable from a former customer and, to a lesser extent, higher short-term incentive compensation expense and higher contract services for our on-going liability management activities. These unfavorable variances were partially offset by lower shoreside compensation expense due to workforce reductions that were implemented during fiscal 2016 and lower long-term incentive compensation expense attributable to a "mark-to-market" adjustment on cash settled awards to reflect the decline in our stock price during the first nine months of 2017.

Operating Loss. Operating loss increased by $37.7 million to an operating loss of $74.5 million during the nine months ended September 30, 2017 compared to the same period in 2016 for the reasons discussed above. Operating loss as a percentage of revenues was 55.1% for the nine months ended September 30, 2017 compared to 20.1% for the same period in 2016.

Gain on Early Extinguishment of Debt. On June 15, 2017, we terminated the Old Credit Facility and replaced it with the New Credit Facility. We concurrently arranged for the repurchase $73.3 million of the 2019 convertible senior notes and $8.1 million of the 2020 senior notes, for an aggregate total of $54.1 million of cash. We recorded a gain on early extinguishment of debt of approximately $15.5 million ($10.5 million or $0.29 per diluted share after-tax), which was comprised of a $27.2 million gain on the repurchase of the 2019 convertible notes and the 2020 senior notes, offset in part by the write-off of $2.3 million in deal costs and unamortized financing costs related to the credit facilities and $9.4 million of original issue discount, deal costs and unamortized financing costs related to the notes repurchased.

Interest Expense. Interest expense of $39.2 million increased $4.3 million during the nine months ended September 30, 2017 compared to the same period in 2016, primarily due to capitalizing a lower percentage of interest compared to the prior-year period driven by a lower average construction work-in-progress balance in 2017 under our nearly completed newbuild program. During the nine months ended September 30, 2017, we recorded $7.6 million of capitalized construction period interest, or roughly 16.2% of our total interest costs, compared to having capitalized $14.3 million, or roughly 29.1% of our total interest costs, for the year-ago period.

Interest Income. Interest income was $1.3 million during the nine months ended September 30, 2017, which was $0.1 million higher compared to the same period in 2016. Our average cash balance decreased to $186.8 million for the nine months ended September 30, 2017 compared to $242.7 million for the same period in 2016. The average interest rate earned on our invested cash balances was 0.9% and 0.6% during the nine months ended September 30, 2017 and 2016, respectively. The decrease in average cash balance was primarily due to cash outflows associated with the repurchase of a portion of our 2019 convertible senior notes and 2020 senior notes during the second quarter of 2017, cash outflows associated with our fifth OSV newbuild program and lower revenues earned by active vessels operating in our fleet during 2017 compared to the prior-year period.

Income Tax Benefit. Our effective tax benefit rate was 31.6% and 34.8% for the nine months ended September 30, 2017 and 2016, respectively. Our income tax benefit primarily consisted of deferred taxes. Our income tax rate differs from the federal statutory rate primarily due to expected state tax liabilities and items not deductible for federal income tax purposes. Our income tax benefit rate for the first nine months of 2017 was below our historical tax rate due to the adoption of a new accounting standard effective January 1, 2017, which requires the tax impact of stock-based compensation arrangements to be recorded as a discrete item within the provision for income taxes, whereas it was previously recorded in additional paid-in capital. This standard will cause volatility in our effective tax rates in the periods when outstanding stock options are exercised or restricted stock awards vest. In addition, our income tax benefit rate was also lower than the historical rate due to the recording of a valuation allowance of $0.9 million related to foreign tax credits expiring in 2020 and 2021, which was recorded during the nine months ended September 30, 2017.

Net Loss. Net loss increased by $21.7 million for a reported net loss of $66.3 million for the nine months ended September 30, 2017 compared to net loss of $44.6 million for the same period during 2016. Included in net loss is a $15.5 million gain on early extinguishment of debt. Excluding the gain on early extinguishment of debt, net loss would have been $76.8 million. This increased net loss for the nine months ended September 30, 2017, excluding the gain on early extinguishment of debt, was primarily driven by lower revenues due to weak market conditions discussed above and the reduction of active vessels in our operating fleet.

Liquidity and Capital Resources

On June 15, 2017, we terminated the Old Credit Facility and replaced it with the New Credit Facility. The New Credit Facility is guaranteed by the Parent Borrower's significant domestic subsidiaries other than Hornbeck Offshore Services, LLC, which is the Co-Borrower. The six-year term of the New Credit Facility extended the February 2020 maturity that was applicable under the Old Credit Facility to June 2023.

The New Credit Facility enhanced our financial flexibility by (i) increasing liquidity from the then applicable borrowing base of $75 million under the Old Credit Facility, (ii) extending the maturity date that existed under the Old Credit Facility by over three years, and (iii) eliminating all of the existing financial ratio maintenance covenants and the anti-cash hoarding provision of the Old Credit Facility. The New Credit Facility contains customary representations and warranties, covenants and events of default. See footnote 5 for further discussion of the New Credit Facility.

As of September 30, 2017, we had total liquidity (cash and credit availability) of $316.5 million, comprised of $112.8 million of cash and $203.7 million of availability under the New Credit Facility. As of November 8, 2017, we are in compliance with all applicable covenants under our New Credit Facility.

Our capital requirements have historically been financed with cash flows from operations, proceeds from issuances of our debt and common equity securities, borrowings under our credit facilities and cash received from the sale of assets. We require capital to fund on-going operations, remaining obligations under our expanded fifth OSV newbuild program, vessel recertifications, discretionary capital expenditures and debt service and may require capital to fund potential future vessel construction, retrofit or conversion projects, acquisitions, stock repurchases or the retirement of debt. The nature of our capital requirements and the types of our financing sources are not expected to change significantly for the remainder of 2017 and into 2018.

