

**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 June 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 001-32108

Hornbeck Offshore Services, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

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

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)

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 July 31, 2004 was 20,804,928.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2004

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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)

	June 30, 2004	December 31, 2003
(Unaudited)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,734	\$ 12,899
Accounts and claims receivable, net of allowance for doubtful accounts of \$387 and \$454, respectively	16,855	17,124
Prepaid insurance	1,708	291
Property taxes receivable	1,429	2,144
Other current assets	1,513	1,081
Total current assets	45,239	33,539
Property, plant, and equipment, net	343,077	316,715
Goodwill, net	2,628	2,628
Deferred charges, net	13,231	12,316
Other assets	56	44
Total assets	\$ 404,231	\$ 365,242
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,598	\$ 3,884
Accrued interest	7,794	7,799
Accrued payroll and benefits	1,921	3,911
Other accrued liabilities	394	247
Total current liabilities	14,707	15,841
Revolving credit facility	—	40,000
Long-term debt, net of original issue discount of \$2,121 and \$2,323, respectively	172,879	172,677
Deferred tax liabilities, net	26,067	23,567
Other liabilities	879	762
Total liabilities	214,532	252,847
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, 20,783 and 14,528 shares issued and outstanding, respectively	208	145
Additional paid-in capital	163,322	90,351
Retained earnings	26,153	21,883
Accumulated other comprehensive income	16	16
Total stockholders' equity	189,699	112,395
Total liabilities and stockholders' equity	\$ 404,231	\$ 365,242

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

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Revenues	\$30,288	\$26,010	\$61,635	\$53,357
Costs and expenses:				
Operating expenses	13,696	10,575	28,047	21,049
Depreciation and amortization	5,620	3,996	10,827	7,617
General and administrative expenses	3,332	2,819	6,292	5,713
	<u>22,648</u>	<u>17,390</u>	<u>45,166</u>	<u>34,379</u>
Operating income	7,640	8,620	16,469	18,978
Interest expense	(4,656)	(4,357)	(9,801)	(8,574)
Interest income	68	43	106	115
Other income (expense), net	4	—	(6)	707
	<u>3,056</u>	<u>4,306</u>	<u>6,768</u>	<u>11,226</u>
Income before income taxes	3,056	4,306	6,768	11,226
Income tax expense	(1,126)	(1,633)	(2,500)	(4,263)
	<u>\$ 1,930</u>	<u>\$ 2,673</u>	<u>\$ 4,268</u>	<u>\$ 6,963</u>
Net income	\$ 1,930	\$ 2,673	\$ 4,268	\$ 6,963
	<u>\$ 0.09</u>	<u>\$ 0.21</u>	<u>\$ 0.24</u>	<u>\$ 0.57</u>
Basic earnings per share of common stock	\$ 0.09	\$ 0.21	\$ 0.24	\$ 0.57
	<u>\$ 0.09</u>	<u>\$ 0.21</u>	<u>\$ 0.23</u>	<u>\$ 0.56</u>
Diluted earnings per share of common stock	\$ 0.09	\$ 0.21	\$ 0.23	\$ 0.56
	<u>20,752</u>	<u>12,498</u>	<u>17,838</u>	<u>12,311</u>
Weighted average basic shares outstanding	20,752	12,498	17,838	12,311
	<u>21,338</u>	<u>12,764</u>	<u>18,317</u>	<u>12,539</u>
Weighted average diluted shares outstanding	21,338	12,764	18,317	12,539

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)

