

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2003

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 333-69826

Hornbeck Offshore Services, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

*(State or other jurisdiction of incorporation or
organization)*

72-1375844

(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)

**414 NORTH CAUSEWAY BOULEVARD
MANDEVILLE, LA 70448**

(Former Address)

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 is an accelerated filer (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 November 11, 2003 was 36,319,536.

**HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2003**

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PART I—FINANCIAL INFORMATION

Item 1—Financial Statements

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	September 30, 2003	December 31, 2002
(Unaudited)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,462	\$ 22,228
Accounts and claims receivable, net of allowance for doubtful accounts of \$471 and \$469, respectively	19,696	14,616
Prepaid insurance	1,235	569
Other current assets	1,638	1,877
Total current assets	35,031	39,290
Property, plant, and equipment, net	314,068	226,232
Goodwill, net	2,628	2,628
Deferred charges, net	11,544	10,113
Other assets	27	27
Total assets	\$ 363,298	\$ 278,290
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,504	\$ 5,350
Accrued interest	3,104	7,747
Accrued payroll and benefits	2,999	3,740
Other accrued liabilities	136	188
Total current liabilities	10,743	17,025
Revolving credit facility	46,900	—
Long-term debt, net of original issue discount of \$2,420 and \$2,694, respectively	172,580	172,306
Deferred tax liabilities, net	22,300	16,709
Other liabilities	448	374
Total liabilities	252,971	206,414
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, 36,320 shares and 30,305 shares issued and outstanding, respectively	363	303
Additional paid-in capital	90,149	60,880
Retained earnings	19,815	10,693
Total stockholders' equity	110,327	71,876
Total liabilities and stockholders' equity	\$ 363,298	\$ 278,290

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

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(Unaudited)		(Unaudited)	
Revenues	\$28,215	\$22,322	\$ 81,572	\$ 66,381
Costs and expenses:				
Operating expenses	16,998	12,510	45,665	33,958
General and administrative expenses	2,941	2,603	8,654	7,657
	19,939	15,113	54,319	41,615
Operating income	8,276	7,209	27,253	24,766
Interest expense	(4,804)	(4,021)	(13,378)	(11,817)
Interest income	25	127	141	575
Other income (expense), net	(10)	—	697	—
Income before income taxes	3,487	3,315	14,713	13,524
Income tax expense	(1,328)	(1,272)	(5,591)	(5,152)
Net income	<u>\$ 2,159</u>	<u>\$ 2,043</u>	<u>\$ 9,122</u>	<u>\$ 8,372</u>

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

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	Nine Months Ended September 30,	
	2003	2002
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 9,122	\$ 8,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,261	7,355
Amortization	2,172	1,401
Provision for bad debts	69	348
Deferred tax expense	5,591	5,152
Amortization of financing costs	1,131	1,071
Gain on sale of asset	(713)	—
Changes in operating assets and liabilities:		
Accounts receivable	(5,150)	(2,521)
Prepaid insurance and other current assets	(427)	539
Deferred charges and other assets	(4,364)	(3,184)
Accounts payable	(1,489)	(1,442)
Accrued interest	(4,643)	(5,014)
Accrued liabilities and other liabilities	(732)	(142)
Net cash provided by operating activities	<u>10,828</u>	<u>11,935</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction of offshore supply vessels	(30,667)	(38,841)
Acquisition of offshore supply vessels	(48,000)	—
Acquisition of tank barge	(7,400)	—
Proceeds from sale of vessel	1,650	—
Capital expenditures	(6,965)	(4,682)
Net cash used in investing activities	<u>(91,382)</u>	<u>(43,523)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under debt agreements	1,657	46
Payments on borrowings under debt agreements	(1,001)	(434)
Net proceeds from borrowings under revolving credit facility	46,900	—
Repurchase of shares	—	(50)
Deferred financing costs	(95)	(153)
Net proceeds from shares issued	23,327	413
Net cash provided by (used in) financing activities	<u>70,788</u>	<u>(178)</u>
Net decrease in cash and cash equivalents	(9,766)	(31,766)
Cash and cash equivalents at beginning of period	22,228	53,203
Cash and cash equivalents at end of period	<u>\$ 12,462</u>	<u>\$ 21,437</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Interest paid	\$ 19,260	\$ 19,075
Income taxes paid	\$ —	\$ 66
NON-CASH FINANCING ACTIVITIES:		
Issuance of shares to partially fund the acquisition of offshore supply vessels	\$ 6,000	\$ —

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

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS AND SHARES IN THOUSANDS)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States. The interim financial statements and notes are presented as permitted by instructions to 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 financial statements should be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2002 of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the "Company"). The results of operations for the three month and nine month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. Certain amounts reported in prior periods have been reclassified to conform to the 2003 presentation.

2. Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46) "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of variable interest entities (VIEs) in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 became effective immediately for VIEs created after January 31, 2003. The provisions of FIN 46 for VIEs created on or before January 31, 2003 were delayed until December 31, 2003 by FASB Staff Position No. FIN 46-6, "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities," issued in October 2003. The Company continues to assess the impact of FIN 46, yet believes that it will not be required to consolidate any existing VIEs. However, the Company's final conclusions will be incorporated into its consolidated financial statements upon full adoption of FIN 46 on December 31, 2003.

In April 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" to clarify under what circumstances a contract with an initial net investment meets the characteristics of a derivative, to clarify when a derivative contains a financing component, to amend the definition of an "underlying" to conform it to language in FIN 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" and to amend certain other existing pronouncements. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and is to be applied prospectively. Implementation of SFAS 149 did not have a material effect on the Company's consolidated financial statements as of and for the period ended September 30, 2003, as it did not have any derivative instruments or hedging arrangements.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 requires that certain financial instruments issued in the form of shares that are mandatorily redeemable, as well as certain other financial instruments, be classified as liabilities in the financial statements. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective beginning with the Company's third quarter of 2003. The provisions of this statement did not have a material impact on the Company's consolidated financial statements as of and for the period ended September 30, 2003.

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Acquisitions of Offshore Supply Vessels

On June 26, 2003, the Company acquired five 220-foot new generation offshore supply vessels (“OSVs”) and their related business from Candy Marine Investment Corporation, an affiliate of Candy Fleet Corporation (collectively, “Candy Fleet”) for \$45.0 million comprised of \$39.0 million in cash and \$6.0 million in common stock, for the purpose of diversifying its OSV fleet and expanding its service offerings. Candy Fleet is a privately held marine vessel operator in the Gulf of Mexico. The Company funded the cash portion of the purchase price with a combination of borrowings under the Company’s revolving credit facility and with part of the cash proceeds generated by the private placement of common stock as discussed in Note 4. The new vessel names are the *HOS Explorer*, *HOS Express*, *HOS Pioneer*, *HOS Trader* and *HOS Voyager*.

On August 6, 2003, the Company completed the acquisition of an additional 220-foot new generation OSV from Candy Fleet. The closing of the transaction was effected after satisfying certain conditions precedent to closing including, among other things, receipt during July 2003 of \$13.5 million in proceeds relating to the previously announced \$30.0 million private placement of common stock and the satisfactory completion of a drydocking and survey of the vessel in early August 2003. The purchase price was \$9.0 million. The Company plans to continue operating the acquired vessel, which was renamed the *HOS Mariner*, in the Gulf of Mexico.

The purchase method was used to account for the acquisition of the six OSVs from Candy Fleet. The purchase price allocation is currently being evaluated and is tentative pending receipt of an inventory valuation from vendors. The final allocation is expected to be completed by December 31, 2003. There were no intangible assets or goodwill recorded as a result of the acquisitions. As of September 30, 2003, the aggregate purchase price for the six OSVs was allocated to the acquired assets based on the estimated fair values as follows (in thousands):

Property, plant and equipment	\$ 53,817
Inventory	183
	<hr/>
Purchase price	\$ 54,000
	<hr/>

4. Private Placement of Common Stock

In May 2003, the Company commenced a private placement of its common stock to accredited investors to raise gross proceeds of \$30.0 million, including \$6.0 million of common stock, or 1.2 million shares, issued to Candy Fleet as partial consideration for the June 26, 2003 acquisition of five OSVs. The Company had received payments or irrevocable, unconditional and binding stock subscriptions for 4.3 million shares resulting in \$10.5 million of cash proceeds and subscriptions receivable of approximately \$11.0 million by June 30, 2003. All stock subscriptions receivable recorded during June 2003 were collected in full during July 2003. The private placement was completed in July 2003 with \$2.5 million of additional proceeds received from July 2003 subscriptions for 0.5 million shares. Costs incurred for the private placement of common stock were approximately \$0.7 million and were recorded as a reduction in additional paid in capital.

5. Long-Term Debt

On July 24, 2001, the Company issued \$175.0 million in principal amount of 10 5/8% senior notes (senior notes). The Company realized net proceeds of approximately \$165.0 million, a substantial

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

portion of which was used to repay and fully extinguish all of the then existing credit facilities. The senior notes mature on August 1, 2008 and require semi-annual interest payments at an annual rate of 10 5/8% on February 1 and August 1 of each year until maturity, with the first payment due on February 1, 2002. The effective interest rate on the senior notes is 11.18%. No principal payments are due until maturity. The senior notes are unsecured senior obligations and rank equally in right of payment with other existing and future senior indebtedness and senior in right of payment to any subordinated indebtedness incurred by the Company in the future. The senior notes are guaranteed by all of the Company's subsidiaries. The Company may, at its option, redeem all or part of the senior notes from time to time at specified redemption prices and subject to certain conditions required by the indenture. The Company is permitted under the terms of the indenture to incur additional indebtedness in the future, provided that certain financial conditions set forth in the indenture are satisfied by the Company.

Effective December 31, 2001, the Company entered into a new senior secured revolving credit facility for \$50.0 million (revolving credit facility) with three banks. Unused commitment fees are currently payable, on a quarterly basis, at the annual rate of three-eighths of one percent on the revolving credit facility. The revolving credit facility expires on December 31, 2004; however, the Company believes it will be renewed prior to that date.

On June 26, 2003, concurrent with the acquisition of the five OSVs from Candy Fleet, the Company amended the \$50.0 million revolving credit facility to increase its borrowing base from \$25.0 million to \$50.0 million. In connection with this amendment, the Company pledged two additional OSVs as collateral.

On September 30, 2003, the Company amended the revolving credit facility to increase the borrowing base from \$50.0 million to \$60.0 million, while adding a fourth bank, DVB Bank AG, to its lending group. The Company pledged one additional OSV as collateral in connection with this amendment. As of September 30, 2003, seven OSVs and four ocean-going tugs collateralize the revolving credit facility. As of September 30, 2003, the Company had a balance outstanding of \$46.9 million under the revolving credit facility, which primarily funded the acquisition of a double-hulled tank barge and six OSVs, and had \$13.1 million of additional credit immediately available under the revolving credit facility.

The revolving credit facility and indenture impose certain operating and financial 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.

Interest expense excludes capitalized interest related to new construction of OSVs of \$0.7 million in the third quarter of 2003 and \$1.0 million in the third quarter of 2002, \$2.3 million in the first nine months of 2003 and \$3.2 million in the first nine months of 2002.

6. Stock Option Plans

SFAS No. 123 "Accounting for Stock-Based Compensation" established financial accounting and reporting standards for stock-based compensation plans. The Company's plan includes all arrangements by which employees and directors receive shares of stock or other equity instruments of the Company, or the Company incurs liabilities to employees or directors in amounts based on the price of the stock. SFAS 123 defines a fair-value-based method of accounting for stock-based compensation. However, SFAS 123 also allows an entity to continue to measure stock-based

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

compensation cost using the intrinsic value method of APB Opinion No. 25 "Accounting for Stock Issued to Employees." Entities electing to retain the accounting prescribed in APB 25 must make pro forma disclosures of net income assuming dilution as if the fair-value-based method of accounting defined in SFAS 123 had been applied. The Company retained the provisions of APB 25 for expense recognition purposes. Under APB 25, where the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of SFAS 123." This pronouncement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Under the fair value based method, compensation cost for stock options is measured when options are issued. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and frequent disclosures in financial statements for the effects of stock-based compensation.

The transition guidance and annual disclosure provisions of SFAS 148 were effective for fiscal years ending after December 15, 2002. As of December 31, 2002, the Company adopted SFAS 148 through continued application of the intrinsic value method of accounting under APB 25, and enhanced financial statement disclosures for the effect on net income had the fair value provisions of SFAS 148 been applied.

Had compensation cost for the Company's stock options been determined based on the fair value at the grant date consistent with the method under SFAS 123, the Company's income available to common stockholders for the nine months ended September 30, 2003 and 2002 would have been as indicated below:

	<u>2003</u>	<u>2002</u>
Income available to common stockholders:		
As reported	\$9,122	\$8,372
Deduct: stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(284)	(242)
Pro forma	<u>\$8,838</u>	<u>\$8,130</u>

7. Commitments and Contingencies

In April 2002, the Company's Board of Directors approved the third newbuild program for the Company to build eight new generation OSVs. On May 1, 2002, following a competitive bidding process, a definitive agreement was signed with LEEVAC Industries, LLC for the construction of the first four vessels of this program, each of which has been designed as a 240 ED class vessel. LEEVAC Industries, LLC is affiliated with one of the Company's directors who is also the former Chairman of the Board and former Chief Executive Officer of the Company. The Company received a favorable fairness opinion from an independent appraiser with respect to the terms of the contract. The contract provides for the delivery of all four vessels during 2003. Aggregate construction costs for the first four vessels, before allocation of construction period interest, are expected to be approximately \$53.0 million, including \$18.4 million that was incurred with respect to such vessels during 2002. On September 17, 2003, the Company took delivery of the third of these vessels, the *HOS Greystone*. As of

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

September 30, 2003, the amount expected to be expended to complete construction of the remaining vessel was approximately \$4.0 million, which becomes due at various dates during the fourth quarter of 2003. The Company is obligated under the terms of the foregoing contract to remit funds to the shipyards based on vessel construction milestones, the timing of which are subject to change during vessel construction. Construction bids from shipyards for the last four vessels of this new build program are currently being evaluated. Demand for new generation OSVs in the Gulf of Mexico and foreign markets will be a key determinant of when the four additional OSVs will be constructed.

In the normal course of 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 its financial position or results of operations.

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Segment Information

The Company provides marine transportation services through two business segments. The Company operates new generation OSVs in the U.S Gulf of Mexico, Trinidad & Tobago and Mexico through its offshore supply vessel segment. The OSVs principally support complex exploration and production projects by transporting cargo to offshore drilling rigs and production facilities and provide support for specialty services. The tug and tank barge segment operates ocean-going tugs and tank barges in the northeastern United States and in Puerto Rico. The ocean-going tugs and tank barges provide coastwise transportation of refined and bunker grade petroleum products from one port to another. The following table shows reportable segment information prepared on the same basis as the Company's consolidated financial statements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Operating revenues:				
Offshore supply vessels	\$ 17,355	\$ 11,932	\$ 45,123	\$ 32,025
Tugs and tank barges	10,860	10,390	36,449	34,356
Total	<u>\$ 28,215</u>	<u>\$ 22,322</u>	<u>\$ 81,572</u>	<u>\$ 66,381</u>
Operating expenses:				
Offshore supply vessels	\$ 9,297	\$ 5,281	\$ 22,288	\$ 13,511
Tugs and tank barges	7,701	7,229	23,377	20,447
Total	<u>\$ 16,998</u>	<u>\$ 12,510</u>	<u>\$ 45,665</u>	<u>\$ 33,958</u>
General and administrative expenses:				
Offshore supply vessels	\$ 1,514	\$ 941	\$ 4,044	\$ 2,838
Tugs and tank barges	1,427	1,662	4,610	4,819
Total	<u>\$ 2,941</u>	<u>\$ 2,603</u>	<u>\$ 8,654</u>	<u>\$ 7,657</u>
Operating income:				
Offshore supply vessels	\$ 6,544	\$ 5,710	\$ 18,791	\$ 15,676
Tugs and tank barges	1,732	1,499	8,462	9,090
Total	<u>\$ 8,276</u>	<u>\$ 7,209</u>	<u>\$ 27,253</u>	<u>\$ 24,766</u>
Capital expenditures:				
Offshore supply vessels	\$ 19,380	\$ 11,564	\$ 89,880	\$ 40,131
Tugs and tank barges	373	317	8,454	2,996
Corporate	252	164	698	396
Total	<u>\$ 20,005</u>	<u>\$ 12,045</u>	<u>\$ 99,032</u>	<u>\$ 43,523</u>
Depreciation and amortization:				
Offshore supply vessels	\$ 2,620	\$ 1,578	\$ 6,546	\$ 4,052
Tugs and tank barges	2,196	1,826	5,887	4,704
Total	<u>\$ 4,816</u>	<u>\$ 3,404</u>	<u>\$ 12,433</u>	<u>\$ 8,756</u>

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	<u>As of September 30, 2003</u>	<u>As of December 31, 2002</u>
Identifiable assets:		
Offshore supply vessels	\$ 277,843	\$ 196,068
Tugs and tank barges	66,400	74,036
Corporate	19,055	8,186
	<u> </u>	<u> </u>
Total	\$ 363,298	\$ 278,290
	<u> </u>	<u> </u>
Long-lived assets:		
Offshore supply vessels	\$ 258,534	\$ 174,676
Tugs and tank barges	54,304	50,797
Corporate	1,230	759
	<u> </u>	<u> </u>
Total	\$ 314,068	\$ 226,232
	<u> </u>	<u> </u>

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 and our Annual Report on Form 10-K for the year ended December 31, 2002. In this Form 10-Q, “company,” “we,” “us,” and “our” refer to Hornbeck Offshore Services, Inc. and its subsidiaries, except as otherwise indicated. The term “new generation,” when referring to OSVs, mean deepwater-capable vessels 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.

