

HORNBECK OFFSHORE SERVICES INC /LA
Form 10-Q
May 09, 2014
Table of Contents

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 March 31, 2014

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
(State or other jurisdiction of
incorporation or organization)
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)

72-1375844
(I.R.S. Employer
Identification Number)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

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 April 30, 2014 was 36,252,102.

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014
TABLE OF CONTENTS

<u>PART I—FINANCIAL INFORMATION</u>	<u>1</u>
<u>Item 1—Financial Statements</u>	<u>1</u>
<u>Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>11</u>
<u>Item 3—Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
<u>Item 4—Controls and Procedures</u>	<u>25</u>
 <u>PART II—OTHER INFORMATION</u>	 <u>25</u>
<u>Item 1—Legal Proceedings</u>	<u>25</u>
<u>Item 1A—Risk Factors</u>	<u>25</u>
<u>Item 2—Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>26</u>
<u>Item 3—Defaults Upon Senior Securities</u>	<u>26</u>
<u>Item 4—Mine Safety Disclosures</u>	<u>26</u>
<u>Item 5—Other Information</u>	<u>26</u>
<u>Item 6—Exhibits</u>	<u>29</u>
 <u>SIGNATURE</u>	 <u>33</u>

Table of Contents

PART 1—FINANCIAL INFORMATION

Item 1—Financial Statements

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$349,340	\$439,291
Accounts receivable, net of allowance for doubtful accounts of \$3,343 and \$3,411, respectively	87,752	93,512
Deferred tax assets, net	75,165	72,470
Prepaid and other current assets	20,395	13,779
Current assets from discontinued operations	602	1,578
Total current assets	533,254	620,630
Property, plant and equipment, net	2,235,850	2,125,374
Deferred charges, net	77,071	74,075
Other assets	15,473	13,442
Long-term assets from discontinued operations	137	759
Total assets	\$2,861,785	\$2,834,280
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$68,617	\$52,930
Accrued interest	13,640	14,890
Accrued payroll and benefits	10,232	13,451
Deferred revenue	707	8,786
Other accrued liabilities	13,117	11,497
Current liabilities from discontinued operations	9	117
Total current liabilities	106,322	101,671
Long-term debt, net of original issue discount of \$58,618 and \$60,908, respectively	1,066,382	1,064,092
Deferred tax liabilities, net	377,240	368,416
Other liabilities	5,093	4,367
Long-term liabilities of discontinued operations	247	306
Total liabilities	1,555,284	1,538,852
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; 36,247 and 36,095 shares issued and outstanding, respectively	362	361
Additional paid-in-capital	723,589	724,379
Retained earnings	583,249	571,483
Accumulated other comprehensive loss	(699)	(795)
Total stockholders' equity	1,306,501	1,295,428
Total liabilities and stockholders' equity	\$2,861,785	\$2,834,280

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

Table of ContentsHORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Revenues	\$ 136,585	\$ 132,526
Costs and expenses:		
Operating expenses	68,581	56,294
Depreciation	16,185	13,196
Amortization	13,175	6,223
General and administrative expenses	13,685	12,996
	111,626	88,709
Gain on sale of assets	69	—
Operating income	25,028	43,817
Other income (expense):		
Loss on early extinguishment of debt	—	(24,319)
Interest income	364	577
Interest expense	(7,232)	(13,722)
Other income (expense), net	(77)	(109)
	(6,945)	(37,573)
Income before income taxes	18,083	6,244
Income tax expense	6,729	2,316
Income from continuing operations	11,354	3,928
Income from discontinued operations, net of tax	412	2,231
Net income	\$ 11,766	\$ 6,159
Earnings per share:		
Basic earnings per common share from continuing operations	\$0.32	\$0.11
Basic earnings per common share from discontinued operations	0.01	0.06
Basic earnings per common share	\$0.33	\$0.17
Diluted earnings per common share from continuing operations	\$0.31	\$0.11
Diluted earnings per common share from discontinued operations	0.01	0.06
Diluted earnings per common share	\$0.32	\$0.17
Weighted average basic shares outstanding	36,169	35,618
Weighted average diluted shares outstanding	36,717	36,346

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

Table of Contents

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

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Net income	\$ 11,766	\$ 6,159
Other comprehensive income, net of tax:		
Foreign currency translation income (loss)	96	(112)
Total comprehensive income	\$ 11,862	\$ 6,047