	Six Months Ended June 30,	
	2004	2003
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,268	\$ 6,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,557	6,358
Amortization	2,270	1,259
Provision for bad debts	(67)	(15)
Deferred tax expense	2,500	4,263
Amortization of financing costs	791	744
Gain on sale of assets	—	(713)
Changes in operating assets and liabilities:		
Accounts and claims receivable	343	(622)
Prepaid insurance and other current assets	(1,134)	(756)
Deferred charges and other assets	(3,679)	(2,941)
Accounts payable	875	247
Accrued liabilities and other liabilities	(1,812)	(1,421)
Accrued interest	(5)	39
Net cash provided by operating activities	12,907	13,405
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction of new vessels	(20,967)	(22,445)
Acquisitions of vessels	(10,000)	(46,400)
Proceeds from the sale of vessel	—	1,650
Capital expenditures	(4,340)	(4,181)
Net cash used in investing activities	(35,307)	(71,376)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (payments on) borrowings under revolving credit facility	(40,000)	39,000
Deferred financing costs	(96)	(62)
Gross proceeds from initial public offering	79,643	—
Payments for initial public offering costs	(7,441)	—
Proceeds from borrowings under debt agreements	—	1,545
Payments on borrowings under debt agreements	—	(533)
Net cash proceeds from common stock issued	1,119	10,540
Net cash provided by financing activities	33,225	50,490
Effects of exchange rate changes on cash	10	—
Net increase (decrease) in cash and cash equivalents	10,835	(7,481)
Cash and cash equivalents at beginning of period	12,899	22,228
Cash and cash equivalents at end of period	\$ 23,734	\$ 14,747
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		
Interest paid	\$ 10,308	\$ 9,440
NON-CASH FINANCING ACTIVITIES:		
Issuance of common stock to partially fund the purchase of offshore supply vessels	\$ —	\$ 6,000
Stock subscriptions receivable	\$ —	\$ 10,975

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, EXCEPT PER SHARE AMOUNTS)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. 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. Certain amounts reported in prior periods have been reclassified to conform to the 2004 presentation. 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, 2003 of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the "Company"). The results of operations for the three month and six month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

The consolidated balance sheet at December 31, 2003 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

2. Earnings Per Share and Reverse Stock Split

Basic earnings per share of common stock was calculated by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock was calculated by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the period plus the effect of dilutive stock options. Weighted average number of common shares outstanding was calculated by using the sum of the shares determined on a daily basis divided by the number of days in the period. The Company had dilutive stock options of 586 in the second quarter of 2004, 266 in the second quarter of 2003, 479 in the first six months of 2004 and 228 in the first six months of 2003, which were assumed exercised using the treasury stock method. At June 30, 2004, stock options representing 377 shares were excluded from the computation of diluted earnings per share of common stock because their exercise price was greater than the average market price of the common stock for the period ended June 30, 2004.

On March 5, 2004, the Company effected a 1-for-2.5 reverse stock split of its common stock that caused the number of outstanding shares to decrease from 36,320 to 14,528. For all periods, the share amounts and per share data reflected throughout these financial statements have been adjusted to give effect to the reverse stock split. Basic and diluted earnings per common share are each calculated based on the weighted average number of shares outstanding during the periods adjusted for the effect of the reverse stock split.

3. Initial Public Offering

The Company completed an initial public offering of 6,000 shares of its common stock at \$13.00 per share, for total gross proceeds of \$78 million on March 31, 2004. The Company plans to use the net proceeds of the offering of approximately \$71 million to fund a portion of the costs of the construction of ocean-going, double-hulled tank barges, the retrofit of certain existing vessels, possible future acquisitions or additional new vessel construction, and for general corporate purposes. Pending

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

such uses, on March 31, 2004, the Company used a portion of the proceeds to repay the outstanding balance under its revolving credit facility. The Company's shares of common stock trade on the New York Stock Exchange under the symbol "HOS."

On April 28, 2004, the Company issued an additional 126 shares of its common stock pursuant to the exercise by the underwriters of the initial public offering of an option to purchase additional shares, which resulted in incremental gross proceeds to the Company of approximately \$1.6 million.