General

We own and operate a fleet of 22 technologically advanced, new generation OSVs. Currently, 18 of our OSVs are operating in the U.S. Gulf of Mexico, three of our OSVs are operating offshore Trinidad & Tobago and one is working offshore Mexico. We also operate 12 ocean-going tugs and 16 ocean-going tank barges in the northeastern United States, primarily New York Harbor, and in Puerto Rico.

We charter our OSVs on a dayrate basis, under which the customer pays us a specified dollar amount for each day during the term of the contract, pursuant to either fixed time charters or spot market charters. A fixed time charter is a contract with a term of at least one year in which the charterer obtains the right to direct the movements and utilization of the vessel in exchange for payment of a specified dayrate, generally paid monthly, but the vessel owner retains operational control over the vessel. Typically, the owner fully equips the vessel and is responsible for normal operating expenses, repairs, wages and insurance, while the charterer is responsible for voyage expenses, such as fuel, port and stevedoring expenses. Spot market charters in the OSV industry are generally time charter contracts with either relatively short, indefinite terms or fixed terms of less than one year. Generally, the vessel owner absorbs crew, insurance and repair and maintenance costs in connection with the operation of OSVs pursuant to spot market charters, while customers absorb all other direct operating costs.

All of our OSVs operate under time charters, including seven that are chartered under contracts with expiration dates ranging from June 2004 through November 2007. The long-term contracts for our OSVs are consistent with those used in the industry and are either fixed for a term of months or years or are tied to the duration of a long-term contract for a drilling rig for which the vessel provides services. These contracts generally contain, among others, provisions governing insurance, reciprocal indemnifications, performance requirements and, in certain instances, dayrate escalation terms and renewal options.

While OSVs service existing oil and gas production platforms as well as exploration and development activities, incremental OSV demand depends primarily upon the level of drilling activity, which can be influenced by a number of factors, including oil and natural gas prices and drilling budgets of exploration and production companies. As a result, utilization rates have historically been tied to oil and natural gas prices and drilling activity. However, the relatively large capital commitments, longer lead times and investment horizons associated with deepwater and deep well projects have diminished the significance of this relationship. Soft market conditions in the U.S. Gulf of Mexico have persisted throughout most of 2002 and for the first nine months of 2003. Despite the market weakness, we added six new generation OSVs to our fleet, three of which were cold-stacked when acquired, and were able to achieve a fleetwide OSV utilization of approximately 90% for the third quarter of 2003.

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We have developed five different classes of proprietary, new generation OSVs to meet the diverse needs of our customers. The recent acquisition of six 220' OSVs from Candy Fleet, a sixth class, changed the mix of equipment in our fleet, broadening our coverage with additional vessels well suited for "deep gas" exploration and other complex shelf drilling applications. Given that the recently acquired vessels were 220 class OSVs, our complement of OSVs smaller than our 240 class size increased from 33 percent to 50 percent, resulting in a decrease in our fleetwide average dayrates. However, we have also achieved a commensurate reduction in both our fleetwide average capital costs and daily operating expense per vessel.

Our third quarter average dayrate was positively impacted by a full quarter contribution from the *HOS Gemstone*, the second of our four new 240 ED class supply vessels. This vessel was delivered in mid-June and is currently operating under a one-year time charter, with a one-year renewal option, with a large independent oil and gas company supporting deepwater operations in the U.S. Gulf of Mexico. We expect our fourth quarter average dayrate to also be positively impacted by the delivery of a proprietary newbuild vessel, the *HOS Greystone*, which was delivered in mid-September, two weeks ahead of schedule. The delivery of the *HOS Greystone* marks the eighth consecutive quarter that we have placed a newly constructed OSV in service. The fourth vessel of this newbuild program, the *HOS Silverstar*, was on track for early delivery in mid-December; however, we plan to make various vessel enhancements to address emerging market trends. These vessel modifications have resulted in the delivery date of the *HOS Silverstar* being rescheduled from December 2003 to January 2004.

Although current U.S. Gulf of Mexico market conditions remain volatile, we believe certain events could have a favorable impact on the long-term market outlook. Deepwater properties continue to change ownership, and several of the new exploration and production operators have publicly confirmed their intentions to work these properties over the next several quarters. Additionally, integrated oil companies have recently reaffirmed their commitments to continue developing large projects in the in the U.S. Gulf of Mexico. In response to U.S. Gulf of Mexico conditions, we elected to expand our operations within the western hemisphere in mid-2002. We now have three vessels operating in Trinidad & Tobago and one in Mexico. We will continue to take advantage of our vessels' capabilities to meet emerging market trends, both in the U.S. Gulf and in select international markets.

Generally, we operate an ocean-going tug and tank barge together as a "tow" to transport petroleum products between U.S. ports and along the coast of Puerto Rico. We operate our tugs and tank barges under fixed time charters, spot market charters, contracts of affreightment and consecutive voyage contracts. Spot market charters in the tug and tank barge industry are generally single-voyage contracts of affreightment or time charter contracts with terms of less than one year. A consecutive voyage contract is a contract for the transportation of cargo for a specified number of voyages between designated ports over a fixed period of time under which we are paid based on the volume of products we deliver per voyage. Under consecutive voyage contracts, in addition to earning revenues for volumes delivered, we earn a standby hourly rate between charters. One of our tank barges was chartered to a third party under a bareboat charter from January 2000 until it was sold to the third party on January 28, 2003. A bareboat charter is a "net lease" in which the charterer takes full operational control over the vessel for a specified period of time for a specified daily rate that is generally paid monthly to the vessel owner. The bareboat charterer is solely responsible for the operation and management of the vessel and must provide its own crew and pay all operating and voyage expenses.

The primary demand drivers for our tug and tank barge services are population growth, the strength of the U.S. economy, changes in weather, oil prices and competition from alternate energy sources. The tug and tank barge market, in general, is marked by steady demand over time. Results for the third quarter of 2003 were fairly consistent with the second quarter of 2003 due to normal seasonal weather patterns that typically result in a drop-off of activity during the second and third quarters. Our third quarter results were slightly lower than the second quarter due to more vessel days

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out of service for drydocking activity in the third quarter of 2003, compared to the second quarter of 2003. We generally take advantage of this seasonality to prepare the tug and tank barge fleet for peak demand periods by performing our regulatory drydocking and maintenance programs during these off-peak periods. In addition, we continuously evaluate our customer's needs and often elect to accelerate drydockings to take advantage of certain positioning opportunities.

As the next major Oil Pollution Act of 1990, or OPA 90, milestone approaches on January 1, 2005, we are beginning to see an increase in customer demand and a favorable trend toward premium dayrates for double-hulled equipment, particularly for tank barges in black oil service. We are actively working to ensure that our fleet is well positioned to take advantage of these opportunities as they develop.

Our operating costs are primarily a function of fleet size and utilization levels. The most significant direct operating costs are wages paid to vessel crews, maintenance and repairs and marine insurance. Because most of these expenses remain payable regardless of vessel utilization, our direct operating costs as a percentage of revenues may fluctuate considerably with changes in dayrates and utilization.

In addition to the operating costs described above, we incur fixed charges related to the depreciation of our fleet and costs for routine drydock inspections and maintenance and repairs necessary to ensure compliance with applicable regulations and to maintain certifications for our vessels with the U.S. Coast Guard and various classification societies. The aggregate number of drydockings and other repairs undertaken in a given period determines the level of maintenance and repair expenses and marine inspection amortization charges. We generally capitalize costs incurred for drydock inspection and regulatory compliance and amortize such costs over the period between such drydockings, typically 30 or 60 months.

Applicable maritime regulations require us to drydock our vessels twice in a five-year period for inspection and routine maintenance and repair. If we undertake a large number of drydockings in a particular fiscal period, comparative results may be affected.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited consolidated financial statements included in this Form 10-Q. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon information available. We base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are discussed in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002. There were no significant changes to our critical accounting policies as reported in our Form 10-K during the nine months ended September 30, 2003.

On September 9, 2003, the Accounting Standards Executive Committee, or AcSEC, of the American Institute of Certified Public Accountants voted to approve a Statement of Position, or SOP, Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment. The SOP is expected to be presented for approval by the FASB in the fourth quarter of 2003. If approved, the SOP would require us to expense as incurred some or all of the recertification costs in connection with the drydocking of our vessels. The SOP was undertaken to clarify the diversity in practice that exists in accounting for these and other costs related to property, plant and equipment. We will continue to monitor the progress related to the potential new rules and their impact on our consolidated financial statements.

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Results of Operations

The table below sets forth, by segment, the average dayrates and utilization rates for our vessels and the average number of vessels owned during the periods indicated. These offshore supply vessels and tugs and tank barges generate substantially all of our revenues and operating profit.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Offshore Supply Vessels:				
Average number of vessels (1)	19.9	11.6	15.8	10.4
Average utilization rate (2)	88.7%	91.0%	90.0%	94.1%
Average dayrate (3)	\$ 10,411	\$ 12,344	\$ 11,460	\$ 11,994
Tugs and Tank Barges:				
Average number of tank barges (4)	16.0	16.0	15.9	16.0
Average fleet capacity (barrels) (4)	1,156,330	1,130,727	1,141,308	1,130,727
Average barge capacity (barrels) (4)	77,221	70,670	72,019	70,670
Average utilization rate (2)	67.7%	73.1%	72.8%	77.9%
Average dayrate (5)	\$ 10,788	\$ 9,119	\$ 11,125	\$ 9,382

- (1) We owned 22 OSVs at September 30, 2003. Five OSVs were acquired on June 26, 2003 and one additional OSV on August 6, 2003. We took delivery of a newly constructed OSV on September 17, 2003 and expect the delivery of an additional newly constructed OSV in January 2004.
- (2) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues
- (3) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.
- (4) These averages give effect to our sale of the *Energy 5502* on January 28, 2003, and our acquisition of the *Energy 8001* on February 28, 2003. As of September 30, 2003, our tank barge fleet was comprised of 16 vessels.
- (5) Average dayrates represent average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost paid by customers of in-chartering third party equipment.

In March 2003, the Securities and Exchange Commission (SEC) adopted rules regulating the use of non-GAAP financial measures, such as EBITDA, in filings with the SEC, disclosures and press releases. These rules require non-GAAP financial measures to be presented with and reconciled to the most nearly comparable financial measure calculated and presented in accordance with GAAP.

EBITDA consists of earnings (net income) before interest expense, provision for income taxes, depreciation and amortization. This term, as we define it, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States, or GAAP. EBITDA 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.

We believe EBITDA is useful to an investor in evaluating our operating performance because:

- it is widely used by investors in our industry to measure a company's operating performance without regard to items such as interest expense, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired; and
- it helps investors more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest charges from our outstanding debt) and asset base (primarily depreciation and amortization of our vessels) from our operating results.

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Our management uses EBITDA:

- as a measure of operating performance because it assists us in comparing our performance on a consistent basis as it removes the impact of our capital structure and asset base from our operating results;
- in presentations to our board of directors to enable them to have the same consistent measurement basis of operating performance used by management;
- as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations;
- as a basis for incentive cash bonuses paid to our executive officers and other shore-based employees;
- to assess compliance with financial ratios and covenants included in our revolving credit facility and the indenture governing our senior notes; and
- in communications with lenders, senior note holders, rating agencies and others, concerning our financial performance.

The following table reconciles EBITDA with our net income for each of our business segments and in the aggregate, for the three and nine months ended September 30, 2003 and 2002, respectively (dollars in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
EBITDA:				
<i>Offshore supply vessels:</i>				
Net income	\$ 1,708	\$ 1,588	\$ 5,131	\$ 4,176
Plus:				
Interest expense	3,791	3,200	10,572	9,333
Income tax expense	1,052	994	3,145	2,580
Depreciation and amortization	2,620	1,578	6,546	4,052
EBITDA	\$ 9,171	\$ 7,360	\$ 25,394	\$ 20,141
<i>Tugs and tank barges:</i>				
Net income	\$ 451	\$ 455	\$ 3,991	\$ 4,196
Plus:				
Interest expense	1,013	821	2,806	2,484
Income tax expense	276	278	2,446	2,572
Depreciation and amortization	2,196	1,826	5,887	4,704
EBITDA	\$ 3,936	\$ 3,380	\$ 15,130	\$ 13,956
<i>Total:</i>				
Net income	\$ 2,159	\$ 2,043	\$ 9,122	\$ 8,372
Plus:				
Interest expense	4,804	4,021	13,378	11,817
Income tax expense	1,328	1,272	5,591	5,152
Depreciation and amortization	4,816	3,404	12,433	8,756
EBITDA	\$ 13,107	\$ 10,740	\$ 40,524	\$ 34,097

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Summarized financial information concerning our reportable segments is shown below in the following table (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Revenues:				
Offshore supply vessels	\$ 17,355	\$ 11,932	\$ 45,123	\$ 32,025
Tugs and tank barges	10,860	10,390	36,449	34,356
	<u>\$ 28,215</u>	<u>\$ 22,322</u>	<u>\$ 81,572</u>	<u>\$ 66,381</u>
Operating expenses:				
Offshore supply vessels	\$ 9,297	\$ 5,281	\$ 22,288	\$ 13,511
Tugs and tank barges	7,701	7,229	23,377	20,447
	<u>\$ 16,998</u>	<u>\$ 12,510</u>	<u>\$ 45,665</u>	<u>\$ 33,958</u>
General and administrative expenses	<u>\$ 2,941</u>	<u>\$ 2,603</u>	<u>\$ 8,654</u>	<u>\$ 7,657</u>
Interest expense	<u>\$ 4,804</u>	<u>\$ 4,021</u>	<u>\$ 13,378</u>	<u>\$ 11,817</u>
Interest income	<u>\$ 25</u>	<u>\$ 127</u>	<u>\$ 141</u>	<u>\$ 575</u>
Income tax expense	<u>\$ 1,328</u>	<u>\$ 1,272</u>	<u>\$ 5,591</u>	<u>\$ 5,152</u>

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Revenues. Revenues were \$28.2 million for the three months ended September 30, 2003, compared to \$22.3 million for the same period in 2002, an increase of \$5.9 million or 26.5%. The increase in revenues was primarily the result of the growth of our OSV fleet by 12 vessels since June 2002 and the addition of one double-hulled tank barge in February 2003. The additional revenues generated by these thirteen vessels accounted for a \$6.0 million increase in revenues, which was offset by a \$0.1 million decrease in revenue related to vessels that were in service during each of the three months ended September 30, 2003 and 2002, including the *Energy 5502*, which was not in service during the third quarter of 2003.