We have reviewed all of our debt agreements, including the New Credit Facility, as well as our liquidity position and projected future cash needs. Despite depressed oil and natural gas prices, we remain confident in the long-term viability of our business model upon an improvement in market conditions. Since the fall of 2014, our liquidity has been impacted by low oil and natural gas prices resulting in lower than normal cash flow from operations. However, we project that, even with the currently depressed operating levels, cash generated from operations together with cash on-hand and availability under the New Credit Facility should be sufficient to fund our operations and commitments through at least December 31, 2019. We also believe that we will be able to fund deferred maintenance capital expenditures that will be required upon reactivation of our stacked vessels when market conditions improve with existing sources of liquidity. We have three tranches of funded unsecured debt outstanding that mature in fiscal years 2019, 2020 and 2021, respectively. However, absent a significant recovery of market conditions such that cash flow from operations were to increase materially from projected levels and/or further management of our funded debt obligations, we do not currently expect to have sufficient liquidity to repay the full amount of the 2020 senior notes and the 2021 senior notes as they mature in fiscal years 2020 and 2021, respectively. The New Credit Facility was the first step in addressing the maturities of our unsecured notes. Refinancing in the current climate is not likely to be achievable on terms that are in-line with our historic cost of debt capital. We remain fully cognizant of the challenges currently facing the offshore oil and gas industry and continue to review our capital structure and assess our strategic options.

Events beyond our control, such as sustained low prices for oil and natural gas, a further significant decline in such commodity prices, delays in the issuance of drilling plans and permits in the GoM, declines in expenditures for exploration, development and production activity, any extended reduction in domestic consumption of refined petroleum products and other reasons discussed under the “Forward Looking Statements” on page ii and the Risk Factors stated in Item 1A of our Annual Report on Form 10-K, may affect our financial condition, results of operations or cash flows in the future. Should the need for additional financing arise, we may not be able to access the capital markets on attractive terms at that time or otherwise obtain sufficient capital to meet our maturing debt obligations or finance growth opportunities that may arise. We will continue to closely monitor our liquidity position, as well as the state of the global capital and credit markets.

Cash Flows

Operating Activities. Historically, we have relied primarily on cash flows from operations to provide working capital for current and future operations. Cash flows used in operating activities were $29.2 million for the nine months ended September 30, 2017 compared to cash flows provided by operating activities of $57.2 million for the same period in 2016. Operating cash flows for the first nine months of 2017 were unfavorably affected by weak market conditions for our vessels operating worldwide, which led to a decline in our weighted average active operating fleet from 28.1 to 26.6 vessels.

Investing Activities. Net cash used in investing activities was $15.1 million for the nine months ended September 30, 2017 compared to $91.8 million for the same period in 2016. Cash used during the first nine months of 2017 and 2016 consisted primarily of construction costs paid for our fifth OSV newbuild program.

Financing Activities. Net cash used in financing activities was $59.7 million for the nine months ended September 30, 2017 compared to $0.8 million net cash used in financing activities for the same period in 2016. Net cash used in financing activities for the nine months ended September 30, 2017 resulted from the repurchase of a portion of the 2019 convertible senior notes and the 2020 senior notes and related financing costs. Net cash used in financing activities for the nine months ended September 30, 2016 consisted of deferred financing costs related to the amendments of our then-existing revolving credit facility partially offset by net proceeds from common shares issued pursuant to our employee stock-based incentive compensation plans.

Contractual Obligations

Debt

As of September 30, 2017, the Company had the following outstanding long-term debt (in thousands, except effective interest rate):

	Total Debt	Effective Interest Rate	Cash Interest Payment	Payment Dates
5.875% senior notes due 2020, net of deferred financing costs of $2,286 (1)	$ 364,656	6.08%	$ 10,779	April 1 and October 1
5.000% senior notes due 2021, net of deferred financing costs of $3,384 (1)	446,616	5.21%	11,250	March 1 and September 1
1.500% convertible senior notes due 2019, net of original issue discount of $7,579 and deferred financing costs of $1,698	90,370	6.23%	747	March 1 and September 1
First-lien credit facility due 2023, plus deferred gain of $19,689, net of original issue discount of $19 and deferred financing costs of $3,603 (2)	112,389	7.24%	581	Variable
	$ 1,014,031			

(1) The senior notes do not require any payments of principal prior to their stated maturity dates, but pursuant to the indentures under which the 2020 and 2021 senior notes were issued, we would be required to make offers to purchase such senior notes upon the occurrence of specified events, such as certain asset sales or a change in control.

(2) The interest rate on the first-lien credit facility is variable based on the Company's election. The amount reflected in this table is the monthly amount payable based on the 30-day LIBOR interest rate that was elected and in effect on September 30, 2017. Please see note 5 for further discussion of the variable interest rate included within the first-lien credit facility.

The credit agreement governing the New Credit Facility and the indentures governing our 2020 and 2021 senior notes impose certain operating and financial restrictions on us. Such restrictions affect, and in many cases limit or prohibit, among other things, our ability to incur additional indebtedness, make capital expenditures, redeem equity, create liens, sell assets and pay dividends or make other restricted payments. For the nine months ended September 30, 2017, we were in compliance with all applicable financial covenants. We continuously review our debt covenants and report to our lenders our compliance with financial covenants on a quarterly basis. We also consider such covenants in evaluating proposed transactions that will have an effect on our financial ratios.