4. Long-Term Debt

On July 24, 2001, the Company issued \$175,000 in principal amount of 10^{5/8}% senior notes. The Company realized net proceeds of approximately \$165,000, a substantial 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. 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. The Company completed an exchange offer on January 18, 2002, whereby the 10^{5/8}% Series A senior notes, due August 1, 2008, were exchanged for 10^{5/8}% Series B senior notes with the same terms; the offering of which was publicly registered.

The Company has a \$100,000 senior secured revolving credit facility with a current borrowing base of \$60,000. The expiration date of the facility is February 13, 2009. The maturity of this facility will automatically accelerate to March 31, 2008, if by that date the Company has not redeemed its senior notes or refinanced them with debt having a maturity later than July 31, 2009. As of June 30, 2004, the Company had no outstanding balance under the revolving credit facility. As of such date, seven OSVs and four ocean-going tugs and associated personalty collateralized the revolving credit facility. Borrowings under the revolving credit facility accrue interest, at the Company's option, at either (1) the prime rate announced by Citibank, N.A. in New York, plus a margin of up to 1.0%, or (2) the London Interbank Offered Rate, plus a margin of 1.5% to 3.5%. Unused commitment fees are payable quarterly at the annual rate of one-quarter to three-eighths of one percent on the unused but available amounts under the revolving credit facility, based on the leverage ratio as defined in the credit facility agreement.

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 vessels of \$0.5 million in the second quarter of 2004, \$0.8 million in the second quarter of 2003, \$0.9 million in the first six months of 2004 and \$1.6 million in the first six months of 2003.

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

5. Incentive Compensation Plan

The Company established an incentive compensation plan that provides the Company with the ability to grant options for a maximum of 3,500 shares of common stock. The purchase price of the stock subject to each option is determined by the Board of Directors of the Company and cannot be less than the fair market value of the stock at the date of grant.

In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation— Transition and Disclosure—An Amendment of FASB Statement No. 123", was issued by the FASB and amends SFAS 123, "Accounting for Stock-Based Compensation." This statement provides alternative methods of transition for an entity that voluntarily changes to the fair-value-based method of accounting for stock-based employee compensation and amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. We have not adopted either of the alternative methods of transition and continue to apply Accounting Principles Board Opinion, APB, No. 25, "Accounting for Stock Issued to Employees." Additionally, SFAS 148 amends APB No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information.

SFAS 123 also allows an entity to continue to measure stock-based compensation cost using the intrinsic value method of APB 25. 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.

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

If compensation cost for the Company's stock options had 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 three months and six months ended June 30, 2004 and 2003, respectively, would have been as indicated below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Income available to common stockholders:				
As reported	\$1,930	\$2,673	\$4,268	\$6,963
Add (deduct): stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effect(1)	(132)	63	(424)	(194)
Pro forma	<u>\$1,798</u>	<u>\$2,736</u>	<u>\$3,844</u>	<u>\$6,769</u>
Earnings per share of common stock:				
Basic, as reported	\$ 0.09	\$ 0.21	\$ 0.24	\$ 0.57
Basic, pro forma	<u>\$ 0.09</u>	<u>\$ 0.22</u>	<u>\$ 0.22</u>	<u>\$ 0.55</u>
Diluted, as reported	\$ 0.09	\$ 0.21	\$ 0.23	\$ 0.56
Diluted, pro forma	<u>\$ 0.08</u>	<u>\$ 0.21</u>	<u>\$ 0.21</u>	<u>\$ 0.54</u>

(1) The stock-based employee compensation under a fair-value-based method was a credit during the second quarter of 2003 primarily due to cancelled options.

6. Commitments and Contingencies

Vessel Construction

At June 30, 2004, the Company was committed under vessel construction contracts with two shipyards for the construction of a total of three double-hulled tank barges—one 135,000-barrel barge and two 110,000-barrel barges.