Revenues from our OSV segment increased to \$17.4 million for the three months ended September 30, 2003, compared to \$11.9 million for the same period in 2002, an increase of \$5.5 million or 46.2%. The increase in segment revenues is due to the addition of twelve new generation OSVs since June 2002. Our utilization rate was 88.7% for the three months ended September 30, 2003, which was slightly lower than the 91.0% we achieved in the same period of 2002. Our OSV average dayrate decreased to \$10,411 in the third quarter of 2003 compared to \$12,344 for the same period of 2002, a decrease of \$1,933 or 15.7%. The addition of six 220 class OSVs from Candy Fleet resulted in a decrease in our fleetwide average dayrates due to the change in our fleet complement to a greater proportion of vessels smaller than our 240 class size. Prior to the first Candy Fleet acquisition on June 26th, 33 percent of our fleet was comprised of vessels under 240' in length. After the second Candy Fleet acquisition on August 6th, OSVs smaller than 240' in length comprised 50 percent of our fleet. This shift in our OSV vessel mix, coupled with continued downward pressure on spot market dayrates in the Gulf of Mexico, resulted in lower average dayrates this quarter compared to the prior year quarter. Continued volatility in average dayrates and utilization is expected as we will have numerous boats in the spot market during the remainder of this year. Spot market vessels heighten the susceptibility to dayrate and utilization swings resulting from weak market conditions in the Gulf of Mexico.

Revenues from our tug and tank barge segment totaled \$10.9 million for the three months ended September 30, 2003, compared to \$10.4 million for the same period in 2002, an increase of \$0.5

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million or 4.8%. The revenues increase is primarily due to an increased average barge size and change in the contract mix. Revenues for the three months ended September 30, 2003 included \$0.4 million that was equal to the cost of in-chartering third-party equipment paid by customers compared to \$0.9 million in the prior year quarter. Our utilization rate decreased to 67.7% for the three months ended September 30, 2003 compared to 73.1% for the same period in 2002. The decrease in utilization was primarily the result of more drydocking and repair activities in the third quarter of 2003. Our average dayrate increased to \$10,788 for the three months ended September 30, 2003, compared to \$9,119 for the same period of 2002. The \$1,669 or 18.3% increase in dayrates since the third quarter of 2002 was driven primarily by the sale of the *Energy 5502* in January 2003 and the purchase of the *Energy 8001* in February 2003. The *Energy 5502* was generating bareboat charter revenue during the third quarter of 2002 that is substantially below our fleet average dayrate. However, the *Energy 8001*, a larger capacity vessel, commanded higher average dayrates and was operating through a time charter arrangement.

Operating Expenses. Our operating expenses, including depreciation and amortization, increased to \$17.0 million for the quarter ended September 30, 2003, compared to \$12.5 million for the same period in 2002, an increase of \$4.5 million or 36.0%. The increase in operating expenses resulted primarily from the addition of 12 vessels to our OSV and tank barge fleets since June 2002.

Operating expenses for our OSV segment increased to \$9.3 million in the third quarter of 2003 compared to \$5.3 million for the same period of 2002, an increase of \$4.0 million or 75.5%. This increase was primarily the result of the *HOS Brimstone*, *HOS Stormridge*, *HOS Sandstorm*, *HOS Bluewater*, *HOS Gemstone* and *HOS Greystone* being in service for substantially more days during the third quarter of 2003 compared to the third quarter of 2002 and the acquisition of six OSVs in June and August 2003. Daily operating costs per vessel for the third quarter of 2003 decreased over the same period of 2002 primarily due to operating a greater complement of 200 and 220 class vessels.

Operating expenses for our tug and tank barge segment was \$7.7 million for the three months ended September 30, 2003, compared to \$7.2 million for the same period of 2002, an increase of \$0.5 million or 6.9%. The increase is primarily the result of the sale of the *Energy 5502* and the purchase of the *Energy 8001*. Operating expense for the third quarter of 2003 included \$0.1 million for the cost of in-chartering third-party equipment paid by customers compared to \$0.6 million in the year-ago quarter. Daily operating costs per vessel, excluding in-chartering expenses, for the third quarter of 2003 remained fairly consistent with the same period of 2002.

General and Administrative Expense. Third-quarter 2003 general and administrative expenses of \$2.9 million were \$0.3 million or 11.5% higher than the \$2.6 million reported in the corresponding quarter of 2002. We expect these costs to increase for the remainder of 2003 to accommodate our continued growth and increased reporting obligations under federal securities laws.

Interest Expense. Interest expense was \$4.8 million for the third quarter of 2003, compared to \$4.0 million for the same period of 2002, an increase of \$0.8 million or 20.0%. Capitalization of interest costs relating to new construction of OSVs was approximately \$0.7 million for the three months ended September 30, 2003, compared to \$1.0 million for the same period of 2002. The net increase in interest expense is attributable to our revolving credit facility, which had no drawings during the third quarter of 2002.

Interest Income. Interest income of \$25,000 was less than the \$0.1 million earned in the same period of 2002 primarily due to lower cash balances during the third quarter of 2003.

Income Tax Expense. Our effective tax rate for the three months ended September 30, 2003 and 2002 was 38 percent, respectively. Our income tax expense primarily consists of deferred taxes due to

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our federal net operating loss carryforwards. Our income tax rate is higher than the federal statutory rate due primarily to expected state and foreign tax liabilities and items not deductible for federal income tax purposes.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Revenues. Revenues were \$81.6 million for the nine months ended September 30, 2003, compared to \$66.4 million for the same period in 2002, an increase of \$15.2 million or 22.9%. This increase in revenues is primarily the result of the growth of our fleet since May 2002. Our operating fleet grew from 40 vessels at the end of the third quarter of 2002 to 50 vessels at the end of the third quarter of 2003. The additional revenues generated by these 10 vessels accounted for a \$10.9 million increase in revenues which was offset by a \$4.3 million decrease in revenues from our 40 vessels that were in service during each of the nine months ended September 30, 2003 and 2002.

Revenues from our OSV segment increased to \$45.1 million in the first nine months of 2003 compared to \$32.0 million for the first nine months of 2002, an increase of \$13.1 million or 40.9%. Our utilization rate was 90.0% for the first nine months of 2003, compared to 94.1% for the same period of 2002. The decrease in utilization was impacted by having fewer long-term contracts and more vessels operating in the spot market, which is more susceptible to market fluctuations. Our OSV average dayrate was \$11,460 for the first nine months of 2003, compared to \$11,994 for the same period in 2002, a decrease of \$534 or 4.5%. The decrease in average dayrates primarily reflects the addition of six 220 class OSVs, which experience lower dayrates than our 240 or 265 class vessels.

Revenues from our tug and tank barge segment totaled \$36.4 million in the first nine months of 2003 compared to \$34.4 million for the same period of 2002, an increase of \$2.0 million or 5.8%. The segment revenue increase is primarily due to the acquisition of one 80,000-barrel double-hulled tank barge on February 28, 2003. Our utilization rate decreased to 72.8% for the first nine months of 2003, compared to 77.9% for the same period of 2002 primarily due to more drydocking days occurring in the first nine months of 2003 and an increase in vessels operating under contracts of affreightment during the 2003 period. Our average dayrate increased \$1,743, or 18.6%, to \$11,125 for the first nine months of 2003 compared to \$9,382 for the first nine months of 2002. The increased dayrates were primarily driven by higher average barge capacities and a bareboat charter contract replaced by a time charter contract, which commands a higher dayrate.

Operating Expenses. Our operating expenses, including depreciation and amortization, increased to \$45.7 million for the first nine months of 2003, compared to \$34.0 million for the same period of 2002, an increase of \$11.7 million or 34.4%. The increase in operating expenses was the result of having more vessels in service during the first nine months of 2003 compared to the year ago nine-month period.

Operating expenses for our OSV segment increased \$8.8 million or 65.2% for the first nine months of 2003 to \$22.3 million compared to \$13.5 million for the first nine months of 2002. This increase was primarily the result of five newly constructed, larger class OSVs being in service for substantially more days during the first nine months of 2003 compared to the first nine months of 2002 and the acquisition of six 220 class OSVs in mid-2003. Daily operating costs per vessel for the first nine months of 2003 decreased over the same period of 2002, primarily due to a change in the OSV fleet complement from June 2003 to September 2003.

Operating expenses for our tug and tank barge segment was \$23.4 million for the first nine months of 2003, compared to \$20.4 million for same period of 2002, an increase of \$3.0 million or 14.7%. The operating expense increase is primarily the result of the *Energy 8001* acquisition in February 2003. Daily operating expenses per vessel in the tug and tank barge segment remained fairly constant.

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General and Administrative Expense. Our general and administrative expense was \$8.7 million for the first nine months of 2003, compared to \$7.7 million for the same period of 2002, an increase of \$1.0 million or 13.0%. This increase primarily resulted from increased overhead relating to the costs associated with reporting obligations under federal securities laws that were incurred during 2003 but not in the first nine months of 2002.

Interest Expense. Interest expense was \$13.4 million in the first nine months of 2003, compared to \$11.8 million in the first nine months of 2002, an increase of \$1.6 million or 13.6%. The increase in interest expense resulted from lower capitalized interest in 2003 related to the construction in progress of four vessels compared to the construction of eight vessels in progress during the same 2002 period. This increase was offset in part by the capitalization of interest costs of \$2.3 million and \$3.2 million for the nine months ended September 30, 2003 and 2002, respectively.

Interest Income. Interest income was \$0.1 million in the first nine months of 2003 compared to \$0.6 million in the first nine months of 2002, a decrease of \$0.5 million or 83.3%. Average cash balances were \$17.3 million and \$37.3 million for the nine months ended September 30, 2003 and 2002, respectively, which substantially contributed to the decrease in interest income during the nine months ended September 30, 2003.

Income Tax Expense: Our effective tax rate was 38.0 percent for the first nine months of 2003 and 2002. Our income tax expense primarily consists of deferred taxes due to our federal net operating loss carryforwards. Our income tax rate is higher than the federal statutory rate due primarily to expected state and foreign tax liabilities and items not deductible for federal income tax purposes.

Liquidity and Capital Resources

We require capital to fund ongoing operations, the construction of new vessels, acquisitions and debt service. We have historically financed our capital requirements with cash flow from operations, issuances of equity and debt securities, and borrowings under our credit facilities.

Net cash provided by operating activities was \$10.8 million for the nine months ended September 30, 2003, compared to \$11.9 million for the nine months ended September 30, 2002. Changes in cash flow from operating activities are principally the result of higher income from operations after considering increases in depreciation and amortization due to the significant expansion of our vessel fleet, offset by changes in our net working capital.

Net cash used in investing activities was \$91.4 million for the nine months ended September 30, 2003 compared to \$43.5 million for the nine months ended September 30, 2002. Net cash used in investing activities for each period included the cost of new vessel construction and, for the period ended September 30, 2003, acquisition costs related to the *Energy 8001* and six OSVs, offset by proceeds from the sale of the *Energy 5502*.

Net cash provided by financing activities was \$70.8 million for the nine months ended September 30, 2003 comprised primarily of \$46.9 million from borrowings under our revolving credit facility and \$23.3 million net proceeds from the issuance of common stock. For the nine months ended September 30, 2002, net cash used in financing activities was \$0.2 million comprised of the net issuance of additional common equity offset by payments on borrowings under debt agreements.

We have a three-year senior secured revolving credit facility with four banks. Our revolving credit facility was amended on September 30, 2003 to increase our borrowing base to \$60.0 million. In connection with this amendment, we pledged an additional OSV as collateral. As of September 30, 2003, seven OSVs and four ocean-going tugs collateralize the revolving credit facility. Borrowings

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under the revolving credit facility accrue interest, at our option, at either (i) the prime rate announced by Citibank, N.A. in New York, plus a margin of 0.0% to 1.0%, or (ii) the London Interbank Offered Rate, plus a margin of 1.75% to 3.00%. As of September 30, 2003, our weighted average interest rate was 3.95%. We are also required to pay a commitment fee on available but unused amounts ranging from 0.250% to 0.375%. The interest rate margin and unused commitment fee are based on our leverage ratio, as defined in the revolving credit facility. We can use the amounts we draw under such facility for working capital purposes, acquisitions and, under certain circumstances, new vessel construction. The revolving credit facility expires on December 31, 2004, but we believe it will be renewed prior to that time. As of September 30, 2003, we had \$46.9 million outstanding under this facility, which amount was used, in part, to fund the acquisition of an 80,000-barrel double-hulled tank barge and a portion of the acquisition cost of six OSVs. As of September 30, 2003, we had \$13.1 million available under the facility.

As of September 30, 2003, we had outstanding debt of \$172.6 million, net of original issue discount, under our senior notes. Interest on the senior notes is payable semiannually each February 1 and August 1. The senior notes do not require scheduled payments of principal prior to their stated maturity on August 1, 2008. Pursuant to the indenture under which the senior notes are issued, however, we are required to make offers to purchase the senior notes upon the occurrence of specified events, such as certain asset sales or a change in control.

The revolving credit facility and indenture 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 make dividend or other restricted payments.

As of September 30, 2003, we had cash of approximately \$12.5 million and working capital of approximately \$24.3 million. During the nine months ended September 30, 2003, we expended \$30.7 million for the construction of new generation OSVs, before allocation of construction period interest. As of September 30, 2003, we were committed under a vessel construction contract to complete construction of one OSV, which is part of our current eight-vessel newbuild program. We are currently evaluating construction bids from shipyards for the last four vessels of this program, in addition to market demand for such vessels in the deepwater Gulf of Mexico and foreign markets. Aggregate construction costs for the first four vessels, before allocation of construction period interest, are expected to be approximately \$53.0 million, including \$18.4 million that was incurred with respect to such vessels during 2002. We took delivery of the *HOS Bluewater* on March 17, 2003, the *HOS Gemstone* on June 17, 2003, and the *HOS Greystone* on September 17, 2003. As of September 30, 2003, the amount expected to be expended to complete construction of the remaining vessel was approximately \$4.0 million, which becomes due at various dates during the fourth quarter of 2003. During the nine months ended September 30, 2003, we expended approximately \$7.5 million for drydocking-related expenses for vessels, of which \$4.5 million was accounted for as deferred charges and \$3.0 million for other vessel capital improvements. Under our accounting policy, we generally capitalize drydocking expenditures related to vessel recertification to deferred charges and amortize the amount over 30 or 60 months.

As of December 31, 2002, we had federal net operating loss carryforwards of approximately \$21.5 million available through 2018 to offset future taxable income. In addition, we expect to generate federal tax benefits due to our use of accelerated tax depreciation with respect to new vessels. Our use of these net operating losses and additional tax benefits may be limited due to U.S. tax laws. Based on the age and composition of our current fleet, however, we expect to pay a lower than normal amount of federal income taxes over the near term.

In the fourth quarter of 2003, we commenced our fourth vessel newbuild program by signing definitive agreements for the construction of two double-hulled tank barges. The first two double-hulled

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tank barges of this newbuild program are expected to be delivered in December 2004 and will be constructed at two different shipyards. We are currently evaluating our plans with respect to a third tank barge. We have also secured fixed-price options from one of the shipyards to construct up to three additional double-hulled tank barges for delivery after 2004. Construction and retrofit costs for the first three vessels of the tank barge newbuild program are not expected to exceed \$42.0 million, before allocation of construction period interest.

We believe that cash on hand and cash generated from operations will provide sufficient funds to complete construction of the one remaining new generation OSV currently under construction in our newbuild program and the first three double-hulled vessels in our tank barge new build program discussed above, and to satisfy debt service and working capital requirements. We have, however, made, and may make additional, short-term draws on our revolving credit facility from time to time during peak demands on our cash that occur as a result of scheduled capital expenditure commitments. Any excess liquidity will be available to finance our strategy, which includes expanding our fleet through the construction or acquisition of additional, or the retrofit of existing, OSVs, tugs and tank barges as needed to take advantage of the demand for such vessels. Depending on the market demand for OSVs, tugs and tank barges and consolidation opportunities that may arise, we may require additional debt or equity financing, including to fund, at such time as we elect to proceed, the construction of the last four vessels in our current new generation OSV newbuild program and additional vessels under our double-hulled tank barge construction program.