Capital Expenditures and Related Commitments

The following table sets forth the amounts incurred for our fifth OSV newbuild program, before construction period interest, during the nine months ended September 30, 2017 and since such program's inception, as well as the estimated total project costs for such program (in millions):

	Nine Months Ended September 30, 2017	Incurred Since Inception	Estimated Program Totals (1)	Projected Delivery Dates (1)
Growth Capital Expenditures:				
OSV newbuild program #5 (2)	$ 5.5	$ 1,269.5	$ 1,335.0	2Q2013-4Q2018

(1) Estimated Program Totals and Projected Delivery Dates are based on internal estimates and are subject to change due to delays and possible cost overruns inherent in any large construction project, including, without limitations, shortages of equipment, lack of shipyard availability, unforeseen engineering problems, work stoppages, weather interference, unanticipated cost increases, the inability to obtain necessary certifications and approvals and shortages of materials, component equipment or skilled labor. All of the above historical and budgeted capital expenditure project amounts for our newbuild program represent estimated cash outlays and do not include any allocation of capitalized construction period interest. Actual and projected delivery dates correspond to the first and last vessels that are contracted with shipyards for construction and delivery under our currently active program, respectively.

(2) Our fifth OSV newbuild program consists of vessel construction contracts with three domestic shipyards to build four 300 class OSVs, five 310 class OSVs, ten 320 class OSVs, three 310 class MPSVs and two 400 class MPSVs. As of November 1, 2017, we had placed 22 vessels in service under such program. The remaining two vessels under this 24-vessel domestic newbuild program are currently expected to be placed in service in the third and fourth quarters of 2018.

The following table summarizes the costs incurred, prior to the allocation of construction period interest, for the purposes set forth below for the three and nine months ended September 30, 2017 and 2016, respectively, and a forecast for the fiscal year ending December 31, 2017 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2017	2016	2017	2016	2017
	Actual	Actual	Actual	Actual	Forecast
Maintenance and Other Capital Expenditures:					
Maintenance Capital Expenditures					
Deferred drydocking charges (1)	$ 1.0	$ 0.9	$ 7.0	$ 3.2	$ 9.2
Other vessel capital improvements (2)	0.6	(0.4)	0.9	5.3	1.3
	1.6	0.5	7.9	8.5	10.5
Other Capital Expenditures					
Commercial-related vessel improvements (3)	0.2	2.6	0.4	13.5	1.8
Miscellaneous non-vessel additions (4)	0.9	0.1	1.4	0.4	1.5
	1.1	2.7	1.8	13.9	3.3
Total	$ 2.7	$ 3.2	$ 9.7	$ 22.4	$ 13.8

(1) Deferred drydocking charges for 2017 include the projected recertification costs for 12 OSVs and four MPSVs.
(2) Other vessel capital improvements include costs for discretionary vessel enhancements, which are typically incurred during a planned drydocking event to meet customer specifications.
(3) Commercial-related vessel improvements include items such as cranes, ROVs, helidecks, living quarters and other specialized vessel equipment, which costs are typically included in and offset, in whole or in part, by higher dayrates charged to customers.
(4) Non-vessel capital expenditures are primarily related to information technology and shoreside support initiatives.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements,” as contemplated by the Private Securities Litigation Reform Act of 1995, in which the Company discusses factors it believes may affect its performance in the future. Forward-looking statements are all statements other than historical facts, such as statements regarding assumptions, expectations, beliefs and projections about future events or conditions. You can generally identify forward-looking statements by the appearance in such a statement of words like “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “remain,” “should,” “will,” or other comparable words or the negative of such words. The accuracy of the Company’s assumptions, expectations, beliefs and projections depends on events or conditions that change over time and are thus susceptible to change based on actual experience, new developments and known and unknown risks. The Company gives no assurance that the forward-looking statements will prove to be correct and does not undertake any duty to update them. The Company’s actual future results might differ from the forward-looking statements made in this Quarterly Report on Form 10-Q for a variety of reasons, including sustained low or further declines in oil and natural gas prices in the U.S. and worldwide; continued weakness in demand for the Company’s services through and beyond the maturity of any of the Company's long-term debt; unplanned customer suspensions, cancellations, rate reductions or non-renewals of vessel charters or vessel management contracts, or failures to finalize commitments to charter or manage vessels; sustained or further reductions in capital spending budgets by customers; the inability to accurately predict vessel utilization levels and dayrates; fewer than anticipated deepwater and ultra-deepwater drilling units operating in the GoM or other regions where the Company operates; the effect of inconsistency by the United States government in the pace of issuing drilling permits and plan approvals in the GoM or other drilling regions; the Company’s inability to successfully complete the remainder of its current vessel newbuild program on-time and on-budget, which involves the construction and integration of highly complex vessels and systems; the inability to successfully market the vessels that the Company owns, is constructing or might acquire; the government's cancellation or non-renewal of the management, operations and maintenance contracts for vessels; an oil spill or other significant event in the United States or another offshore drilling region that could have a broad impact on deepwater and other offshore energy exploration and production activities, such as the suspension of activities or significant regulatory responses; the imposition of laws or regulations that result in reduced exploration and production activities or that increase the Company’s operating costs or operating requirements; environmental litigation that impacts customer plans or projects; disputes with customers; bureaucratic, administrative or operating barriers that delay vessels in foreign markets from going on-hire or result in contractual penalties or deductions imposed by foreign customers; the impact stemming from the reduction of Petrobras' announced plans for or administrative barriers to exploration and production activities in Brazil; disruption in Mexican offshore activities; age or other restrictions imposed on our vessels by customers; unanticipated difficulty in effectively competing in or operating in international markets; less than anticipated subsea infrastructure and field development demand in the GoM and other markets affecting our MPSVs; sustained vessel over capacity for existing demand levels in the markets in which the Company competes; economic and geopolitical risks; weather-related risks; upon a return to improved operating conditions, the shortage of or the inability to attract and retain qualified personnel, when needed, including vessel personnel for active vessels or vessels the Company may reactivate or acquire; any success in unionizing the Company's U.S. fleet personnel; regulatory risks; the repeal or administrative weakening of the Jones Act or adverse changes in the interpretation of the Jones Act ; drydocking delays and cost overruns and related risks; vessel accidents, pollution incidents or other events resulting in lost revenue, fines, penalties or other expenses that are unrecoverable from insurance policies or other third parties; unexpected litigation and insurance expenses; other industry risks; fluctuations in foreign currency valuations compared to the U.S. dollar and risks associated with expanded foreign operations, such as non-compliance with or the unanticipated effect of tax laws, customs laws, immigration laws, or other legislation that result in higher than anticipated tax rates or other costs; the inability to repatriate foreign-sourced earnings and profits; the inability of the Company to refinance or otherwise retire certain funded debt obligations that come due in 2019, 2020 and 2021; or the potential for any impairment charges that could arise in the future and that would reduce the Company's consolidated net tangible assets which, in turn, would further limit the Company's ability to grant certain liens, make certain investments, and incur certain debt under the Company's senior notes indentures and the New Credit Facility. In addition, the Company's future results may be impacted by adverse economic conditions, such as inflation, deflation, or lack of liquidity in the capital markets, that may negatively affect it or parties with whom it does business resulting in their non-payment or inability to perform obligations owed to the Company, such as the failure of customers to fulfill their contractual obligations or the failure by individual lenders to provide funding under the Company's New Credit Facility, if and when required. Further, the Company can give no assurance regarding when and to what extent it will effect common stock or note repurchases. Should one or more of the foregoing risks or uncertainties materialize in a way that negatively impacts the Company, or should the Company's underlying assumptions prove incorrect, the Company's actual results may vary materially from those anticipated in its forward-looking statements, and its business, financial condition and results of operations could be materially and adversely affected and, if sufficiently severe, could result in noncompliance with certain covenants of the Company's existing indebtedness. Additional factors that you should consider are set forth in detail in the "Risk Factors" section of the Company's most recent Annual Report on Form 10-K as well as other filings the Company has made and will make with the Securities and Exchange Commission which, after their filing, can be found on the Company's website, www.hornbeckoffshore.com.