On July 23, 2004 and July 30, 2004, the Company signed definitive agreements with the same two shipyards for the construction of a total of two additional double-hulled tank barges—one additional 135,000-barrel barge and one additional 110,000-barrel barge. As of July 30, 2004, the remaining amount expected to be incurred to complete construction with respect to the five barges was approximately \$70.7 million. The Company is obligated under the terms of the contracts to remit funds to the shipyards based on vessel construction milestones, which are subject to change during vessel construction.

Contingencies

In the normal course of its business, the Company becomes involved in various claims and legal proceedings in which monetary damages are sought. It is management's opinion that the Company's liability, if any, under such claims or proceedings would not materially affect its financial position or results of operations.

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

7. Segment Information

The Company provides marine transportation services primarily to the energy industry through two business segments. The Company operates new generation offshore supply vessels, or OSVs, in the U.S. Gulf of Mexico and select international markets through its OSV 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 primarily operates ocean-going tugs and tank barges in the northeastern United States and 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 unaudited consolidated financial statements.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Operating revenues:				
Offshore supply vessels	\$ 17,354	\$ 14,596	\$ 32,919	\$ 27,767
Tugs and tank barges	12,934	11,414	28,716	25,590
Total	\$ 30,288	\$ 26,010	\$ 61,635	\$ 53,357
Operating expenses:				
Offshore supply vessels	\$ 6,759	\$ 5,007	\$ 13,562	\$ 9,064
Tugs and tank barges	6,937	5,568	14,485	11,985
Total	\$ 13,696	\$ 10,575	\$ 28,047	\$ 21,049
Depreciation and amortization:				
Offshore supply vessels	\$ 3,273	\$ 2,066	\$ 6,192	\$ 3,926
Tugs and tank barges	2,347	1,930	4,635	3,691
Total	\$ 5,620	\$ 3,996	\$ 10,827	\$ 7,617
General and administrative expenses:				
Offshore supply vessels	\$ 1,217	\$ 1,326	\$ 2,266	\$ 2,530
Tugs and tank barges	2,115	1,493	4,026	3,183
Total	\$ 3,332	\$ 2,819	\$ 6,292	\$ 5,713
Operating income:				
Offshore supply vessels	\$ 6,106	\$ 6,197	\$ 10,899	\$ 12,247
Tugs and tank barges	1,534	2,423	5,570	6,731
Total	\$ 7,640	\$ 8,620	\$ 16,469	\$ 18,978
Capital expenditures:				
Offshore supply vessels	\$ 5,000	\$ 56,325	\$ 7,959	\$ 70,500
Tugs and tank barges	20,294	236	26,061	8,081
Corporate	981	379	1,287	446
Total	\$ 26,275	\$ 56,940	\$ 35,307	\$ 79,027

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

	As of June 30, 2004	As of December 31, 2003
Identifiable assets:		
Offshore supply vessels	\$ 282,175	\$ 276,567
Tugs and tank barges	94,081	68,589
Corporate	27,975	20,086
Total	<u>\$ 404,231</u>	<u>\$ 365,242</u>
Long-lived assets:		
Offshore supply vessels	\$ 261,195	\$ 258,076
Tugs and tank barges	79,939	56,914
Corporate	1,943	1,725
Total	<u>\$ 343,077</u>	<u>\$ 316,715</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 in this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2003. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements. 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, means 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 23 technologically advanced, new generation OSVs and one fast supply boat. Currently, 18 of our OSVs are operating in the U.S. Gulf of Mexico, three of our OSVs are operating offshore Trinidad & Tobago and two are working offshore Mexico. We also own and operate 14 ocean-going tugs and 16 ocean-going tank barges, one of which is double-hulled, in the northeastern United States, primarily New York Harbor, and in Puerto Rico. By the end of calendar 2005, our tug and tank barge segment is expected to consist of at least 14 ocean-going tugs and 18 ocean-going tank barges, six of which will be double-hulled. This projected fleet count reflects five double-hulled tank barges currently under construction and is net of the anticipated retirement of three single-hulled tank barges at the end of 2004. Upon completion of this newbuild program, 46% of our tank barge fleet is currently expected to be double-hulled, up from 7% today.