Contractual Obligations and Commercial Commitments

The following table sets forth an aggregation of our contractual obligations and commercial commitments as of September 30, 2003, in thousands of dollars.

	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Thereafter
Long-term debt (1)	\$ 175,000	\$ —	\$ —	\$ 175,000	\$ —
Revolving credit facility	46,900	—	46,900	—	—
Operating leases (2)	3,597	610	2,377	610	—
Construction commitments (3)	4,010	4,010	—	—	—
Total	\$ 229,507	\$ 4,620	\$ 49,227	\$ 175,610	\$ —

(1) Includes original issue discount of \$2,420.

(2) Included in operating leases are commitments for office space, vessel rentals, office equipment, and vehicles.

(3) The timing of the incurrence of these costs is subject to change among periods based on the achievement of shipyard milestones, but the amounts are not expected to change materially in the aggregate. During the fourth quarter of 2003, we signed definitive agreements with two shipyards for the construction of the first two double-hulled tank barges as part of our fourth newbuild program. Costs related to the first three vessels of the most recent newbuild program are not expected to exceed \$42.0 million, before the allocation of construction period interest.

Inflation

To date, general inflationary trends have not had a material effect on our operating revenues or expenses.

Forward Looking Statements

We make forward-looking statements in this Form 10-Q, including certain information set forth in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have based these forward-looking statements on our current views and assumptions about future events and our future financial performance. You can generally identify forward-looking

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statements by the appearance in such a statement of words like “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should” or “will” or other comparable words or the negative of these words. When you consider our forward-looking statements, you should keep in mind the risk factors we describe and other cautionary statements we make in this Form 10-Q.

Among the risks, uncertainties and assumptions to which these forward-looking statements may be subject are:

- changes in international economic and political conditions,
- changes in oil and natural gas prices,
- activity levels in the energy markets,
- increases in supply of new vessels,
- demand for refined petroleum products or in methods of delivery,
- loss of existing customers,
- changes in laws,
- financial stability of our customers,
- retention of skilled employees,
- our ability to finance our operations on acceptable terms and access the debt and equity markets to fund our capital requirements, which depend on general market conditions and our financial condition at the time,
- our ability to complete vessels under construction without significant delays or cost overruns,
- the effects of competition,
- our ability to successfully integrate acquisitions,
- our ability to charter our vessels on acceptable terms, and
- our success at managing these and other risks.

Our forward-looking statements are only predictions based on expectations that we believe are reasonable. Actual events or results may differ materially from those described in any forward-looking statement. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. To the extent these risks, uncertainties and assumptions give rise to events that vary from our expectations, the forward-looking events discussed in this Form 10-Q may not occur.

Item 3—Quantitative And Qualitative Disclosures About Market Risk

We have not entered into any derivative financial instrument transactions to manage or reduce market risk or for speculative purposes.

We are subject to interest rate risk on our long-term fixed interest rate senior notes. In general, the fair market value of debt with a fixed interest rate will increase as interest rates fall. Conversely, the fair market value of debt will decrease as interest rates rise. The senior notes accrue interest at the rate of 10 5/8% per annum and mature on August 1, 2008. There are no scheduled principal payments under the senior notes prior to the maturity date. Our revolving credit facility has a variable interest rate and, therefore, is not subject to interest rate risk.

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Our operations are primarily conducted between U.S. ports, including along the coast of Puerto Rico, and historically we have not been exposed to foreign currency fluctuation. However, as we expand our operations to international markets, we may become exposed to certain risks typically associated with foreign currency fluctuation. We currently have fixed time charters for three of our offshore supply vessels for service in Trinidad & Tobago. Although such contracts are denominated and will be paid in U.S. Dollars, value added tax ("VAT") payments are paid in Trinidad dollars which creates an exchange risk related to currency fluctuations. In addition, we are currently operating under a fixed time charter with one of our other OSVs for service in Mexico. Although we are paid in U.S. Dollars, there is an exchange risk to foreign currency fluctuations related to the payment terms of such time charter. To date, we have not hedged against any foreign currency rate fluctuations associated with foreign currency VAT payments or other foreign currency denominated transactions arising in the normal course of business. We continually monitor the currency exchange risks associated with conducting international operations. To date, gains or losses associated with such fluctuations have not been material.

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.

Internal Control Over Financial Reporting

We also maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our policies and procedures are followed. There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates 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

We are not currently a party to any material legal proceedings, although we may from time to time be subject to various legal proceedings and claims that arise in the ordinary course of business.

Item 2—Changes In Securities And Use Of Proceeds

The Company completed a private placement of common stock on July 3, 2003 as reported in Item 2 of Form 10-Q, filed August 14, 2003.

In September 2003, we issued 2,500 shares of our common stock to certain Holders of options granted under our Incentive Compensation Plan upon their exercise of such options. The total amount of consideration we received for the issuance of these shares was approximately \$6,625. The issuance of these shares of our common stock was exempt from registration under Rule 701 promulgated under the Securities Act of 1933.

Item 3—Defaults Upon Senior Securities

None.

Item 4—Submission Of Matters To A Vote Of Security Holders

None.

Item 5—Other Information

On November 6, 2003, the Company held a conference call to discuss its third quarter 2003 operating results. During such call, management discussed additional material non-public information with respect to the Company's results of operations and financial condition for the third quarter of 2003 that was not previously included in its Report on Form 8-K furnished to the SEC. The additional material non-public information has been included under Item 1—Financial Statements (and accompanying notes) and Item 2—Management's Discussion And Analysis Of Financial Condition And Results Of Operations in this Report on Form 10-Q.

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Item 6—Exhibits And Reports On Form 8-K

(a) Exhibits:

<u>Exhibit Number</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on December 13, 1997 (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
3.2	Certificate of Amendment of the Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on December 1, 1999 (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
3.3	Certificate of Amendment of the Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on October 23, 2000 (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
3.4	Certificate of Correction to Certificate of Amendment of the Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on November 14, 2000 (incorporated by reference to Exhibit 3.4 of the Company's Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
3.5	Certificate of Amendment of the Restated Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on May 29, 2002 (incorporated by reference to Exhibit 3.5 to the Company's Registration Statement on Form S-1 filed July 22, 2001, Registration No. 333-96833).
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock filed with the Secretary of State of the State of Delaware on June 20, 2003 (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
3.7	Second Restated Bylaws of the Company adopted October 4, 2000 (incorporated by reference to Exhibit 3.5 of the Company's Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
3.8	Amendment to Second Restated Bylaws of the Company adopted May 28, 2002 (incorporated by reference to Exhibit 3.8 to the Company's Registration Statement on Form S-1 filed July 22, 2001, Registration No. 333-96833).
*3.9	Second Amendment to Second Restated Bylaws adopted September 26, 2003.
4.1	Indenture dated as of July 24, 2001 between Wells Fargo Bank Minnesota, National Association (as Trustee) and the Company, including table of contents and cross-reference sheet (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).

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<u>Exhibit Number</u>	<u>Description</u>
4.2	Supplemental Indenture dated as of December 17, 2001, between Wells Fargo Bank Minnesota, National Association (as Trustee), the Company, Hornbeck Offshore Services, LLC, (f.k.a. Hornbeck Offshore Services, Inc.), HORNBECK-LEEVAAC Marine Operators, LLC, (f.k.a. HORNBECK-LEEVAAC Marine Operators, Inc.), LEEVAC Marine, LLC and Energy Services Puerto Rico, LLC, with Notation of Subsidiary Guarantee by Hornbeck Offshore Services, LLC, (f.k.a. Hornbeck Offshore Services, Inc.), HORNBECK-LEEVAAC Marine Operators, LLC, (f.k.a. HORNBECK-LEEVAAC Marine Operators, Inc.), LEEVAC Marine, LLC and Energy Services Puerto Rico, LLC attached (incorporated by reference to Exhibit 4.1.1 to Amendment No. 2 to the Company's Registration Statement on Form S-4 dated December 19, 2001, Registration No. 333-69826).
4.3	Specimen 10-5/8% Series B Note due 2008 (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
4.4	Rights Agreement dated as of June 18, 2002 between the Company and Mellon Investor Services LLC as Rights Agent, which includes as Exhibit A the Certificate of Designations of Series A Junior Participating Preferred Stock, as Exhibit B the form of Right Certificate and as Exhibit C the form of Summary of Rights to Purchase Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed July 2, 2003).
4.5	Stockholders' Agreement dated as of June 5, 1997 between the Company, Todd M. Hornbeck, Troy A. Hornbeck and Cari Investment Company (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-1 filed July 22, 2002, Registration No. 333-96833).
4.6	Registration Rights Agreement dated as of October 27, 2000 between the Company and SCF-IV, L.P. (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-1 filed July 22, 2002, Registration No. 333-96833).
4.7	Agreement Concerning Registration Rights dated as of October 27, 2000 between the Company, SCF-IV, LP, Joint Energy Development Investments II, LP and Sundance Assets, LP (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-1 filed July 22, 2002, Registration No. 333-96833).
4.8	Stockholders' Agreement dated as of October 27, 2000 between the Company, Todd M. Hornbeck, Troy A. Hornbeck, Cari Investment Company and SCF-IV, L.P. (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
4.9	Letter Agreement dated September 24, 2001 between the Company, Todd M. Hornbeck, Troy A. Hornbeck, Cari Investment Company and SCF-IV, L.P. (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
4.10	Registration Rights Agreement dated as of June 24, 2003 between the Company and certain purchasers of securities (incorporated by reference to Exhibit 4.11 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).

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<u>Exhibit Number</u>	<u>Description</u>
4.11	Second Supplemental Indenture and Amendment dated as of June 18, 2003, between Wells Fargo Bank Minnesota, National Association (as Trustee), the Company and HOS-IV, LLC, with Notation of Subsidiary Guarantee by HOS-IV, LLC (incorporated by reference to Exhibit 4.12 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
*10.1	Amended and Restated Incentive Compensation Plan
10.2	Amendment to Senior Employment Agreement dated effective February 17, 2003 by and between Todd M. Hornbeck and the Company (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.3	Amendment to Employment Agreement dated effective February 17, 2003 by and between Carl G. Annessa and the Company (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.4	Amendment to Employment Agreement dated effective February 17, 2003 by and between James O. Harp, Jr. and the Company (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
*10.5	Third Amendment to Credit Agreement dated as of September 30, 2003 by and among Hornbeck Offshore Services, Inc. and Hibernia National Bank, as agent, and Hibernia National Bank, Fortis Capital Corp., DVB Bank Aktiengesellschaft and Southwest Bank of Texas, N.A., as lenders
*10.6	Form of First Amendment to Indemnification Agreement for Directors, Officers and Key Employees
*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.

* Filed herewith.

(b) Reports on Form 8-K

During the quarter for which this report is filed, the registrant filed three Current Reports on Form 8-K, as follows:

On July 3, 2003, we furnished a report on Form 8-K announcing that we had issued a press release that reported our adoption of a stockholder rights plan.

On July 7, 2003, we furnished a report on Form 8-K announcing that we had issued a press release that reported our acquisition of five 220-foot deepwater offshore supply vessels, an amendment to our revolving credit agreement and the completion of a private offering of our common stock.

On August 7, 2003, we furnished a report on Form 8-K announcing that we had issued a press release that reported second quarter 2003 results, the delivery of the 240'ED class *HOS Gemstone*, expansion of our offshore supply vessel operations into Mexico and the acquisition of an additional 220-foot deepwater offshore supply vessel.

Since the end of the quarter for which this report is filed, the registrant filed one Current Report on Form 8-K, as follows:

On November 6, 2003, we furnished a report on Form 8-K announcing that we had issued a press release that reported the results of our operations for the three months ended September 30, 2003.

**SECOND AMENDMENT TO
SECOND RESTATED BYLAWS
OF
HORNBECK OFFSHORE SERVICES, INC. (f/k/a
HORNBECK-LEEVAQ MARINE SERVICES, INC.)**

Effective September 26, 2003

Section 4.12 is hereby deleted in its entirety and amended to read as follows:

Section 4.12. Advisory and Other Committees. The Board of Directors may appoint an audit committee, compensation committee, nominating committee and such other committees of two or more directors each as the Board of Directors may deem appropriate, and each such committee shall have such powers, duties and responsibilities as the Board of Directors may determine. In addition, the Board of Directors may, for its convenience and at its discretion, appoint one or more advisory committees of two or more directors each; but, no advisory committee shall have any power or authority except to advise the Board of Directors. All of the committees referred to above shall exist solely at the pleasure of the Board of Directors. The audit, compensation and nominating committees shall, and other committees may at the discretion of the committee unless otherwise directed by the Board of Directors, each keep minutes of the proceedings of such committee and, to the extent kept, such minutes shall be reported to the Board of Directors when required. Any minutes of the proceedings of such committees shall be placed in the minute books of the Corporation. Each member of the committees referred to above shall receive such compensation for such committee membership and participation in committee meetings, including reimbursement for reasonable expenses actually incurred by him by reason of such membership, as may be approved from time to time by the Board of Directors.

HORNBECK OFFSHORE SERVICES, INC.
AMENDED and RESTATED INCENTIVE COMPENSATION PLAN

SECTION 1. PURPOSE OF THIS PLAN

The purposes of the Hornbeck Offshore Services, Inc. Incentive Compensation Plan are to (i) promote the interests of Hornbeck Offshore Services, Inc., a Delaware corporation (the "Company") and its shareholders by enabling the Company and each of its Subsidiaries (as hereinafter defined) to (A) attract, motivate and retain their respective employees and non-employee Directors (as hereinafter defined) by offering such employees and non-employee Directors performance-based stock incentives and other equity interests in the Company and other incentive awards and (B) compensate Consultants (as hereinafter defined) by offering such Consultants performance-based stock incentives and other equity interests in the Company and other incentive awards that recognize the creation of value for the shareholders of the Company and (ii) promote the Company's long-term growth and success. To achieve these purposes, eligible Persons may receive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards, Dividend Equivalent Rights and any other Awards (as such terms are hereinafter defined), or any combination thereof.

SECTION 2. DEFINITIONS

As used in this Plan, the following terms shall have the meanings set forth below unless the context otherwise requires:

2.1. "*Award*" shall mean the grant of a Stock Option, a Stock Appreciation Right, Restricted Stock, a Performance Award, a Dividend Equivalent Right or any other grant of incentive compensation pursuant to this Plan.

2.2. "*Award Period*" shall have the meaning set forth in Subsection 17.2 of this Plan.

2.3. "*Book Value*" shall mean the excess of the value of the assets of an entity over the liabilities of such entity (determined in accordance with United States generally accepted accounting principles, consistently applied).

2.4. "*Board*" shall mean the Board of Directors of the Company, as the same may be constituted from time to time.

2.5. "*Cause*" shall mean termination of a Participant's employment with the Company or a Subsidiary upon the occurrence of one or more of the following events:

(a) The Participant's failure to substantially perform such Participant's duties with the Company or any Subsidiary as determined by the Committee or the Board

following receipt by the Participant of written notice of such failure and the Participant's failure to remedy such failure within thirty (30) days after receipt of such notice (other than a failure resulting from the Participant's incapacity during physical or mental illness or disability);

(b) The Participant's willful failure or refusal to perform specific directives of the Board, which directives are consistent with the scope and nature of the Participant's duties and responsibilities, and which are not remedied by the Participant within thirty (30) days after being notified in writing of such Participant's failure by the Board;

(c) The Participant's conviction of a felony; or

(d) A breach of the Participant's fiduciary duty to the Company or any Subsidiary or willful violation in the course of performing the Participant's duties for the Company or any Subsidiary of any law, rule or regulation (other than traffic violations or other minor offenses). No act or failure to act on the Participant's part shall be considered willful unless done or omitted to be done in bad faith and without reasonable belief that the action or omission was in the best interest of the Company.