Item 3—Quantitative and Qualitative Disclosures About Market Risk

Convertible Note Hedge and Warrant Transactions

In connection with a repurchase of $200,353,000 in principal amount of the 2019 convertible senior notes in June 2017, the Company and the applicable counterparties partially terminated at no cost to the Company the convertible note hedge call options and the warrant transactions entered into in August 2012 with each of Barclays Bank PLC, JPMorgan Chase Bank, National Association, London Branch and Wells Fargo Bank, National Association. The call options were ratably terminated based on the dollar amount of the 2019 convertible senior notes repurchased, and remaining call options cover, subject to customary anti-dilution adjustments, the number of shares underlying the 2019 convertible senior notes that remain outstanding at a strike price equal to the conversion price of such notes. Warrants with respect to 3,720,916 shares of our common stock at a strike price of $68.53 per share were terminated leaving a total of 1,850,625 warrants outstanding. For a form of each of the termination agreements described above, see Exhibits 4.21 and 4.22, respectively.

There have been no other material changes to the market risk disclosures set forth in Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4—Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1—Legal Proceedings

None.

Item 1A—Risk Factors

There were no changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 2—Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3—Defaults Upon Senior Securities

None.

Item 4—Mine Safety Disclosures

None.

Item 5—Other Information

Glossary of Terms Currently Used in Our SEC Filings

"2019 convertible senior notes" means the Company's 1.500% convertible senior notes due 2019;

"2020 senior notes" means the Company's 5.875% senior notes due 2020;

"2021 senior notes" means the Company's 5.000% senior notes due 2021;

“AHTS” means anchor-handling towing supply;

“ASC” means Financial Accounting Standards Board Accounting Standards Codification;

“average dayrate” means, when referring to OSVs or MPSVs, average revenue per day, which includes charter hire, crewing services and net brokerage revenues, based on the number of days during the period that the OSVs or MPSVs, as applicable, generated revenue. For purposes of vessel brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost of in-chartering third-party equipment paid by customers;

"BOEM" means the Bureau of Ocean Energy Management;

"BSEE" means the Bureau of Safety and Environmental Enforcement;

“cabotage laws” means laws pertaining to the privilege of operating vessels in the navigable waters of a nation;

“coastwise trade” means the transportation of merchandise or passengers by water, or by land and water, between points in the United States, either directly or via a foreign port;

"continental shelf" or "shelf" means offshore areas, generally less than 1,000' in depth;

“conventional” means, when referring to OSVs, vessels that are at least 30 years old, are generally less than 200’ in length or carry less than 1,500 deadweight tons of cargo when originally built and primarily operate, when active, on the continental shelf;

“deepwater” means offshore areas, generally 1,000’ to 5,000’ in depth;

“Deepwater Horizon incident” means the subsea blowout and resulting oil spill at the Macondo well site in the GoM in April 2010 and subsequent sinking of the Deepwater Horizon drilling rig;