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 these factors compared to conventional shelf projects.

The U.S. Gulf of Mexico OSV market conditions have improved somewhat over first quarter 2004 levels, particularly during the latter part of the second quarter. We are optimistic that the recent favorable trends affecting the supply and demand of OSVs are likely to continue for the remainder of 2004 based on a number of factors. Demand for our OSVs is positively impacted by a decrease in supply of new generation vessels available for service in the U.S. Gulf of Mexico. During the second quarter of 2004, new generation OSVs have continued to leave the U.S. Gulf of Mexico for foreign markets. We estimate that 25 new generation U.S.-built vessels have mobilized to foreign waters over the past two years. Eight of those vessels have been foreign-flagged and are prohibited from ever returning to U.S. coastwise trade. Further, based on our recent bidding activity for vessels in foreign markets, we believe an additional four to six U.S.-flagged new generation vessels could depart for foreign waters by the end of 2004.

OSV market conditions have also been favorably impacted by several demand drivers. Oil and gas operators' level of interest in the U.S. Gulf of Mexico has increased over the past two quarters. According to ODS Petrodata, the number of U.S. Gulf of Mexico drilling permits issued in 2004 as of July 16th has grown to 500 versus 435 as of the year-ago period. In addition, the Minerals

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Management Service has recently announced eight deepwater discoveries and 15 deep shelf discoveries. Although the exploratory rig count in the deepwater and deep shelf has remained relatively flat during the second quarter of 2004, we have noted that the production rig count in the deepwater has increased during the first half 2004, with more rigs planned to mobilize during the second half of this year. The summer construction cycle in the U.S. Gulf of Mexico has also been a contributing driver of improved market conditions during the second quarter, a trend that we expect to continue into the third quarter of this year.

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 first and fourth quarters of a given year are typically higher due to normal seasonal winter-weather patterns that typically result in a drop-off of activity during the second and third quarters. We generally take advantage of this seasonality to prepare our tug and tank barge fleet for peak demand periods by performing our regulatory drydocking and maintenance programs during the second and third quarters. In addition, we continuously evaluate our customers' needs and often elect to accelerate scheduled drydockings to take advantage of certain market opportunities.

As expected, the second quarter 2004 revenue activity was seasonally lower than the first quarter of 2004. However, it was higher than the second quarter of 2003 due mainly to increased diesel and unleaded gasoline barrel movements in the northeastern U.S. resulting from low inventory levels there. Although gasoline prices have reached record levels, demand for gasoline has not been impacted, particularly during the summer driving season. The Energy Information Administration, or EIA, had predicted that daily gasoline usage would be higher in 2004 while gasoline stocks would be at their lowest levels in 30 years. These trends have continued throughout the summer driving season and reflect the most recent EIA statistics. According to the the EIA's "Short Term Energy Outlook 2004" report, the overall level of petroleum inventories in the United States remains below normal, particularly on the East Coast, and distillate fuel inventories have remained relatively stagnant during a period in which steady stock builds usually occur. This report also predicted sustained growth in global oil demand for 2004 and 2005 with spot crude oil prices remaining at current levels through next year. However, the EIA also stated that absent serious gasoline supply disruptions, gasoline prices are expected to continue a gradual downward drift over the second half of 2004 as the rate of growth in gasoline demand slows.

As the next major Oil Pollution Act of 1990, or OPA 90, milestone approaches on January 1, 2005, customer demand for double-hulled equipment has led to increases in dayrates for this 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. In November 2003, we commenced a double-hulled tank barge newbuild construction program, in part, to address our need to replace three single-hulled tank barges that are required under OPA 90 to be retired from service prior to January 1, 2005. Our newbuild program, which currently consists of five double-hulled tank barges, is based on a proprietary new tank barge design that we have developed in-house to replace and expand our existing fleet of ocean-going tank barges. The design of these vessels is intended to maximize transit speed, improve cargo through-put rates and enhance crew safety features. All five of the double-hulled tank barges that we now have under construction are expected to commence service under long-term contracts following their delivery from the shipyards. In light of our current backlog of customer demand for new double-hulled tonnage for additional long-term contract opportunities, we are evaluating our remaining fixed-price shipyard option for the construction of one additional double-hulled tank barge.