2.6. "*Change in Control*" shall mean, after the Effective Date, (i) the occurrence of an event of a nature that would be required to be reported by the Company in response to Item 1 of a Current Report on Form 8-K (or any successor to such form) promulgated pursuant to the Exchange Act; provided, without limitation, such a Change in Control shall be deemed to have occurred if (a) any Person or Group (other than (A) the Company, (B) a wholly-owned Subsidiary, (C) any employee benefit plan (including, without limitation, an employee stock ownership plan) adopted by the Company or any wholly-owned Subsidiary or (D) any trustee or other fiduciary holding securities under any employee benefit plan adopted by the Company or any Subsidiary), becomes the "beneficial owner" (as defined in Rule 13d-3 (or any successor to such rule) promulgated under the Exchange Act), directly or indirectly, of securities of the Company or any Material Subsidiary representing fifty percent (50%) or more of the combined voting power of the Company's or such Material Subsidiary's then outstanding securities or (b) during any period of twenty-four (24) months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election by the Board or the nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of such twenty-four (24) month period or whose election or nomination for election was previously so approved; (ii) a Corporate Transaction is consummated, other than a Corporate Transaction that would result in substantially all of the holders of voting securities of the Company outstanding immediately prior thereto owning (directly or indirectly and in substantially the same proportions relative to each other) not less than fifty percent (50%) of the combined voting power of the voting securities of the issuing/surviving/resulting entity outstanding immediately after such Corporate Transaction or (iii) an agreement for the sale or other disposition of all or substantially all of the Company's assets (evaluated on a consolidated basis, without regard to whether the

sale or disposition is effected via a sale or disposition of assets of the Company, the sale or disposition of the securities of one or more Subsidiaries or the sale or disposition of the assets of one or more Subsidiaries) is consummated.

2.7. “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time (or any successor to such legislation).

2.8. “Committee” shall mean the Compensation Committee of the Board as such Compensation Committee may be constituted from time to time; provided, however, membership on the Committee shall be limited to “Non-Employee Directors” (as that term is defined in Rule 16b-3 (or any successor to such rule) promulgated under the Exchange Act) who are also “outside directors,” as required pursuant to Section 162(m) of the Code and such Treasury regulations as may be promulgated thereunder; and provided further, the Committee will consist of not less than two (2) such Directors. All members of the Committee will serve at the pleasure of the Board. Notwithstanding the foregoing, if the composition of the Committee does not comply with the foregoing provisions of this Subsection, the entire Board shall constitute the Committee until such time as a proper Committee is appointed in accordance with the foregoing provisions of this Subsection.

2.9. “Common Stock” shall mean the Common Stock, par value \$.01 per share, of the Company.

2.10. “Company” shall have the meaning set forth in Section 1 of this Plan.

2.11. “Consultant” shall mean any Person who or which is engaged by the Company or any Subsidiary to render consulting services including, without limitation, any nonvoting advisory director who may be appointed by the Board.

2.12. “Corporate Transaction” shall mean any recapitalization (other than a transaction contemplated by Subsection 13(a)), merger, consolidation or conversion involving the Company or any exchange of securities involving the Common Stock (other than a transaction contemplated by Subsection 13(a)).

2.13. “Designated Beneficiary” shall mean the beneficiary designated by a Participant, in a manner authorized by the Committee or the Board, to exercise the rights of such Participant in the event of such Participant’s death. In the absence of an effective designation by a Participant, the Designated Beneficiary shall be such Participant’s estate.

2.14. “Director” shall mean any member of the Board.

2.15. “Disability” shall mean permanent and total inability to engage in any substantial gainful activity, even with reasonable accommodation, by reason of any medically determinable physical or mental impairment which has lasted or can

reasonably be expected to last without material interruption for a period of not less than twelve (12) months, as determined in the sole discretion of the Committee or the Board.

2.16. "*Dividend Equivalent Right*" shall mean the right of the holder thereof to receive payments based on the cash or stock dividends or other distributions that would have been paid on the number of Shares specified in an Award granting Dividend Equivalent Rights if the number of Shares subject to such Award were held by such holder on the record date for determining shareholders to whom dividends are payable.

2.17. "*Effective Date*" shall mean November _____, 1997.

2.18. "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended from time to time (or any successor to such legislation).

2.19. "*Fair Market Value*" shall mean with respect to the Shares, as of any date, (i) if the Common Stock is listed or admitted to trade on a national securities exchange, the closing price of the Common Stock on the composite tape, as published in *The Wall Street Journal*, of the principal national securities exchange on which the Common Stock is so listed or admitted to trade, on such date or, if there is no trading in Shares on such date, then the closing price of the Common Stock as quoted on such composite tape on the next preceding date on which there was trading in such Shares; (ii) if the Common Stock is not listed or admitted to trade on a national securities exchange, then the closing price of the Common Stock as quoted on the National Market System of the NASD; (iii) if the Common Stock is not listed or admitted to trade on a national securities exchange or the National Market System of the NASD, the mean between the bid and asked price for the Common Stock on such date, as furnished by the NASD through NASDAQ or a similar organization if NASDAQ is no longer reporting such information; or (iv) if the Common Stock is not listed or admitted to trade on a national securities exchange or the National Market System of the NASD and if bid and asked prices for the Common Stock are not so furnished by the NASD or a similar organization, the value established by the Board. Fair market value shall be determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

2.20. "*Group*" shall have the meaning ascribed to such term in Section 13(d) of the Exchange Act.

2.21. "*Incentive Stock Option*" shall mean any option to purchase Shares awarded pursuant to this Plan which qualifies as an "Incentive Stock Option" pursuant to Section 422 of the Code.

2.22. "*Limited Stock Appreciation Rights*" shall have the meaning set forth in Subsection 7.4 of this Plan.

2.23. "*Material Subsidiary*" shall mean any Subsidiary of which the Book Value or fair market value (whichever is greater) constitutes fifty percent (50%) or more of the

Book Value of the Company. The fair market value of a Subsidiary will be determined in good faith by the Board.

2.24. "*Named Executive Officer*" shall have the meaning set forth in Subsection 17.1 of this Plan.

2.25. "*NASD*" shall mean the National Association of Securities Dealers, Inc.

2.26. "*Non-Qualified Stock Option*" shall mean any option to purchase Shares awarded pursuant to this Plan that does not qualify as an Incentive Stock Option (including, without limitation, any option to purchase Shares originally designated as or intended to qualify as an Incentive Stock Option but which does not (for whatever reason) qualify as an Incentive Stock Option).

2.27. "*Non-Share Method*" shall have the meaning set forth in Subsection 6.6(c) of this Plan.

2.28. "*Non-Tandem Stock Appreciation Right*" shall mean any Stock Appreciation Right granted alone and not in connection with an Award which is a Stock Option.

2.29. "*Optionee*" shall mean any Participant who has been granted and holds a Stock Option awarded pursuant to this Plan.

2.30. "*Participant*" shall mean any Person who has been granted and holds an Award granted pursuant to this Plan.

2.31. "*Performance Award*" shall mean any Award granted pursuant to this Plan of Shares, rights based upon, payable in or otherwise related to Shares (including Restricted Stock) or cash, as the Committee or Board may determine, at the end of a specified performance period established by the Committee or Board and may include, without limitation, Performance Shares or Performance Units.

2.32. "*Performance Shares*" shall have the meaning set forth in Subsection 9.1 of this Plan.

2.33. "*Performance Units*" shall have the meaning set forth in Subsection 9.1 of this Plan.

2.34. "*Permitted Modification*" shall be deemed to be any modification of an Award which is made in connection with a Corporate Transaction and which provides (i) in connection with a Stock Option, that subsequent to the consummation of the Corporate Transaction (A) the exercise price of such Stock Option will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the nature and amount of consideration to be received upon exercise of the Stock

Option will be the same (on a per share basis) as was received by Persons who were holders of shares of Common Stock immediately prior to the consummation of the Corporate Transaction, (ii) in connection with a Stock Appreciation Right, that subsequent to the consummation of the Corporate Transaction (A) the base price of such Stock Appreciation Right will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the benefits to be received by the holder of such Stock Appreciation Right will be measured based upon the nature and amount of consideration received (on a per share basis) by Persons who were holders of shares of Common Stock immediately prior to the consummation of the Corporate Transaction, and (iii) in connection with a Dividend Equivalent Right, that subsequent to the consummation of the Corporate Transaction the benefits to be received by the holder of such Dividend Equivalent Right will be measured based upon the nature and amount of consideration received (on a per share basis) by Persons who were holders of shares of Common Stock immediately prior to the consummation of the Corporate Transaction.

2.35. "*Person*" shall mean an individual, partnership, limited liability company, corporation, joint stock company, trust, estate, joint venture, association or unincorporated organization or any other form of business organization.

2.36. "*Plan*" shall mean this Hornbeck Offshore Services, Inc. Incentive Compensation Plan as it may be amended from time to time.

2.37. "*Reload Option*" shall mean a Stock Option as defined in Subsection 6.6(b) of this Plan.

2.38. "*Reorganization*" shall mean any stock split, stock dividend, reverse stock split, combination of Shares or any other similar increase or decrease in the number of Shares issued and outstanding.

2.39. "*Restricted Stock*" shall mean any Shares granted pursuant to this Plan that are subject to restrictions or substantial risk of forfeiture.

2.40. "*Retirement*" shall mean termination of employment of an employee of the Company or any Subsidiary, other than discharge for Cause, after age 65 or on or before age 65 if pursuant to the terms of any retirement plan maintained by the Company or any Subsidiary in which such employee participates.

2.41. "*Securities Act*" shall mean the Securities Act of 1933, as amended from time to time (or any successor to such legislation).

2.42. "*Share Retention Method*" shall have the meaning set forth in Subsection 6.6(c) of this Plan.

2.43. "Shares" shall mean shares of the Common Stock and any shares of capital stock or other securities hereafter issued or issuable upon, in respect of or in substitution or exchange for shares of Common Stock.

2.44. "Stock Appreciation Right" shall mean the right of the holder thereof to receive property or Shares with a Fair Market Value equal to or cash in an amount equal to the excess of the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of exercise over the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of the grant of such Stock Appreciation Right (or such other value as may be specified in the agreement granting such Stock Appreciation Right). A Stock Appreciation Right may be a Tandem Stock Appreciation Right, Non-Tandem Stock Appreciation Right or Limited Stock Appreciation Right.

2.45. "Stock Option" shall mean any Incentive Stock Option or Non-Qualified Stock Option.

2.46. "Subsidiary" shall mean a subsidiary corporation of the Company, as defined in Section 424(f) of the Code.

2.47. "Tandem Stock Appreciation Right" shall mean a Stock Appreciation Right granted in connection with an Award which is a Stock Option.

2.48. "Transactional Consideration" shall have the meaning set forth in Subsection 13(b) of this Plan.

SECTION 3. ADMINISTRATION OF THIS PLAN

3.1. *Committee*. This Plan shall be administered and interpreted by the Committee.

3.2. Awards.

(a) Subject to the provisions of this Plan and directions from the Board, the Committee is authorized to:

(i) determine the Persons to whom Awards are to be granted;

(ii) determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award;

(iii) interpret the provisions of this Plan;

(iv) prescribe, amend and rescind rules and regulations relating to this Plan;

(v) determine whether, to what extent and under what circumstances to provide loans from the Company to Participants to exercise Awards granted pursuant to this Plan, and the terms and conditions of such loans;

(vi) rely upon employees of the Company for such clerical and recordkeeping duties as may be necessary in connection with the administration of this Plan;

(vii) accelerate or defer (with the consent of the Participant) the vesting of any rights pursuant to an Award;

(viii) delegate to the Chief Executive Officer and to other senior officers of the Company its duties under this Plan pursuant to such conditions or limitations as the Committee may establish, except that the Committee may not delegate to any person the authority to grant Awards to, or take other action with respect to, Persons who are subject to Section 16 of the Exchange Act; and

(ix) make all other determinations and take all other actions necessary or advisable for the administration of this Plan.

(b) Without limiting the Board's right to amend this Plan pursuant to Section 14, the Board may take all actions authorized by Subsection 3.2(a) of this Plan, including, without limitation, granting such Awards pursuant to this Plan as the Board may deem necessary or appropriate.

3.3. Procedures.

(a) Proceedings by the Board with respect to this Plan will be conducted in accordance with the articles of incorporation and bylaws of the Company.

(b) A majority of the Committee members shall constitute a quorum for action by the Committee. All determinations of the Committee shall be made by not less than a majority of its members.

(c) All questions of interpretation and application of this Plan or pertaining to any question of fact or Award granted hereunder will be decided by the Committee or the Board, whose decision will be final, conclusive and binding upon the Company and each other affected party.

SECTION 4. SHARES SUBJECT TO PLAN

4.1. *Limitations.* The maximum number of Shares that may be issued with respect to Awards granted pursuant to this Plan shall not exceed 3,500,000 (subject to adjustment as provided in this Plan) unless increased or decreased by reason of changes in the capitalization of the Company as hereinafter provided or by amendment of this Plan. The Shares issued pursuant to this Plan may be authorized but unissued Shares, or may be issued Shares which have been reacquired by the Company.

4.2. *Changes.* To the extent that any Award granted pursuant to this Plan shall be forfeited, shall expire or shall be cancelled, in whole or in part, then the number of Shares covered by the Award so forfeited, expired or cancelled may again be awarded pursuant to the provisions of this Plan. In the event that Shares are delivered to the Company in full or partial payment of the exercise price for the exercise of a Stock Option, the number of Shares available for future Awards granted pursuant to this Plan shall be reduced only by the net number of Shares issued upon the exercise of the Stock Option. Awards that may be satisfied either by the issuance of Shares or by cash or other consideration shall, until the form of consideration to be paid is finally determined, be counted against the maximum number of Shares that may be issued pursuant to this Plan. If the Award is ultimately satisfied by the payment of consideration other than Shares, as, for example, a Stock Option granted in tandem with a Stock Appreciation Right that is settled by a cash payment, such Shares may again be made the subject of an Award granted pursuant to this Plan. Awards will not reduce the number of Shares that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of Shares, as, for example, a Stock Appreciation Right that can be satisfied only by the payment of cash.

SECTION 5. ELIGIBILITY

Eligibility for participation in this Plan shall be confined to those individuals who are employed by the Company or a Subsidiary and such Consultants and non-employee Directors as may be designated by the Committee or the Board. In making any determination as to Persons to whom Awards shall be granted, the type of Award and/or the number of Shares to be covered by the Award, the Committee or the Board shall consider the position and responsibilities of the Person, the importance of the Person to the Company, the duties of the Person, the past, present and potential contributions of the Person to the growth and success of the Company and such other factors as the Committee or the Board may deem relevant in connection with accomplishing the purposes of this Plan.

SECTION 6. STOCK OPTIONS

6.1. *Grants.* The Committee or the Board may grant Stock Options alone or in addition to other Awards granted pursuant to this Plan to any eligible Person. Each Person so selected shall be offered a Stock Option to purchase the number of Shares

determined by the Committee or the Board. The Committee or the Board shall specify whether such Stock Option is an Incentive Stock Option or Non-Qualified Stock Option and any other terms or conditions relating to such Award; provided, however only employees of the Company or a Subsidiary may be granted Incentive Stock Options. To the extent that any Stock Option designated as an Incentive Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions, the failure of the shareholders of the Company to authorize the issuance of Incentive Stock Options, the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not qualify shall be deemed to constitute a Non-Qualified Stock Option. Each Person to be granted a Stock Option shall enter into a written agreement with the Company, in such form as the Committee or the Board may prescribe, setting forth the terms and conditions (including, without limitation, the exercise price and vesting schedule) of the Stock Option. At any time and from time to time, the Optionee and the Committee or the Board may agree to modify an option agreement in such respects as they may deem appropriate, including, without limitation, the conversion of an Incentive Stock Option into a Non-Qualified Stock Option. The Committee or the Board may require that an Optionee meet certain conditions before the Stock Option or a portion thereof may vest or be exercised, as, for example, that the Optionee remain in the employ of the Company or a Subsidiary for a stated period or periods of time.

6.2. Incentive Stock Options Limitations.

(a) In no event shall any individual be granted Incentive Stock Options to the extent that the Shares covered by any Incentive Stock Options (and any incentive stock options granted pursuant to any other plans of the Company or its Subsidiaries) that may be exercised for the first time by such individual in any calendar year have an aggregate Fair Market Value in excess of \$100,000. For this purpose, the Fair Market Value of the Shares shall be determined as of the date(s) on which the Incentive Stock Options are granted. It is intended that the limitation on Incentive Stock Options provided in this Subsection 6.2(a) be the maximum limitation on Stock Options which may be considered Incentive Stock Options pursuant to the Code.