“deep-well” means a well drilled to a true vertical depth of 15,000’ or greater, regardless of whether the well was drilled in the shallow water of the Outer Continental Shelf or in the deepwater or ultra-deepwater;

“DOI” means U.S. Department of the Interior and all its various sub-agencies, including effective October 1, 2011 the Bureau of Ocean Energy Management (“BOEM”), which handles offshore leasing, resource evaluation, review and administration of oil and gas exploration and development plans, renewable energy development, National Environmental Policy Act analysis and environmental studies, and the Bureau of Safety and Environmental Enforcement (“BSEE”), which is responsible for the safety and enforcement functions of offshore oil and gas operations, including the development and enforcement of safety and environmental regulations, permitting of offshore exploration, development and production activities, inspections, offshore regulatory programs, oil spill response and newly formed training and environmental compliance programs; BOEM and BSEE being successor entities to the Bureau of Ocean Energy Management, Regulation and Enforcement (“BOEMRE”), which effective June 2010 was the successor entity to the Minerals Management Service;

“domestic public company OSV peer group” includes Gulfmark Offshore, Inc. (NYSE:GLF), SEACOR Holdings Inc. (NYSE:CKH) and Tidewater Inc. (NYSE:TDW);

“DP-1”, “DP-2” and “DP-3” mean various classifications of dynamic positioning systems on new generation vessels to automatically maintain a vessel’s position and heading through anchor-less station-keeping;

“DWT” means deadweight tons;

“effective dayrate” means the average dayrate multiplied by the average utilization rate;

“EIA” means the U.S. Energy Information Administration;

"EPA" means United States Environmental Protection Agency;

“flotel” means on-vessel accommodations services, such as lodging, meals and office space;

“GAAP” means United States generally accepted accounting principles;

“GoM” means the U.S. Gulf of Mexico;

"high-specification" or “high-spec” means, when referring to new generation OSVs, vessels with cargo-carrying capacity greater than 2,500 DWT (i.e., 240 class OSV notations or higher), and dynamic-positioning systems with a DP-2 classification or higher; and, when referring to jack-up drilling rigs, rigs capable of working in 400-ft. of water depth or greater, with hook-load capacity of 2,000,000 lbs. or greater, with cantilever reach of 70-ft. or greater; and minimum quarters capacity of 150 berths or more and dynamic-positioning systems with a DP-2 classification or higher;

“IHS-CERA” means the division of IHS Inc. focused on providing knowledge and independent analysis on energy markets, geopolitics, industry trends and strategy;

“IHS-Petrodata” means the division of IHS Inc. focused on providing data, information, and market intelligence to the offshore energy industry;

“IRM” means inspection, repair and maintenance, also known as “IMR,” or inspection, maintenance and repair, depending on regional preference;

“Jones Act” means the U.S. cabotage laws known as the Merchant Marine Act of 1920, as amended;

“Jones Act-qualified” means, when referring to a vessel, a U.S.-flagged vessel qualified to engage in domestic coastwise trade under the Jones Act;

“long-term contract” means a time charter of one year or longer in duration at inception;

"low-specification" or “low-spec” means, when referring to new generation OSVs, vessels with cargo-carrying capacity between 1,500 DWT and 2,500 DWT (i.e., 200 class OSV notations), or dynamic-positioning systems with a DP-1 classification or lower;

“Macondo” means the well site location in the deepwater GoM where the *Deepwater Horizon* incident occurred as well as such incident itself;

“MPSV” means a multi-purpose support vessel;

“MSRC” means the Marine Spill Response Corporation;

"New Credit Facility" means a new $300 million first-lien delayed-draw term loan credit facility by and among the Company, as Parent Borrower, Hornbeck Offshore Services, LLC as Co-Borrower, certain holders of the Company’s outstanding notes, or the Initial Lenders, and Wilmington Trust, National Association, as Administrative Agent and Collateral Agent for the lenders;

“new generation” means, when referring to OSVs, modern, deepwater-capable vessels with cargo-carrying capacity greater than 1,500 DWT (i.e., 200 class OSV notations or higher) and dynamic-positioning systems with a DP-1 classification or higher, subject to the regulations promulgated under the International Convention on Tonnage Measurement of Ships, 1969, which was adopted by the United States and made effective for all U.S.-flagged vessels in 1992 and foreign-flagged equivalent vessels;

"Old Credit Facility" means the Company’s $200 million previously existing senior secured revolving credit facility, dated as of February 6, 2015, as subsequently amended, with Wells Fargo Bank, National Association, as Administrative Agent, and the lenders party thereto;

“OSV” means an offshore supply vessel, also known as a “PSV,” or platform supply vessel, depending on regional preference;

“PEMEX” means Petroleos Mexicanos;

“Petrobras” means Petroleo Brasileiro S.A.;

"phantom restricted stock units" means cash-settled restricted stock unit awards;

“public company OSV peer group” means SEACOR Holdings Inc. (NYSE:CKH), GulfMark Offshore, Inc. (NYSE:GLF), Tidewater Inc. (NYSE:TDW), Farstad Shipping (NO:FAR), Solstad Offshore (NO:SOFF), Deep Sea Supply (NO:DESSC), DOF ASA (NO:DOF), Siem Offshore (NO:SIOFF), Groupe Bourbon SA (GBB:FP), Havila Shipping ASA (NO:HAVI), Eidesvik Offshore (NO:EIOF) and/or Ezra Holdings Ltd (SI:EZRA);

“ROV” means a remotely operated vehicle; and

“ultra-deepwater” means offshore areas, generally more than 5,000’ in depth.