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.

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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 United States 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, 2003. There were no significant changes to our critical accounting policies as reported in our Form 10-K during the six months ended June 30, 2004.

[Table of Contents](#)**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 OSVs and tugs and tank barges generate substantially all of our revenues and operating profit. The table does not include the results of operations for the recently acquired *HOS Hotshot*, a newly constructed 165-ft. fast supply boat that we had been operating under a bareboat charter since it was delivered in April 2003. We exercised our option to purchase that vessel in May 2004.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Offshore Supply Vessels:				
Average number of vessels	23.0	14.2	22.7	13.7
Average utilization rate(1)	83.8%	92.3%	81.1%	91.0%
Average dayrate(2)	\$ 9,642	\$ 12,062	\$ 9,636	\$ 12,220
Tugs and Tank Barges:				
Average number of tank barges	16.0	16.0	16.0	15.8
Average fleet capacity (barrels)	1,156,330	1,156,330	1,156,330	1,133,797
Average barge capacity (barrels)	72,271	72,271	72,271	71,893
Average utilization rate(1)	79.9%	67.8%	85.5%	75.4%
Average dayrate(3)	\$ 10,842	\$ 10,999	\$ 11,181	\$ 11,239

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

(2) Average dayrate represents 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.

(3) Average dayrate represents 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.

The Securities and Exchange Commission, or SEC, has 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 generally accepted accounting principles in the United States, or 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 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. Refer to our Annual Report on Form 10-K for the year ended December 31, 2003 for a description of how management uses, and why we believe investors use, EBITDA in evaluating our operating performance.

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The following table reconciles EBITDA with our net income for each of our business segments and in the aggregate, for the three months and six months ended June 30, 2004 and 2003, respectively (dollars in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
EBITDA:				
<i>Offshore Supply Vessels:</i>				
Net income	\$ 1,574	\$ 1,761	\$ 1,924	\$ 3,424
Plus:				
Interest expense	3,778	3,389	7,927	6,781
Income tax expense	876	1,074	1,121	2,093
Depreciation and amortization	3,273	2,066	6,192	3,926
EBITDA	\$ 9,501	\$ 8,290	\$ 17,164	\$ 16,224
<i>Tugs and Tank Barges:</i>				
Net income	\$ 356	\$ 912	\$ 2,344	\$ 3,539
Plus:				
Interest expense	878	968	1,874	1,793
Income tax expense	250	559	1,379	2,170
Depreciation and amortization	2,347	1,930	4,635	3,691
EBITDA	\$ 3,831	\$ 4,369	\$ 10,232	\$ 11,193
<i>Consolidated Total:</i>				
Net income	\$ 1,930	\$ 2,673	\$ 4,268	\$ 6,963
Plus:				
Interest expense	4,656	4,357	9,801	8,574
Income tax expense	1,126	1,633	2,500	4,263
Depreciation and amortization	5,620	3,996	10,827	7,617
EBITDA	\$ 13,332	\$ 12,659	\$ 27,396	\$ 27,417