(b) The option exercise price of an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(c) Notwithstanding anything herein to the contrary, in no event shall any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary be granted an Incentive Stock Option unless the option exercise price of such Incentive Stock Option shall be at least one hundred ten percent (110%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(d) In no event shall any individual be granted an Incentive Stock Option after the expiration of ten (10) years from the date this Plan is adopted or is approved by the

shareholders of the Company (if shareholder approval is required by Section 422 of the Code).

(e) To the extent shareholder approval of this Plan is required by Section 422 of the Code, no individual shall be granted an Incentive Stock Option unless this Plan is approved by the shareholders of the Company within twelve (12) months before or after the date this Plan is initially adopted. In the event this Plan is amended to increase the number of Shares subject to issuance upon the exercise of Incentive Stock Options or to change the class of employees eligible to receive Incentive Stock Options, no individual shall be granted an Incentive Stock Option unless such amendment is approved by the shareholders of the Company within twelve (12) months before or after such amendment.

(f) No Incentive Stock Option shall be granted to any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary unless the term of such Incentive Stock Option is equal to or less than five (5) years measured from the date on which such Incentive Stock Option is granted.

6.3. *Option Term.* The term of a Stock Option shall be for such period of time from the date of its grant as may be determined by the Committee or the Board; provided, however, that no Incentive Stock Option shall be exercisable later than ten (10) years from the date of its grant.

6.4. *Time of Exercise.* No Stock Option may be exercised unless it is exercised prior to the expiration of its stated term and, in connection with options granted to employees of the Company or its Subsidiaries, at the time of such exercise, the Optionee is, and has been continuously since the date of grant of such Stock Option, employed by the Company or a Subsidiary, except that:

(a) A Stock Option may, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, be exercised during the three month period immediately following the date the Optionee ceases (for any reason other than death, Disability or termination for Cause) to be an employee of the Company or a Subsidiary (or within such other period as may be specified in the applicable option agreement), provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such three-month period shall be treated as the exercise of a Non-Qualified Stock Option;

(b) If the Optionee dies while in the employ of the Company or a Subsidiary, or within three months after the Optionee ceases (for a reason other than termination for Cause) to be such an employee (or within such other period as may be specified in the applicable option agreement), a Stock Option may, to the extent vested as of the date of the Optionee's death, be exercised by the Optionee's Designated Beneficiary during the one year period immediately following the date of the Optionee's death (or within such other period as may be specified in the applicable option agreement);

(c) If the Optionee ceases to be an employee of the Company or a Subsidiary by reason of the Optionee's Disability, a Stock Option, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, may be exercised by the Optionee or the Optionee's legal guardian during the one year period immediately following such date (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option; and

(d) If the Optionee's employment is terminated for Cause, all Stock Options held by such Optionee shall simultaneously terminate and will no longer be exercisable.

Nothing contained in this Subsection 6.4 will be deemed to extend the term of a Stock Option or to revive any Stock Option which has previously lapsed or been cancelled, terminated or surrendered. Stock Options granted under this Plan to Consultants or non-employee Directors will contain such terms and conditions with respect to the death or disability of a Consultant or non-employee Director or termination of a Consultant's or non-employee Director's relationship with the Company as the Committee or the Board deems necessary or appropriate. Such terms and conditions will be set forth in the option agreements evidencing the grant of such Stock Options.

6.5. Vesting of Stock Options.

(a) Each Stock Option granted pursuant to this Plan may only be exercised to the extent that the Optionee is vested in such Stock Option. Each Stock Option shall vest separately in accordance with the option vesting schedule determined by the Committee or the Board, which will be incorporated in the option agreement entered into between the Company and such Optionee. The option vesting schedule may be accelerated if, in the discretion of the Committee or the Board, the acceleration of the option vesting schedule would be in the best interests the Company.

(b) In the event of the dissolution or liquidation of the Company, each Stock Option granted pursuant to this Plan shall terminate as of a date to be fixed by the Committee or Board; provided, however, that not less than thirty (30) days' written notice of the date so fixed shall be given to each Optionee. During such period all Stock Options which have not previously been terminated, exercised or surrendered will (subject to the provisions of Subsections 6.3 and 6.4) fully vest and become exercisable, notwithstanding the vesting schedule set forth in the option agreement evidencing the grant of such Stock Option. Upon the date fixed by the Committee or the Board, any unexercised Stock Options shall terminate and be of no further effect.

(c) Upon the occurrence of a Change in Control, all Stock Options and any associated Stock Appreciation Rights shall become fully vested and immediately exercisable.

6.6. Manner of Exercise of Stock Options.

(a) Except as otherwise provided in this Plan, Stock Options may be exercised as to Shares only in amounts and at intervals of time specified in the written option agreement between the Company and the Optionee. Each exercise of a Stock Option, or any part thereof, shall be evidenced by a written notice delivered by the Optionee to the Company. The purchase price of the Shares as to which a Stock Option shall be exercised shall be paid in full at the time of exercise, and may be paid to the Company either:

- (i) in cash (including check, bank draft or money order); or
- (ii) by other consideration acceptable to the Committee in its sole discretion.

(b) If an Optionee delivers Shares (including Shares of Restricted Stock) already owned by the Optionee in full or partial payment of the exercise price for any Stock Option, or if the Optionee elects to have the Company retain that number of Shares out of the Shares being acquired through the exercise of the Stock Option having a Fair Market Value equal to the exercise price of the Stock Option being exercised, the Committee or the Board may, in its sole discretion, authorize the grant of a new Stock Option (a "Reload Option") for that number of Shares equal to the number of already owned Shares surrendered (including Shares of Restricted Stock) or newly acquired Shares being retained by the Company in payment of the option exercise price of the underlying Stock Option being exercised. The grant of a Reload Option will become effective upon the exercise of the underlying Stock Option. The option exercise price of the Reload Option shall be the Fair Market Value of a Share on the effective date of the grant of the Reload Option. Each Reload Option shall be exercisable no later than the time when the underlying stock option being exercised could be last exercised. The Committee or the Board may also specify additional terms, conditions and restrictions for the Reload Option and the Shares to be acquired upon the exercise thereof.

(c) The amount, as determined by the Committee or the Board, of any federal, state or local tax required to be withheld by the Company due to the exercise of a Stock Option shall, subject to the authorization of the Committee or the Board, be satisfied, at the election of the Optionee, either (a) by payment by the Optionee to the Company of the amount of such withholding obligation in cash or other consideration acceptable to the Committee or the Board in its sole discretion (the "Non-Share Method") or (b) through either the retention by the Company of a number of Shares out of the Shares being acquired through the exercise of the Stock Option or the delivery of already owned Shares having a Fair Market Value equal to the amount of the withholding obligation (the "Share Retention Method"). If an Optionee elects to use the Share Retention Method in full or partial satisfaction of any tax liability resulting from the exercise of a Stock Option, the Committee or the Board may authorize the grant of a Reload Option for that number of Shares as shall equal the number of Shares used to satisfy the tax liabilities of

the Optionee arising out of the exercise of such Stock Option. Such Reload Option will be granted at the price and on the terms set forth in Subsection 6.6 (b). The cash payment or an amount equal to the Fair Market Value of the Shares so withheld, as the case may be, shall be remitted by the Company to the appropriate taxing authorities.

(d) An Optionee shall not have any of the rights of a shareholder of the Company with respect to the Shares subject to a Stock Option except to the extent that such Stock Option is exercised and one or more certificates representing such Shares shall have been delivered to the Optionee.

SECTION 7. STOCK APPRECIATION RIGHTS

7.1. *Grants.* The Committee or the Board may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary either Non-Tandem Stock Appreciation Rights or Tandem Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as the Committee or the Board shall impose. The grant of the Stock Appreciation Right may provide that the holder will be paid for the value of the Stock Appreciation Right either in cash or in Shares, or a combination thereof, at the sole discretion of the Committee or the Board. In the event of the exercise of a Stock Appreciation Right payable in Shares, the holder of the Stock Appreciation Right shall receive that number of whole Shares having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (i) either (a) in the case of a Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the per share exercise price of the related Stock Option, or (b) in the case of a Non-Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the Fair Market Value on the date of the grant by (ii) the number of Shares as to which the Stock Appreciation Right is exercised. However, notwithstanding the foregoing, the Committee or the Board, in its sole discretion, may place a ceiling on the amount payable upon exercise of a Stock Appreciation Right, but any such limitation shall be specified at the time that the Stock Appreciation Right is granted.

7.2. *Exercisability.* A Tandem Stock Appreciation Right granted in connection with an Incentive Stock Option (i) may be exercised at, and only at, the times and to the extent the related Incentive Stock Option is exercisable, (ii) will expire upon the termination of the related Incentive Stock Option, (iii) may not exceed 100% of the difference between the exercise price of the related Incentive Stock Option and the Fair Market Value of the Shares subject to the related Incentive Stock Option at the time the Tandem Stock Appreciation Right is exercised and (iv) may be exercised at, and only at, such times as the Fair Market Value of the Shares subject to the related Incentive Stock Option exceeds the exercise price of the related Incentive Stock Option. A Tandem Stock Appreciation Right granted in connection with a Non-Qualified Stock Option will be exercisable as provided by the Committee or the Board and will have such other terms and conditions as the Committee or the Board may determine. A Tandem Stock Appreciation Right may be transferred at, and only at, the times and to the extent the related Stock Option is transferable. If a Tandem Stock Appreciation Right is granted,

there shall be surrendered and cancelled from the related Stock Option at the time of exercise of the Tandem Stock Appreciation Right, in lieu of exercise pursuant to the related Stock Option, that number of Shares as shall equal the number of Shares as to which the Tandem Stock Appreciation Right shall have been exercised.

7.3. *Certain Limitations on Non-Tandem Stock Appreciation Rights.* A Non-Tandem Stock Appreciation Right will be exercisable as provided by the Committee or the Board and will have such other terms and conditions as the Committee or the Board may determine. A Non-Tandem Stock Appreciation Right is subject to acceleration of vesting or immediate termination in certain circumstances in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

7.4. *Limited Stock Appreciation Rights.* The Committee and the Board may grant "Limited Stock Appreciation Rights," either as Tandem Stock Appreciation Rights or Non-Tandem Stock Appreciation Rights. Limited Stock Appreciation Rights will become exercisable only upon the occurrence of a Change in Control or such other event as the Committee or the Board may designate at the time of grant or thereafter.

SECTION 8. RESTRICTED STOCK

8.1. *Grants.* The Committee or the Board may grant Awards of Restricted Stock to any Consultant, non-employee Director or employee of the Company or a Subsidiary for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee or the Board, in its sole discretion. The terms and conditions of the Restricted Stock shall be specified by the grant agreement. The Committee or the Board, in its sole discretion, may specify any particular rights which the Participant to whom a grant of Restricted Stock is made shall have in the Restricted Stock during the restriction period and the restrictions applicable to the particular Award, the vesting schedule (which may be based on service, performance or other factors) and rights to acceleration of vesting (including, without limitation, whether non-vested Shares are forfeited or vested upon termination of employment). Further, the Committee or the Board may grant performance-based Awards consisting of Restricted Stock by conditioning the grant, or vesting or such other factors, such as the release, expiration or lapse of restrictions upon any such Award (including the acceleration of any such conditions or terms) of such Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee or the Board may determine. The Committee or the Board shall also determine when the restrictions shall lapse or expire and the conditions, if any, pursuant to which the Restricted Stock will be forfeited or sold back to the Company. Each Award of Restricted Stock may have different restrictions and conditions. Unless otherwise set forth in the grant agreement, Restricted Stock may not be sold, pledged, encumbered or otherwise disposed of by the recipient until the restrictions specified in the Award expire. Awards of Restricted Stock are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

8.2. *Awards and Certificates.* Any Restricted Stock issued hereunder may be evidenced in such manner as the Committee or the Board, in its sole discretion, shall deem appropriate including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Shares of Restricted Stock, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such Award. The Company may retain, at its option, the physical custody of any stock certificate representing any awards of Restricted Stock during the restriction period or require that the certificates evidencing Restricted Stock be placed in escrow or trust, along with a stock power endorsed in blank, until all restrictions are removed or expire.

SECTION 9. PERFORMANCE AWARDS

9.1. *Grants.* A Performance Award may consist of either or both, as the Committee or the Board may determine, of (i) the right to receive Shares or Restricted Stock, or any combination thereof as the Committee or the Board may determine ("Performance Shares"), or (ii) the right to receive a fixed dollar amount payable in Shares, Restricted Stock, cash or any combination thereof, as the Committee or the Board may determine ("Performance Units"). The Committee or the Board may grant Performance Awards to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary, for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee or the Board, in its sole discretion. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the performance criteria to be achieved during a performance period, the criteria used to determine vesting (including the acceleration thereof), whether Performance Awards are forfeited or vest upon termination of employment during a performance period and the maximum or minimum settlement values. Each Performance Award shall have its own terms and conditions, which shall be determined in the sole discretion of the Committee or the Board. If the Committee or the Board determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure or for other reasons that the Committee or the Board deems satisfactory, the Committee or the Board may modify the performance measures or objectives and/or the performance period. Awards of Performance Shares and/or Performance Units are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

9.2. *Terms and Conditions.* Performance Awards may be valued by reference to the Fair Market Value of a Share or according to any other formula or method deemed appropriate by the Committee or the Board, in its sole discretion, including, but not limited to, achievement of specific financial, production, sales, cost or earnings performance objectives that the Committee or the Board believes to be relevant or the Company's performance or the performance of the Common Stock measured against the performance of the market, the Company's industry segment or its direct competitors. Performance Awards may also be conditioned upon the applicable Participant remaining

in the employ of the Company or one of its Subsidiaries for a specified period. Performance Awards may be paid in cash, Shares (including Restricted Stock) or other consideration, or any combination thereof. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective or objectives, all at the sole discretion of the Committee or the Board. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee or the Board in its sole discretion.

SECTION 10. DIVIDEND EQUIVALENT RIGHTS

The Committee or the Board may grant a Dividend Equivalent Right to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary, either as a component of another Award or as a separate Award, and, in general, each such Participant awarded a Dividend Equivalent Right that is outstanding on a dividend record date for the Common Stock shall be credited with an amount equal to the cash or stock dividends or other distributions that would have been received had the Shares subject to the Award been issued and outstanding on the dividend record date. The terms and conditions of the Dividend Equivalent Right shall be specified in a dividend equivalent right agreement which evidences such Award. Dividend Equivalent Rights may be settled in cash or Shares, or a combination thereof, in a single payment or in installments. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement or payment for or lapse of restrictions on such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled pursuant to the same conditions as such other Award. A Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other Award.

SECTION 11. OTHER AWARDS

The Committee or the Board may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary other forms of Awards based upon, payable in or otherwise related to, in whole or in part, Shares, if the Committee or the Board, in its sole discretion, determines that such other form of Award is consistent with the purposes of this Plan. The terms and conditions of such other form of Award shall be specified in a written agreement which sets forth the terms and conditions of such Award, including, but not limited to, the price, if any, and the vesting schedule, if any, of such Award. Such Awards may be granted for such minimum consideration, if any, as may be required by applicable law or for such other greater consideration as may be determined by the Committee or the Board, in its sole discretion.