Item 6—Exhibits

Exhibit Index

Exhibit Number		Description of Exhibit
3.1	—	Second Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended March 31, 2005).
3.2	—	Fourth Restated Bylaws of the Company adopted June 30, 2004 (incorporated by reference to Exhibit 3.3 to the Company's Form 10-Q for the quarter ended June 30, 2004).
3.3	—	Amendment No. 1 to Fourth Restated Bylaws of the Company adopted June 21, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 27, 2012).
3.4	—	Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on July 2, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed July 3, 2013).
4.1	—	Specimen stock certificates for the Company's common stock, $0.01 par value (for U.S. citizens and non-U.S. citizens) (incorporated by reference to Exhibit 4.4 to the Company's Form 8-A/A filed July 3, 2013, Registration No. 001-32108).
4.2	—	Indenture, dated March 16, 2012 among Hornbeck Offshore Services, Inc., as issuer, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (including form of 5.875% Senior Notes due 2020) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed March 21, 2012).
4.3	—	Indenture dated as of August 13, 2012 by and among Hornbeck Offshore Services, Inc., the guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (including form of 1.500% Convertible Senior Notes due 2019) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.4	—	Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.5	—	Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.6	—	Confirmation of Base Call Option Transaction dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.7	—	Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on August 13, 2012).

Exhibit Number		Description of Exhibit
4.8	—	Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.9	—	Confirmation of Additional Base Call Option Transaction dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.10	—	Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.11	—	Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.12	—	Confirmation of Base Warrant dated as of August 7, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.13	—	Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Barclays Bank PLC (incorporated by reference to Exhibit 4.11 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.14	—	Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 4.12 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.15	—	Confirmation of Additional Warrants dated as of August 8, 2012 by and between Hornbeck Offshore Services, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.13 to the Company's Current Report on Form 8-K filed on August 13, 2012).
4.16	—	Indenture governing the 5.000% Notes, dated March 28, 2013 among Hornbeck Offshore Services, Inc., as issuer, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (including form of 5.000% Senior Notes due 2021) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on March 28, 2013).
4.17	—	Rights Agreement dated as of July 1, 2013 between Hornbeck Offshore Services, Inc. and Computershare Inc., as Rights Agent, which includes as Exhibit A the Amended and Restated Certificate of Designation of Series A Preferred Stock, as Exhibit B the form of Right Certificate and as Exhibit C the form of Summary of Rights to Purchase Shares (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed July 3, 2013).
4.18	—	First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 1.5% Convertible Senior Notes due 2019).

Exhibit Number		Description of Exhibit
4.19	—	First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.875% Senior Notes due 2020).
4.20	—	First Supplemental Indenture, dated October 6, 2015 among Hornbeck Offshore Services, Inc., the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (to the indenture governing the 5.000% Senior Notes due 2021).
4.21*	—	Form of Call Option Termination Agreement dated as of June 2017 by and between Hornbeck Offshore Services, Inc. and the applicable counterparty.
4.22*	—	Form of Warrant Termination Agreement dated as of June 2017 by and between Hornbeck Offshore Services, Inc. and the applicable counterparty.
10.1	—	First Lien Term Loan Agreement dated as of June 15, 2017 by and among the Company, as Parent Borrower, Hornbeck Offshore Services, LLC, as Co-Borrower, Wilmington Trust, National Association, as Administrative Agent, Wilmington Trust, National Association, as Collateral Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 16, 2017).
10.2	—	First Lien Guaranty and Collateral Agreement dated as of June 15, 2017 by and among the Company, as Parent Borrower, Hornbeck Offshore Services, LLC, as Co-Borrower, Wilmington Trust, National Association, as Collateral Agent, and the obligors signatory thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 16, 2017).
*31.1	—	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	—	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	—	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	—	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101	—	Interactive Data File

*** Filed herewith.**

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

Hornbeck Offshore Services, Inc.

Date: November 8, 2017

/s/ JAMES O. HARP, JR.

James O. Harp, Jr.
Executive Vice President and Chief Financial Officer

CALL OPTION TERMINATION AGREEMENT
dated as of June [ ] 2017
Between HORNBECK OFFSHORE SERVICES, INC. and [ ]

THIS CALL OPTION TERMINATION AGREEMENT (this "**Agreement**") with respect to the Call Option Confirmations (as defined below) is made as of June [ ], 2017 between Hornbeck Offshore Services, Inc. ("**Company**") and [ ] ("**Dealer**").

WHEREAS, Company issued $260,000,000 principal amount of 1.50% Convertible Senior Notes due 2019 (the "**Convertible Notes**") pursuant to an Indenture dated as of August 13, 2012 between Company and Wells Fargo Bank, National Association as trustee;

WHEREAS, in connection with the pricing of the Convertible Notes, Company and Dealer entered into a Base Call Option Transaction (the "**Base Call Option Transaction**") pursuant to an ISDA confirmation dated as of August 7, 2012, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Company purchased from Dealer 260,000 call options (as amended, modified, terminated or unwound from time to time, the "**Base Call Option Confirmation**");

WHEREAS, in connection with the exercise of the over-allotment option by the initial purchasers of the Convertible Notes, Company and Dealer entered into an Additional Call Option Transaction (the "**Additional Call Option Transaction**" and, together with the Base Call Option Transaction, the "**Call Option Transactions**") pursuant to an ISDA confirmation dated as of August 8, 2012, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Company purchased from Dealer 40,000 call options (as amended, modified, terminated or unwound from time to time, the "**Additional Call Option Confirmation**" and, together with the Base Call Option Confirmation, the "**Call Option Confirmations**"); and

WHEREAS, in connection with a repurchase by Company of $200,353,000 aggregate principal amount of Convertible Notes, Company has requested full termination of the Additional Call Option Transaction and partial termination of the Base Call Option Transaction;

NOW, THEREFORE, in consideration of their mutual covenants herein contained, the parties hereto, intending to be legally bound, hereby mutually covenant and agree as follows:

1. <u>Defined Terms</u>. Any capitalized term not otherwise defined herein shall have the meaning set forth for such term in the Call Option Confirmations.