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The following table provides detailed components of net income for each of our business segments and in the aggregate, for the three months and six months ended June 30, 2004 and 2003, respectively (dollars in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues:				
Offshore supply vessels	\$ 17,354	\$ 14,596	\$ 32,919	\$ 27,767
Tugs and tank barges	12,934	11,414	28,716	25,590
	<u>\$ 30,288</u>	<u>\$ 26,010</u>	<u>\$ 61,635</u>	<u>\$ 53,357</u>
Operating expenses:				
Offshore supply vessels	\$ 6,759	\$ 5,007	\$ 13,562	\$ 9,064
Tugs and tank barges	6,937	5,568	14,485	11,985
	<u>\$ 13,696</u>	<u>\$ 10,575</u>	<u>\$ 28,047</u>	<u>\$ 21,049</u>
Depreciation and amortization:				
Offshore supply vessels	\$ 3,273	\$ 2,066	\$ 6,192	\$ 3,926
Tugs and tank barges	2,347	1,930	4,635	3,691
	<u>\$ 5,620</u>	<u>\$ 3,996</u>	<u>\$ 10,827</u>	<u>\$ 7,617</u>
General and administrative expenses	<u>\$ 3,332</u>	<u>\$ 2,819</u>	<u>\$ 6,292</u>	<u>\$ 5,713</u>
Interest expense	<u>\$ 4,656</u>	<u>\$ 4,357</u>	<u>\$ 9,801</u>	<u>\$ 8,574</u>
Interest income	<u>\$ 68</u>	<u>\$ 43</u>	<u>\$ 106</u>	<u>\$ 115</u>
Income tax expense	<u>\$ 1,126</u>	<u>\$ 1,633</u>	<u>\$ 2,500</u>	<u>\$ 4,263</u>

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Revenues. Revenues were \$30.3 million for the three months ended June 30, 2004, compared to \$26.0 million for the same period in 2003, an increase of \$4.3 million or 16.5%. This increase in revenues is primarily the result of the increase in the size of our OSV fleet by an average of nine vessels since June 2003. The additional revenues generated by these vessels accounted for a \$3.1 million increase in revenues which was supplemented by a \$1.2 million increase in revenue related to vessels that were in service during each of the quarters ended June 30, 2004 and 2003.

Revenues from our OSV segment were \$17.4 million for the three months ended June 30, 2004, compared to \$14.6 million for the same period in 2003, an increase of \$2.8 million or 19.2%. The net increase in segment revenue is due to the quarter-over-quarter average fleet increase of nine OSVs. Our utilization rate was 83.8% for the three months ended June 30, 2004, which was lower than the 92.3% we achieved in the same period of 2003. Our OSV average dayrate decreased to \$9,642 in the second quarter of 2004 compared to \$12,062 in the same period of 2003, a decrease of \$2,420 or 20.1%. Lower dayrates were driven by market conditions in the U.S. Gulf of Mexico and a change in our average vessel size after the acquisition of six 220' class vessels in mid-2003. Our utilization and dayrates were more susceptible to market fluctuations during the second quarter of 2004 as we had more OSVs operating under spot contracts compared to the year-ago quarter. To a lesser degree, OSV utilization was also impacted by the drydocking of vessels for 41 days out-of-service compared to 12 days in the 2003 quarter. Based on current market trends, we anticipate further improvement in our OSV utilization during the balance of 2004, with dayrates for each vessel class at or above second quarter levels.

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Revenues from our tug and tank barge segment totaled \$12.9 million for the three months ended June 30, 2004 compared to \$11.4 million for the same period in 2003, an increase of \$1.5 million or 13.2%. The segment revenue increase is primarily due to higher levels of gasoline and diesel barrels moved in the 2004 quarter compared to the 2003 quarter. Revenues for the three months ended June 30, 2004 included \$0.8 million that was equal to the cost of in-chartering third-party equipment paid by customers compared to \$0.7 million in the prior-year quarter. Our utilization rate increased to 79.9% for the three months ended June 30, 2004 compared to 67.8% for the same period in 2003. The higher utilization was primarily the result of increased movements of diesel and unleaded gasoline barrels as gasoline inventories during the summer of 2004 have been at 30-year seasonal record lows. Another contributing factor to higher utilization was more drydocking and repair activities in the second quarter of 2003 compared to the second quarter of 2004. Our average dayrate of \$10,842 for the three months ended June 30, 2004 was fairly constant with our average dayrate of \$10,999 for the same period of 2003.