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

Table of Contents

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

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	\$ 11,354	\$ 3,928
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	16,185	13,196
Amortization	13,175	6,223
Stock-based compensation expense	2,631	3,307
Loss on early extinguishment of debt	—	24,319
Provision for bad debts	(68	) (141
Deferred tax expense	6,084	220
Amortization of deferred financing costs	1,956	4,981
Gain on sale of assets	(69) —
Changes in operating assets and liabilities:		
Accounts receivable	5,843	(15,148
Other receivables and current assets	(8,815	) 4,035
Deferred drydocking charges	(9,915	) (5,681
Accounts payable	12,497	(3,421
Accrued liabilities and other liabilities	(12,904	) (2,902
Accrued interest	(1,250	) (1,211
Net cash provided by operating activities	36,704	31,705
CASH FLOWS FROM INVESTING ACTIVITIES:		
Costs incurred for OSV newbuild program	(114,067	) (86,909
Net proceeds from sale of assets	76	—
Vessel capital expenditures	(14,656	) (6,626
Non-vessel capital expenditures	(556	) (479
Net cash used in investing activities	(129,203	) (94,014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from share-based payments	248	—
Repayment of senior notes	—	(234,620
Proceeds from the issuance of senior notes	—	450,000
Redemption premium on the retirement of debt	—	(16,705
Deferred financing costs	—	(7,256
Net cash proceeds from other shares issued	90	1,828
Net cash provided by financing activities	338	193,247
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by operating activities	826	6,834
Net cash provided by (used in) investing activities	1,288	(288
Net cash provided by discontinued operations	2,114	6,546
Effects of exchange rate changes on cash	96	112
Net increase (decrease) in cash and cash equivalents	(89,951	) 137,596
Cash and cash equivalents at beginning of period	439,291	576,678
Cash and cash equivalents at end of period	\$349,340	\$714,274

SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:

Cash paid for interest	\$13,882	\$14,265
Cash paid for income taxes	\$937	\$553

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

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL 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, 2013. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Certain reclassifications have been made to prior period results to conform to current year presentation. The most significant of these reclassifications are associated with the Company's discontinued operations. As discussed further in Note 6, the Company sold substantially all of its Downstream assets in August 2013.

The consolidated balance sheet at December 31, 2013 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. Earnings Per Share

Basic earnings per common share was calculated by dividing income from continuing operations and income from discontinued operations by the weighted average number of common shares outstanding during the period. Diluted earnings per common share was calculated by dividing income from continuing operations and income from discontinued operations by the weighted average number of common shares outstanding during the year plus the effect of dilutive stock options and restricted stock unit awards. 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 earnings per share (in thousands, except for per share data):

	Three Months Ended March 31,	
	2014	2013
Income from continuing operations (1)	\$11,354	\$3,928
Income from discontinued operations, net of tax (2)	412	2,231
Net income	\$11,766	\$6,159
Weighted average number of shares of common stock outstanding	36,169	35,618
Add: Net effect of dilutive stock options and unvested restricted stock (3)(4)(5)	548	728
Weighted average number of dilutive shares of common stock outstanding	36,717	36,346
Earnings per common share:		
Basic earnings per common share from continuing operations	\$0.32	\$0.11
Basic earnings per common share from discontinued operations	0.01	0.06
Basic earnings per common share	\$0.33	\$0.17
Diluted earnings per common share from continuing operations	\$0.31	\$0.11
Diluted earnings per common share from discontinued operations	0.01	0.06
Diluted earnings per common share	\$0.32	\$0.17

(1) Income from continuing operations for the three months ended March 31, 2013 includes a loss on early extinguishment of debt of \$24.3 million. See Note 3 for further information regarding the Company's debt.

(2) On August 29, 2013, the Company closed the sale of its Downstream segment. See Note 6 for further discussion of this transaction.

For the three months ended March 31, 2014 and 2013, the Company had no anti-dilutive stock options. Stock options are anti-dilutive when the exercise price of the options is greater than the average market price of the common stock for the period or when the results from operations are a net loss.

For the three months ended March 31, 2014 and 2013, the 2019 convertible senior notes were not dilutive and for (4) the three months ended March 31, 2013, the 2026 convertible senior notes retired in November 2013 were not dilutive, as the average price of the Company's stock was less than the effective

Table of Contents

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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.

Dilutive unvested restricted stock units are expected to fluctuate from quarter to quarter depending on the (5) Company's performance compared to a predetermined set of performance criteria. See Note 4 to these financial statements for further information regarding certain of the Company's restricted stock grants.

3. Long-Term Debt

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

	March 31, 2014	December 31, 2013
5.875% senior notes due 2020	\$375,000	\$ 375,000
5.000% senior notes due 2021	450,000	450,000
1.500% convertible senior notes due 2019, net of original issue discount of \$58,618 and \$60,908	241,382	239,092
Revolving credit facility due 2016	—	—
	1,066,382	1,064,092
Less current maturities	—	—
	\$1,066,382	\$ 1,064,092

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

	Semi-Annual Cash Interest Payment	Payment Dates
5.875% senior notes due 2020	\$11,000	April 1 and October 1
5.000% senior notes due 2021	11,300	March 1 and September 1
1.500% convertible senior notes due 2019	2,300	March 1 and September 1
Revolving Credit Facility		

The Company has an undrawn senior secured revolving credit facility, with a borrowing base of \$300.0 million and an accordion feature that allows for the potential expansion of the facility up to an aggregate of \$500.0 million. The facility matures in November 2016.

Under the Company's revolving credit facility, it has the option of borrowing at a variable rate of interest equal to either (i) the London Interbank Offered Rate, or LIBOR, plus an applicable margin, or (ii) the greatest of the Prime Rate, the Federal Funds Effective Rate plus $\frac{1}{2}$ of 1% and the one-month LIBOR plus 1%, plus in each case an applicable margin. The applicable margin for each base rate is determined by a pricing grid, which is based on the Company's leverage ratio, as defined in the credit agreement governing the amended revolving credit facility. Unused commitment fees are payable quarterly at t