2. <u>Termination</u>. Notwithstanding anything to the contrary in the Call Option Confirmations, Company and Dealer agree that, effective on the date hereof, (i) the Additional Call Option Transaction shall automatically terminate and all of the respective rights and obligations of the parties under the Additional Call Option Confirmation shall be terminated, cancelled and extinguished, (ii) the Number of Options under the Base Call Option Transaction shall be reduced to 99,647 and (iii) in connection therewith Dealer shall be required to pay to Company the Cash Settlement Amount on the Payment Date pursuant to Sections 3 and 4 below.

3. <u>Procedures for Hedge Unwind</u>. On the Hedge Unwind Date, Dealer (or an affiliate of Dealer), for the account of Dealer, shall unwind a portion of its hedge of the Options underlying the Call Option Transactions being terminated hereunder. "**Hedge Unwind Date**" means June [ ], 2017.

4. <u>Payments and Deliveries</u>. On June [ ], 2017 or, if such day is not a Clearance System Business Day, on the next Clearance System Business Day immediately following such day (the "**Payment Date**"), Dealer shall pay to Company, to the account specified in Section 7 hereof, in immediately available funds cash in an amount equal to the Cash Settlement Amount. The "**Cash Settlement Amount**" shall mean USD $0.00.

5. Representations and Warranties of Company. Company represents and warrants to Dealer (and agrees with Dealer in the case of Section 5(g)(ii)) on the date hereof that:

(a) it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

(b) such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

(c) all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

(d) its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law));

(e) it is not in possession of any material nonpublic information regarding Company or the Shares;

(f) it is not entering into this Agreement to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for the Shares) or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for the Shares) or otherwise in violation of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"); and

(g) (i) it is not on the date hereof, engaged in a distribution, as such term is used in Regulation M under the Exchange Act ("**Regulation M**"), of the Shares or any securities deemed "reference securities" (as defined in Regulation M) with respect to the Shares and (ii) it shall not engage in any such distribution during the period commencing on the date hereof and ending on the second Exchange Business Day immediately following the Hedge Unwind Date with respect to the Shares or such reference securities.

6. Representations and Warranties of Dealer. Dealer represents and warrants to Company on the date hereof that:

(a) it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

(b) such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

(c) all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(d) its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

7. Account for Payment to Company:

RESERVED

8. Governing Law. This Agreement and any dispute arising hereunder shall be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).

9. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all of the signatures thereto and hereto were upon the same instrument.

10. No Reliance, etc. Company confirms that it has relied on the advice of its own counsel and other advisors (to the extent it deems appropriate) with respect to any legal, tax, accounting, or regulatory consequences of this Agreement, that it has not relied on Dealer or its affiliates in any respect in connection therewith, and that it will not hold Dealer or its affiliates accountable for any such consequences.

11. Designation by Dealer. Notwithstanding any other provision in this Agreement to the contrary requiring or allowing Dealer to purchase, sell, receive or deliver any Shares or other securities to or from Company, Dealer may designate any of its affiliates to purchase, sell, receive or deliver such shares or other securities and otherwise to perform Dealer obligations in respect of the transactions contemplated by this Agreement and any such designee may assume such obligations. Dealer shall be discharged of its obligations to Company to the extent of any such performance.

12. No Other Changes. Except as expressly set forth herein, all of the terms and conditions of the Call Option Confirmations shall remain in full force and effect and are hereby confirmed in all respects.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

By: ______________________________

Name:
Title:

Hornbeck Offshore Services, Inc.

By: ______________________________

Name: James O. Harp, Jr.
Title: Executive Vice President & CFO

WARRANT TERMINATION AGREEMENT
dated as of June [ ] 2017
Between HORNBECK OFFSHORE SERVICES, INC. and [ ]

THIS WARRANT TERMINATION AGREEMENT (this "**Agreement**") with respect to the Warrants Confirmations (as defined below) is made as of June [ ], 2017 between Hornbeck Offshore Services, Inc. ("**Company**") and [ ] ("**Dealer**").

WHEREAS, Dealer and Company entered into a Base Warrants Transaction (the "**Base Warrants Transaction**") pursuant to an ISDA confirmation dated as of August 7, 2012, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Dealer purchased from Company [ ] warrants (as amended, modified, terminated or unwound from time to time, the "**Base Warrants Confirmation**");

WHEREAS, Dealer and Company entered into an Additional Warrants Transaction (the "**Additional Warrants Transaction**" and, together with the Base Warrants Transaction, the "**Warrants Transactions**") pursuant to an ISDA confirmation dated as of August 8, 2012, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Dealer purchased from Company [ ] warrants (as amended, modified, terminated or unwound from time to time, the "**Additional Warrants Confirmation**" and, together with the Base Warrants Confirmation, the "**Warrants Confirmations**"); and

WHEREAS, Company has requested full termination of the Additional Warrants Transaction and partial termination of the Base Warrants Transaction;

NOW, THEREFORE, in consideration of their mutual covenants herein contained, the parties hereto, intending to be legally bound, hereby mutually covenant and agree as follows:

1. <u>Defined Terms</u>. Any capitalized term not otherwise defined herein shall have the meaning set forth for such term in the Warrants Confirmations.