SECTION 12. COMPLIANCE WITH SECURITIES AND OTHER LAWS

As a condition to the issuance or transfer of any Award or any security issuable in connection with such Award, the Company may require an opinion of counsel, satisfactory to the Company, to the effect that (i) such issuance and/or transfer will not be in violation of the Securities Act or any other applicable securities laws and (ii) such

issuance and/or transfer will not be in violation of the rules and regulations of any securities exchange or automated quotation system on which the Common Stock is listed or admitted to trading. Further, the Company may refrain from issuing, delivering or transferring any Award or any security issuable in connection with such Award until the Committee or the Board has determined that such issuance, delivery or transfer will not violate such securities laws or rules and regulations and that the recipient has tendered to the Company any federal, state or local tax owed as a result of such issuance, delivery or transfer, when the Company has a legal liability to satisfy such tax. The Company shall not be liable for damages due to delay in the issuance, delivery or transfer of any Award or any security issuable in connection with such Award or any agreement, instrument or certificate evidencing such Award or security for any reason whatsoever, including, but not limited to, a delay caused by the listing requirements of any securities exchange or automated quotation system or any registration requirements under the Securities Act, the Exchange Act, or under any other state or federal law, rule or regulation. The Company is under no obligation to take any action or incur any expense to register or qualify the issuance, delivery or transfer of any Award or any security issuable in connection with such Award under applicable securities laws or to perfect any exemption from such registration or qualification or to list any security on any securities exchange or automated quotation system. Furthermore, the Company will have no liability to any person for refusing to issue, deliver or transfer any Award or any security issuable in connection with such Award if such refusal is based upon the foregoing provisions of this Section 12. As a condition to any issuance, delivery or transfer of any Award or any security issuable in connection with such Award, the Company may place legends on any agreement, instrument or certificate evidencing such Award or security, issue stop transfer orders with respect thereto and require such agreements or undertakings as the Company may deem necessary or advisable to assure compliance with applicable laws or regulations, including, if the Company or its counsel deems it appropriate, representations from the recipient of such Award or security to the effect that such recipient is acquiring such Award or security solely for investment and not with a view to distribution and that no distribution of the Award or the security will be made unless registered pursuant to applicable federal and state securities laws, or in the opinion of counsel to the Company, such registration is unnecessary.

SECTION 13. ADJUSTMENTS UPON THE OCCURRENCE OF A REORGANIZATION OR CORPORATE TRANSACTION

(a) In the event of a Reorganization, the number of Shares subject to this Plan and to each outstanding Award, and the exercise price of each Award which is based upon Shares, shall (to the extent deemed appropriate by the Committee or the Board) be proportionately adjusted (as determined by the Committee or the Board in its sole discretion) to account for any increase or decrease in the number of issued and outstanding Shares of the Company resulting from such Reorganization.

(b) If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of shares of Common Stock immediately prior to the consummation of such Corporate Transaction do

not receive any securities or other property (hereinafter collectively referred to as "Transactional Consideration") as a result of such Corporate Transaction and substantially all of such Persons continue to hold the shares of Common Stock held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the Awards will remain outstanding and will (subject to the provisions of Subsections 6.1, 6.5(c), 7.1, 7.3, 8.1 and 9.1) continue in full force and effect in accordance with its terms (without any modification) following the consummation of the Corporate Transaction.

(c) If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of shares of Common Stock immediately prior to the consummation of such Corporate Transaction do receive Transactional Consideration as a result of such Corporate Transaction or substantially all of such Persons do not continue to hold the shares of Common Stock held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the terms and conditions of the Awards will be modified as follows:

(i) If the documentation pursuant to which a Corporate Transaction will be consummated provides for the assumption (by the entity issuing Transactional Consideration to the Persons who were the holders of shares of Common Stock immediately prior to the consummation of such Corporate Transaction) of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications and the modifications contemplated by Subsections 6.1, 6.5(c), 7.1, 7.3, 8.1 and 9.1 of this Plan), such Awards will remain outstanding and will continue in full force and effect in accordance with its terms following the consummation of such Corporate Transaction (subject to such Permitted Modifications and the provisions of Subsections 6.1, 6.5(c), 7.1, 7.3, 8.1 and 9.1).

(ii) If the documentation pursuant to which a Corporate Transaction will be consummated does not provide for the assumption by the entity issuing Transactional Consideration to the Persons who were the holders of shares of Common Stock immediately prior to the consummation of such Corporate Transaction of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), all vesting restrictions (performance based or otherwise) applicable to Awards which will not be so assumed will accelerate and the holders of such Awards may (subject to the expiration of the term of such Awards) exercise/receive the benefits of such Awards without regard to such vesting restrictions during the ten (10) day period immediately preceding the consummation of such Corporate Transaction. For purposes of the immediately preceding sentence, all performance based goals will be deemed to have been satisfied in full. The Company will provide each Participant holding Awards which will not be so assumed with reasonable notice of the termination of such vesting restrictions and the impending termination of such Awards. Upon the consummation of such a Corporate Transaction, all

unexercised Awards which are not to be so assumed will automatically terminate and cease to be outstanding.

(d) Upon the implementation of a reverse stock split in connection with the initial public offering of the Company's common stock, the maximum number of shares that may be issued with respect to awards granted or to be granted pursuant to the Plan shall remain at 3,500,000 following such reverse stock split, notwithstanding adjustments following such implementation to the number of shares of the Company then outstanding or subject to issuance upon exercise of outstanding options.

Nothing contained in this Section 13 will be deemed to extend the term of an Award or to revive any Award which has previously lapsed or been cancelled, terminated or surrendered.

SECTION 14. AMENDMENT OR TERMINATION OF THIS PLAN

14.1. *Amendment of This Plan.* Notwithstanding anything contained in this Plan to the contrary, all provisions of this Plan (including, without limitation, the maximum number of Shares that may be issued with respect to Awards to be granted pursuant to this Plan) may at any time or from time to time be modified or amended by the Board; provided, however, that no Award at any time outstanding pursuant to this Plan may be modified, impaired or cancelled adversely to the holder of the Award without the consent of such holder.

14.2. *Termination of This Plan.* The Board may suspend or terminate this Plan at any time, and such suspension or termination may be retroactive or prospective. Termination of this Plan shall not impair or affect any Award previously granted hereunder and the rights of the holder of the Award shall remain in effect until the Award has been exercised in its entirety or has expired or otherwise has been terminated by the terms of such Award.

SECTION 15. AMENDMENTS AND ADJUSTMENTS TO AWARDS

The Committee or the Board may amend, modify or terminate any outstanding Award with the Participant's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of this Plan, including, without limitation, (i) to change the date or dates as of which and/or the terms and conditions pursuant to which (A) a Stock Option becomes exercisable or (B) a Performance Award is deemed earned, (ii) to amend the terms of any outstanding Award to provide an exercise price per share which is higher or lower than the then current exercise price per share of such outstanding Award or (iii) to cancel an Award and grant a new Award in substitution therefor under such different terms and conditions as the Committee or the Board determines in its sole discretion to be appropriate including, but not limited to, having an exercise price per share which may be higher or lower than the exercise price per share of the cancelled Award. The Committee or the Board may also make adjustments in the terms and conditions of, and the criteria included in agreements evidencing Awards in

recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 13 hereof) affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, whenever the Committee or the Board determines that such adjustments are appropriate to prevent reduction or enlargement of the benefits or potential benefits intended to be made available pursuant to this Plan. Any provision of this Plan or any agreement regarding an Award to the contrary notwithstanding, the Committee or the Board may cause any Award granted to be cancelled in consideration of a cash payment or alternative Award made to the holder of such cancelled Award equal in value to the Fair Market Value of such cancelled Award. The determinations of value pursuant to this Section 15 shall be made by the Committee or the Board in its sole discretion.

SECTION 16. GENERAL PROVISIONS

16.1. *No Limit on Other Compensation Arrangements.* Nothing contained in this Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

16.2. *No Right to Employment or Continuation of Relationship.* Nothing in this Plan or in any Award, nor the grant of any Award, shall confer upon or be construed as giving any Participant any right to remain in the employ of the Company or a Subsidiary or to continue as a Consultant or non-employee Director. Further, the Company or a Subsidiary may at any time dismiss a Participant from employment or terminate the relationship of any Consultant or non-employee Director with the Company or any Subsidiary, free from any liability or any claim pursuant to this Plan, unless otherwise expressly provided in this Plan or in any agreement evidencing an Award made under this Plan. No Consultant, non-employee Director or employee of the Company or any Subsidiary shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of any Consultant, non-employee Director or employee of the Company or any Subsidiary or of any Participants.

16.3. *GOVERNING LAW.* THE VALIDITY, CONSTRUCTION AND EFFECT OF THIS PLAN AND ANY RULES AND REGULATIONS RELATING TO THIS PLAN SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF.

16.4. *Severability.* If any provision of this Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any individual or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Committee or the Board, such provision shall be construed or deemed amended to conform to applicable law, or if it cannot be construed or deemed amended without, in the sole determination of the Committee or the Board, materially altering the intent of this Plan or the Award, such provision shall be stricken as to such jurisdiction, individual

or Award and the remainder of this Plan and any such Award shall remain in full force and effect.

16.5. *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to this Plan or any Award, and the Committee or the Board shall determine, in its sole discretion, whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be cancelled, terminated or otherwise eliminated.

16.6. *Headings.* Headings are given to the Sections and Subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

16.7. *Effective Date.* The provisions of this Plan that relate to the grant of Incentive Stock Options shall be effective as of the date of the approval of this Plan by the shareholders of the Company. All other provisions of this Plan shall be effective as of the Effective Date.

16.8. *Transferability of Awards.* Awards shall not be transferable otherwise than by will or the laws of descent and distribution without the written consent of the Committee or the Board (which may be granted or withheld at the sole discretion of the Committee or the Board). Awards may be exercised, during the lifetime of the holder, only by the holder (or the holder's legal guardian in the event of the holder's Disability or incompetence). Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Award contrary to the provisions hereof, or the levy of any execution, attachment or similar process upon an Award shall be null and void and without effect.

16.9. *Rights of Participants.* Except as hereinbefore expressly provided in this Plan, any Person to whom an Award is granted shall have no rights by reason of any subdivision or consolidation of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, reorganization, merger or consolidation or spinoff of assets or stock of another corporation, and any issue by the Company of shares of stock of any class or securities convertible into shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of Shares subject to an Award.

16.10. *No Limitation Upon the Rights of the Company.* The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, or changes of its capital or business structure; to merge, convert or consolidate; to dissolve or liquidate; or sell or transfer all or any part of its business or assets.

16.11. *Date of Grant of an Award.* Except as noted in this Section 16.11, the granting of an Award shall take place only upon the execution and delivery by the Company and the Participant of a written agreement and neither any other action taken by the Committee or the Board nor anything contained in this Plan or in any resolution adopted or to be adopted by the Committee, the Board or the shareholders of the Company shall constitute the granting of an Award pursuant to this Plan. Solely, for purposes of determining the Fair Market Value of the Shares subject to an Award, such Award will be deemed to have been granted as of the date specified by the Committee or the Board notwithstanding any delay which may elapse in executing and delivering the applicable agreement.

SECTION 17. NAMED EXECUTIVE OFFICERS

17.1. *Applicability of Section 17.* The provisions of this Section 17 shall apply only to those executive officers (i) whose compensation is required to be reported in the Company's proxy statement pursuant to Item 402(a)(3)(i) and (ii) (or any successor thereto) of Regulation S-K (or any successor thereto) under the general rules and regulations under the Exchange Act and (ii) whose total compensation, including estimated Awards, is determined by the Committee or the Board to possibly be subject to the limitations on deductions imposed by Section 162(m) of the Code ("Named Executive Officers"). In the event of any inconsistencies between this Section 17 and the other Plan provisions as they pertain to Named Executive Officers, the provisions of this Section 17 shall control.

17.2. *Establishment of Performance Goals.* Awards for Named Executive Officers, other than Stock Options and Stock Appreciation Rights, shall be based on the attainment of certain performance goals. No later than the earlier of (i) ninety (90) days after the commencement of the applicable fiscal year of the Company or one of its Subsidiaries or such other award period as may be established by the Committee or the Board ("Award Period") and (ii) the completion of twenty-five percent (25%) of such Award Period, the Committee or the Board shall establish, in writing, the performance goals applicable to each such Award for Named Executive Officers. At the time the performance goals are established, their outcome must be substantially uncertain. In addition, the performance goal must state, in terms of an objective formula or standard, the method for computing the amount of compensation payable to the Named Executive Officer if the goal is obtained. Such formula or standard shall be sufficiently objective so that a third party with knowledge of the relevant performance results could calculate the amount to be paid to the subject Named Executive Officer. The material terms of the performance goals for Named Executive Officers and the compensation payable thereunder shall be submitted to the shareholders of the Company for their review and approval if and to the extent required for such compensation to be deductible pursuant to Section 162(m) (or any successor thereto) of the Code, and the Treasury Regulations thereunder. Shareholder approval, if necessary, shall be obtained for such performance goals prior to any Award being paid to such Named Executive Officer. If shareholder approval is required and not received with respect to such performance goals, no amount

shall be paid to such Named Executive Officer for such applicable Award Period pursuant to this Plan.

17.3. *Components of Awards.* Each Award granted to a Named Executive Officer, other than Stock Options and Stock Appreciation Rights, shall be based on performance goals which are sufficiently objective so that a third party having knowledge of the relevant facts could determine whether the goal was met. Except as provided in Subsection 17.8 herein, performance measures which may serve as determinants of Named Executive Officers' Awards shall be limited to the following measures: earnings per share; return on assets; return on equity; return on capital; net profit after taxes; net profit before taxes; operating profits; stock price; and sales or expenses. Within ninety (90) days following the end of each Award Period, the Committee or the Board shall certify in writing that the performance goals, and any other material terms were satisfied. Thereafter, Awards shall be made for each Named Executive Officer as determined by the Committee or the Board. The Awards may not vary from the pre-established amount based on the level of achievement.

17.4. *No Mid-Year Change in Awards.* Except as provided in Subsections 17.8 and 17.9 herein, each Named Executive Officer's Awards shall be based exclusively on the performance measures established by the Committee or the Board pursuant to Subsections 17.2 and 17.3.

17.5. *No Partial Award Period Participation.* A Named Executive Officer who becomes eligible to participate in this Plan after performance goals have been established in an Award Period pursuant to Subsections 17.2 and 17.3 may not participate in this Plan prior to the next succeeding Award Period, except with respect to Awards which are Stock Options or Stock Appreciation Rights.

17.6. *Performance Goals.* Except as provided in Subsection 17.8 herein, performance goals shall not be changed following their establishment, and Named Executive Officers shall not receive any payout, except with respect to Awards which are Stock Options or Stock Appreciation Rights, when the minimum performance goals are not met or exceeded.

17.7. *Individual Performance and Discretionary Adjustments.* Except as provided in Subsection 17.8 herein, subjective evaluations of individual performance of Named Executive Officers shall not be reflected in their Awards, other than Awards which are Stock Options or Stock Appreciation Rights. The payment of such Awards shall be entirely dependent upon the attainment of the preestablished performance goals.

17.8. *Amendments.* No amendment of this Plan with respect to any Named Executive Officer may be made which would (i) increase the maximum amount that can be paid to any one Participant pursuant to this Plan, (ii) change the specified performance goal for payment of Awards, or (iii) modify the requirements as to eligibility for participation in this Plan, unless the Company's shareholders have first approved such

amendment in a manner which would permit the deduction under Section 162(m) (or any successor thereto) of the Code of such payment in the fiscal year it is paid. The Committee or the Board shall amend this Section 17 and such other provisions as it deems appropriate, to cause amounts payable to Named Executive Officers to satisfy the requirements of Section 162(m) (or any successor thereto) and the Treasury regulations promulgated thereunder.

17.9. *Stock Options and Stock Appreciation Rights.* Notwithstanding any provision of this Plan (including the provisions of this Section 17) to the contrary, the amount of compensation which a Named Executive Officer may receive with respect to Stock Options and Stock Appreciation Rights which are granted hereunder is based solely on an increase in the value of the applicable Shares after the date of grant of such Award. Thus, no Stock Option may be granted hereunder to a Named Executive Officer with an exercise price less than the Fair Market Value of Shares on the date of grant. Furthermore, the maximum number of Shares (or cash equivalent value) with respect to which Stock Options or Stock Appreciation Rights may be granted hereunder to any Named Executive Officer during any calendar year may not exceed 411,000 Shares, subject to adjustment as provided in Section 13 hereunder.

17.10. *Maximum Amount of Compensation.* The maximum amount of compensation payable as an Award (other than an Award which is a Stock Option or Stock Appreciation Right) to any Named Executive Officer during any calendar year may not exceed \$1,000,000.