2. <u>Termination</u>. Notwithstanding anything to the contrary in the Warrants Confirmations, Company and Dealer agree that, effective on the date hereof, (i) the Additional Warrants Transaction shall automatically terminate and all of the respective rights and obligations of the parties under the Additional Warrants Confirmation shall be terminated, cancelled and extinguished, (ii) (x) the table set forth in Annex A to the Base Warrants Confirmation shall be amended and restated in its entirety with the table set forth in Annex A to this Agreement, (y) the reference to "the 39th Scheduled Trading Day" opposite the caption "Expiration Date(s)" in the Base Warrants Confirmation shall be amended to refer to "the 15th Scheduled Trading Day", and (z) the reference to "Monday, December 2, 2019" opposite the caption "First Expiration Date" in the Base Warrants Confirmation shall be amended to refer to "Tuesday, January 7, 2020" and (iii) in connection therewith Company shall be required to deliver to Dealer an amount in USD equal to the Cash Settlement Amount on the Delivery Date pursuant to Sections 3 and 4 below.

3. <u>Procedures for Hedge Unwind</u>. On the Hedge Unwind Date, Dealer (or an affiliate of Dealer), for the account of Dealer, shall unwind a portion of its hedge of the Warrants underlying the Warrants Transactions being terminated hereunder. "**Hedge Unwind Date**" means June [ ], 2017.

4. <u>Payments and Deliveries</u>. On June [ ], 2017 or, if such day is not a Clearance System Business Day, on the next Clearance System Business Day immediately following such day (the "**Delivery Date**"), Company shall deliver to Dealer, to the account specified in Section 7 hereof, in immediately available funds cash in an amount equal to the Cash Settlement Amount. The "**Cash Settlement Amount**" shall mean USD $0.00.

5. <u>Representations and Warranties of Company</u>. Company represents and warrants to Dealer (and agrees with Dealer in the case of Section 5(g)(ii)) on the date hereof that:

(a) it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

(b) such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

(c) all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

(d) its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law));

(e) it is not in possession of any material nonpublic information regarding Company or the Shares;

(f) it is not entering into this Agreement to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for the Shares) or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for the Shares) or otherwise in violation of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"); and

(g) (i) it is not on the date hereof, engaged in a distribution, as such term is used in Regulation M under the Exchange Act ("**Regulation M**"), of the Shares or any securities deemed "reference securities" (as defined in Regulation M) with respect to the Shares and (ii) it shall not engage in any such distribution during the period commencing on the date hereof and ending on the second Exchange Business Day immediately following the Hedge Unwind Date with respect to the Shares or such reference securities.

6. <u>Representations and Warranties of Dealer</u>. Dealer represents and warrants to Company on the date hereof that:

(a) it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

(b) such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

(c) all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(d) its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

7. <u>Account for Delivery of Cash to Dealer</u>:

RESERVED

8. <u>Governing Law</u>. This Agreement and any dispute arising hereunder shall be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).

9. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all of the signatures thereto and hereto were upon the same instrument.

10. No Reliance, etc. Company confirms that it has relied on the advice of its own counsel and other advisors (to the extent it deems appropriate) with respect to any legal, tax, accounting, or regulatory consequences of this Agreement, that it has not relied on Dealer or its affiliates in any respect in connection therewith, and that it will not hold Dealer or its affiliates accountable for any such consequences.

11. Designation by Dealer. Notwithstanding any other provision in this Agreement to the contrary requiring or allowing Dealer to purchase, sell, receive or deliver any Shares or other securities to or from Company, Dealer may designate any of its affiliates to purchase, sell, receive or deliver such shares or other securities and otherwise to perform Dealer obligations in respect of the transactions contemplated by this Agreement and any such designee may assume such obligations. Dealer shall be discharged of its obligations to Company to the extent of any such performance.

12. No Other Changes. Except as expressly set forth herein, all of the terms and conditions of the Warrants Confirmations shall remain in full force and effect and are hereby confirmed in all respects.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

By:

Name:
Title:

Hornbeck Offshore Services, Inc.

Name: James O. Harp, Jr.
Title: Executive Vice President & CFO

ANNEX A

Expiration Date	Number of Warrants
Tuesday, January 7, 2020	[ ]
Wednesday, January 8, 2020	[ ]
Thursday, January 9, 2020	[ ]
Friday, January 10, 2020	[ ]
Monday, January 13, 2020	[ ]
Tuesday, January 14, 2020	[ ]
Wednesday, January 15, 2020	[ ]
Thursday, January 16, 2020	[ ]
Friday, January 17, 2020	[ ]
Tuesday, January 21, 2020	[ ]
Wednesday, January 22, 2020	[ ]
Thursday, January 23, 2020	[ ]
Friday, January 24, 2020	[ ]
Monday, January 27, 2020	[ ]
Tuesday, January 28, 2020	[ ]
Wednesday, January 29, 2020	[ ]

EXHIBIT 31.1

CERTIFICATION

I, Todd M. Hornbeck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hornbeck Offshore Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2017

/s/ Todd M. Hornbeck
Todd M. Hornbeck
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, James O. Harp, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hornbeck Offshore Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2017

/s/ James O. Harp, Jr

James O. Harp, Jr.
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hornbeck Offshore Services, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd M. Hornbeck, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2017	/s/ Todd M. Hornbeck
	Todd M. Hornbeck
	Chairman, President and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hornbeck Offshore Services, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James O. Harp, Jr., Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2017

/s/ James O. Harp, Jr.
James O. Harp, Jr.
Executive Vice President and Chief Financial Officer