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated September 30, 2003, is made among HORNBECK OFFSHORE SERVICES, LLC, a Delaware limited liability company ("HOS"); HORNBECK OFFSHORE TRANSPORTATION, LLC, a Delaware limited liability company formerly known as LEEVAC Marine, LLC ("HOT"); HOS and HOT are sometimes referred to herein collectively as the "Borrowers" and individually as a "Borrower"; HIBERNIA NATIONAL BANK, a national banking association, as agent (in such capacity, together with its successors and assigns in such capacity, the "Agent"); and the lenders listed on the signature pages hereof (the "Banks"), which agree as follows:

WITNESSETH:

WHEREAS, Borrowers, Banks (other than DVB Bank Aktiengesellschaft) and Agent previously entered into that certain Credit Agreement dated as of December 31, 2001 (as previously amended by the First Amendment to Credit Agreement dated February 25, 2002, and the Second Amendment dated as of June 18, 2003, the "Original Credit Agreement"); the Original Credit Agreement, as amended hereby, is hereinafter referred to as the "Credit Agreement") pursuant to which the Banks agreed to lend money to Borrowers upon and subject to the terms and conditions thereof;

WHEREAS, capitalized terms used herein without definition shall have the respective meanings given them in the Original Credit Agreement;

WHEREAS, Borrowers have requested that, among other things, (i) the Commitments and the Borrowing Base be increased from \$50,000,000 to \$60,000,000 in connection with the construction of three (3) new barges, and (ii) the limits on capital expenditures and investments in the Original Credit Agreement be amended to take into account those barges;

WHEREAS, the Banks (including DVB Bank Aktiengesellschaft) and the Agent are so willing, but only upon and subject to the terms and conditions hereof;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrowers, Banks and Agent hereby agree as follows:

1. DVB Bank Aktiengesellschaft is hereby added as a Bank under the Credit Agreement. Its Credit Commitment and its Borrowing Base Credit Commitment both are \$10,000,000. The Credit Commitments and the Borrowing Base Credit Commitments of the other Banks are not changing. Schedule 1 attached hereto reflects the foregoing and hereby amends and replaces Schedule 1 to the Original Credit Agreement (also taking into account the amendment to the definitions of Borrowing Base and Credit Limit in the Original Credit Agreement hereinafter provided for).

2. In addition to the amendment set forth in Section 1 above, the Original Credit Agreement is hereby amended as follows:

(a) Section 1.02 is hereby amended by deleting the definitions of Borrowing Base and Credit Limit set forth therein and substituting therefor the following new definitions of such terms:

"Borrowing Base" shall mean Sixty Million and No/100 (\$60,000,000.00) Dollars. Any increase or decrease in the

Borrowing Base is subject to unanimous written approval of the Banks and, in addition, compliance, demonstrated to Agent's satisfaction, by the Guarantor and the Borrowers with Section 5.17 and 5.18 hereof and applicable provisions of the Indenture (including without limitation, to the extent applicable, compliance with the Consolidated Interest Coverage Ratio test at Section 4.09 of the Indenture).

"Credit Limit" shall mean the lesser of (i) the Borrowing Base from time to time in effect, and (ii) Sixty Million and No/100 (\$60,000,000.00) Dollars.

3. (i) In furtherance of the requirements set forth in Section 5 hereof and in accordance with the definition of HOS Vessels, the parties acknowledge and agree that the HOS BRIGADOON (O.N. 1077123) (the "Additional HOS Vessel") is a HOS Vessel, and (ii) the Agent and the Required Banks hereby agree that the construction for HOT of the three (3) ocean-going double-hulled tank barges under Phase I of HOT's OPA 90 New-Build Program, anticipated by HOT as of the date of this Amendment to have capacity of 135,000 barrels, 115,000 barrels and 50,000 barrels, shall not be counted under subsection 8.01(o) of the Credit Agreement as capital expenditures thereunder.

4. The Original Credit Agreement shall be deemed amended to the extent necessary to give effect to the foregoing. Except as amended hereby, the Original Credit Agreement shall remain in full force and effect.

5. As conditions precedent to the effectiveness of this Amendment, (i) all representations and warranties set forth in the Credit Agreement shall be true and correct as of the date hereof (other than those representations and warranties that are, by their specific items, limited in application to a specific date before the date of this Amendment), (ii) Borrowers shall have paid or caused to be paid all costs and expenses incurred by Agent and Banks, or otherwise agreed by Borrowers to be paid, through the date hereof, (iii) Borrowers shall have paid Agent an amendment fee in the amount of \$15,000 for the account of all Banks other than DVB Bank Aktiengesellschaft (\$5,000 per each such Bank) and a commitment fee in the amount of \$25,000 for the account of DVB Bank Aktiengesellschaft, together with all other fees required to be paid through the date hereof, (iv) Borrowers shall have paid all interest on the Obligations accrued and unpaid through the day before this Amendment, and (v) Agent and Banks shall have received the following, all of which shall be in form and substance satisfactory to the Agent and in sufficient counterparts:

- (A) Duly executed counterparts of this Amendment signed by all parties hereto, together with duly executed counterparts of a loan assignment agreement among the Banks, the Agent and the Borrowers and a duly executed original of a Credit Note payable to the order of DVB Bank Aktiengesellschaft in the principal amount of \$10,000,000.
- (B) Duly executed counterparts of (1) a supplement to the HOS Fleet Mortgage and an amendment to the HOS Security Agreement, each signed by HOS and adding to the coverage thereof first priority liens in favor of the Agent, for the ratable benefit of the Banks, on the Additional HOS Vessel and related assets and taking into account the increase in the Credit Limit effected by this Amendment (and the amendment to the HOS Security Agreement shall be considered authorization for recordation of an amendment to the underlying financing statement to add the Additional HOS Vessel and related assets), and (2) amendments to the LM Fleet Mortgage, the LM Security Agreement, the Guaranty and the HOS-IV Guaranty taking into account the increase in the Credit Limit effected by this Amendment.

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- (C) Resolutions of the respective Board of Directors of each Borrower, Guarantor and HOS-IV, certified by the Secretary of each such company.
 - (D) Copies of (i) the charter agreements, if any, relating to the Additional HOS Vessel, (ii) the Certificate of Documentation for the Additional HOS Vessel, and (iii) a vessel abstract for the Additional HOS Vessel showing no recorded Lien thereon.
 - (E) Evidence that the insurance required to be maintained under the Loan Documents with respect to the Additional HOS Vessel has been obtained and is in full force and effect.
 - (F) All consents to and waivers respecting the transactions contemplated hereby.
 - (G) A current survey of the Additional HOS Vessel from the Surveyor to the Agent showing a fair market value of at least \$8,000,000.
 - (H) Legal opinions of counsel to Borrowers, Guarantor and HOS-IV as to such matters as may be required by Agent and its counsel.

6. Borrowers and, by their consent to this Amendment, Guarantor and HOS-IV specifically reaffirm, confirm and acknowledge the respective mortgages, pledges, assignments and security agreements and all other Loan Documents by each of them in favor of or with the Agent or the Banks, including without limitation the following:

- (i) the HOS Security Agreement, together with the respective related UCC-1 financing statement, as amended;
- (ii) the LM Security Agreement, together with the related UCC-1 financing statement, as amended;
- (iii) the LM Fleet Mortgage;
- (iv) the HOS Fleet Mortgage;
- (v) the Guaranty;
- (vi) the HOS-IV Guaranty.

To the extent any of such agreements represent security for the Obligations, whether now existing or hereafter arising, such security is hereby reaffirmed, confirmed and acknowledged by each Borrower and the Guarantor and HOS-IV, as applicable, and Obligations shall include, without limitation, the increased amount of the loans made or to be made as a result of the increase in the Credit Limit and the Borrowing Base put in place by virtue of this Amendment.

7. (a) Borrowers represent and warrant to Agent and Banks that no Default or Event of Default exists under the Credit Agreement.

(b) Borrowers acknowledge and agree in favor of Agent and Banks that notwithstanding their representation and warranty set forth in the immediately preceding subsection (a), to the extent that there is any Default or Event of Default under the Credit Agreement, the execution and delivery (and acceptance) of this Amendment by Agent and Banks shall not constitute or be deemed to constitute in any respect a waiver of any such Default or Event of Default.

(c) Borrowers and, by their consent to this Amendment, Guarantor and HOS-IV acknowledge, agree, confirm, declare, represent and warrant to Agent and Banks that all of their respective representations and warranties set forth in the Credit Agreement and the other Loan Documents are true and correct on the date hereof (other than those representations and warranties that are, by their specific terms, limited in application to a specific date before the date of this Amendment), except that under Section 4.01 (and also in connection with Section 10.01 regarding notices) the Borrowers make reference to prior notice having been provided of the change of their chief executive office to 103 Northpark Blvd., Suite 300, Covington, Louisiana 70433. Without limiting the generality of the foregoing, Borrowers, Guarantor and HOS-IV represent and warrant to Agent and Banks that Borrowers, Guarantor and HOS-IV have reviewed the Indenture and are satisfied that each Borrower's, Guarantor's and HOS-IV's execution, delivery and performance of this Amendment and the other documents provided in connection herewith will not violate any provision of the Indenture.

8. This Amendment shall be governed by and construed in accordance with the laws of the State of Louisiana.

9. This Amendment may be executed in one or more counterparts with the same effect as if the signatures hereto and thereto were upon the same instrument.

IN WITNESS WHEREOF, Borrowers, Banks and Agent have executed and delivered this Amendment on the date first above written.

HORNBECK OFFSHORE SERVICES, LLC

By: /s/ Todd M. Hornbeck

Name: Todd M. Hornbeck
Title: President and Chief Executive Officer

HORNBECK OFFSHORE TRANSPORTATION, LLC
(f/k/a LEEVAC Marine, LLC)

By: /s/ Todd M. Hornbeck

Name: Todd M. Hornbeck
Title: President and Chief Executive Officer

HIBERNIA NATIONAL BANK, as Agent

By: /s/ Gary Culbertson

Name: Gary Culbertson
Title: Vice President

HIBERNIA NATIONAL BANK, as a Bank

By: /s/ Gary Culbertson

Name: Gary Culbertson
Title: Vice President

FORTIS CAPITAL CORP.

By: /s/ Carl Rasmussen

Name: Carl Rasmussen
Title: Vice President

By: /s/ John C. Preneta

Name: John C. Preneta
Title: Executive Vice President

SOUTHWEST BANK OF TEXAS, N.A.

By: /s/ Edward K. Bowdon

Name: Edward K. Bowdon
Title: Vice President

[Signatures continued on next page.]

By: /s/ Syban Moetotra

Name: Syban Moetotra
Title: Senior Vice President

ACCEPTED AND AGREED TO:

HORNBECK OFFSHORE SERVICES, INC.
(f/k/a HORNBECK-LEEVAAC Marine Services, Inc.)

By: /s/ Todd M. Hornbeck

Name: Todd M. Hornbeck
Title: President and Chief Executive Officer

HOS-IV, LLC

By: /s/ Todd M. Hornbeck

Name: Todd M. Hornbeck
Title: President and Chief Executive Officer

SCHEDULE 1
Commitments of the Banks

<u>Name and Address of Bank</u>	<u>Credit Commitment of Bank</u>	<u>Borrowing Base Credit Commitment of Bank</u>
Hibernia National Bank 313 Carondelet Street New Orleans, LA 70130 Attn: Mr. Gary Culbertson	\$20,000,000.00	\$20,000,000.00
Fortis Capital Corp. Three Stamford Plaza 301 Tresser Boulevard Stamford, CT 06901 Attn: Mr. Carl Rasmussen	\$20,000,000.00	\$20,000,000.00
Southwest Bank of Texas, N.A. 5 Post Oak Park 4400 Post Oak Parkway Houston, TX 77027 Attn: Mr. Edward Bowdon	\$10,000,000.00	\$10,000,000.00
DVB Bank Aktiengesellschaft 609 Fifth Avenue 5 th Floor New York, NY 10017 Attn: Mr. Gorm Eikemo	\$10,000,000.00	\$10,000,000.00

**FIRST AMENDMENT TO
INDEMNIFICATION AGREEMENT**

THIS FIRST AMENDMENT TO INDEMNIFICATION AGREEMENT (the "Amendment") is made and entered into effective this _____ day of _____, 2003, between Hornbeck Offshore Services, Inc., a Delaware corporation (the "Company") and _____ ("Indemnitee").

WITNESSETH THAT:

WHEREAS, Indemnitee has entered into that certain Indemnification Agreement dated the _____ day of _____, 200_ (the "Agreement") with the Company; and

WHEREAS, the Sarbanes-Oxley Act of 2002 (the "Act"), which was signed into law effective July 30, 2002, prohibits public companies from making personal loans to their directors and executive officers; and

WHEREAS, since enactment of the Act, various legal scholars and practitioners have raised an issue as to whether Section 402 of the Act may be sufficiently broad to prohibit the advancement of expenses under standard indemnification agreements between public companies and their executive officers and directors, although to date there has been no authoritative guidance on this matter from any judicial authority or governmental entity or agency; and

WHEREAS, the Company desires to clarify that, although it does not believe that the advancement of expenses is violative of Section 402 of the Act, if a determination is made by a judicial authority or governmental entity or agency or, absent such determination, any such party takes a position or issues guidance stating, that the advancement of expenses to an officer, director or employee pursuant to a company's indemnification obligations with respect to such individual (in a similar manner such as that contemplated in Section 5 of the Agreement) is prohibited under the Act, the Company shall not be obligated to advance expenses incurred by the Indemnitee pursuant to Section 5 of this Agreement; and

WHEREAS, the Company shall rely on this Amendment in determining the Company's indemnification obligations to its officers and directors and in complying with its filing obligations under applicable securities laws.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed by the parties, the parties hereto agree as follows:

Section 1 Amendment. Section 10 of the Agreement is hereby deleted in its entirety and replaced with the following:

10. EXCEPTION TO RIGHT OF INDEMNIFICATION AND EXPENSE ADVANCEMENT. Notwithstanding any other

provision of this Agreement, Indemnitee shall only be entitled to indemnification or advancement of expenses under this Agreement with respect to any Proceeding brought by Indemnitee, or any claim therein, if (a) the bringing of such Proceeding or making of such claim shall have been approved by the Board of Directors; or (b) such Proceeding is being brought by the Indemnitee to assert his rights under this Agreement; provided, however, that Indemnitee shall in no event be entitled to the advancement of expenses under the Agreement if a determination has been made by a judicial authority or governmental entity or agency or, absent such determination, any such authority, entity or agency has taken a position or issued any guidance stating, that the advancement of expenses to an Indemnitee in a manner similar to that contemplated in Section 5 of the Agreement constitutes a personal loan in contravention of Section 402 of the Sarbanes-Oxley Act of 2002 or any similar law or regulation.

Section 2 Waiver. In light of the foregoing, Indemnitee agrees that he or she shall not be entitled to, and Indemnitee hereby waives, the right to the advancement of expenses in connection with any indemnification rights permitted under the Company's certificate of incorporation or bylaws, or under the laws of the State of Delaware or otherwise, if a determination has been made by a judicial authority or governmental entity or agency or, absent such determination, any such authority, entity or agency has taken a position or issued any guidance stating, that the advancement of expenses to an Indemnitee in a manner similar to that contemplated in Section 5 of the Agreement constitutes a personal loan in contravention of Section 402 of the Act or any similar law or regulation.

Section 3 Entire Agreement. Except as set forth in Section 1 above, no other amendments are made to the Agreement hereby and the terms of the Agreement shall continue in full force and effect as set forth therein.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on and as of the day and year first above written.

HORNBECK OFFSHORE SERVICES, INC.

By: _____

Name: _____

Title: _____

INDEMNITEE

**SIGNATURE PAGE TO FIRST AMENDMENT TO
INDEMNIFICATION AGREEMENT**

CERTIFICATION

I, Todd M. Hornbeck, certify that:

1. I have reviewed this 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)) 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) 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; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 12, 2003

/s/ Todd M. Hornbeck

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

CERTIFICATION

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

1. I have reviewed this 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)) 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) 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; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 12, 2003

/s/ James O. Harp, Jr.

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

**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 period ending September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd M. Hornbeck, President, Chief Executive Officer and Secretary 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.

Dated: November 12, 2003

/s/ Todd M. Hornbeck

Todd M. Hornbeck
President, Chief Executive Officer and Secretary

**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 period ending September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James O. Harp, Jr., 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.

Dated: November 12, 2003

/s/ James O. Harp, Jr.

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