Operating Expense. Our operating expense increased to \$13.7 million for the quarter ended June 30, 2004 compared to \$10.6 million for the same period in 2003, an increase of \$3.1 million or 29.2%. The increase in operating expense resulted primarily from the increase in the size of our OSV fleet since June 2003 and increased costs related to Homeland Security measures, training, repair and maintenance, and drydocking amortization expense related to vessels recertified during the trailing twelve months.

Operating expense for our OSV segment increased to \$6.8 million in the second quarter of 2004 compared to \$5.0 million in the same period of 2003, an increase of \$1.8 million or 36.0%. This increase was primarily related to having an average of nine additional new generation OSVs in service for the three months ended June 30, 2004 compared to the same period in 2003. Average daily operating costs per vessel for the three months ended June 30, 2004 decreased over the same period in 2003, commensurate with the change in our fleet complement with the addition of six 220' vessels in mid-2003.

Operating expense for our tug and tank barge segment was \$6.9 million for the three months ended June 30, 2004 compared to \$5.6 million for the same period of 2003, an increase of \$1.3 million or 23.2%. Operating expense for the second quarters of 2004 and 2003 each included \$0.5 million of the cost of in-chartering third-party equipment paid by customers. The operating expense increase is primarily the result of higher fuel and personnel costs incurred during the second quarter of 2004. Average daily operating costs per vessel, excluding in-chartering expenses, for the second quarter of 2004 increased over the same period of 2003 commensurately with the overall increase in operating expense discussed above.

Depreciation and Amortization. Our depreciation and amortization expense of \$5.6 million for the three months ended June 30, 2004 increased \$1.6 million or 40.0% compared to \$4.0 million for the same period in 2003. Depreciation and amortization were higher in the second quarter of 2004 as a result of having an average of nine more vessels in our fleet and increased drydocking activity during the trailing twelve month period. These expenses are expected to increase further with the delivery of five newly constructed tank barges and two newly acquired tugs, and then again when these and any other recently acquired or newly constructed vessels undergo their initial 30 and 60 month recertifications.

General and Administrative Expenses. Second-quarter 2004 general and administrative expenses of \$3.3 million were \$0.5 million or 17.9% higher than the \$2.8 million reported in the 2003 quarter. We expect these costs to increase for the remainder of 2004 to accommodate our continued growth, including our recent acquisition of two ocean-going tugs and construction of five double-hulled tank barges, and our increased reporting obligations under federal securities laws as a newly public company.

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Interest Expense. Interest expense was \$4.7 million for the second quarter of 2004 compared to \$4.4 million for the same period of 2003, an increase of \$0.3 million or 6.8%. Capitalization of interest costs relating to new construction of vessels was approximately \$0.5 million for the three months ended June 30, 2004 compared to \$0.8 million for the same period in 2003. The average revolver balance was \$9.9 million for the second quarter of 2003 compared to having no outstanding balance under the revolver during the second quarter of 2004.

Interest Income. Interest income of \$0.1 million for the second quarter of 2004 was fairly constant with the interest earned for the same period of 2003.

Income Tax Expense. Our effective tax rate for the three months ended June 30, 2004 was 37%, compared to 38% for the same period of 2003. 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.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Revenues. Revenues were \$61.6 million for the six months ended June 30, 2004, compared to \$53.4 million for the same period in 2003, an increase of \$8.2 million or 15.4%. This increase in revenues is primarily the result of the growth of our fleet since June 2003. Our operating fleet grew from an average of 42 vessels at the end of the second quarter of 2003 to 51 vessels at the end of the second quarter of 2004. The incremental revenues generated by the additional vessels accounted for a \$5.5 million increase in revenue which was supplemented by a \$2.7 million increase in revenues from our vessels that were in service during the entire six-month periods ended June 30, 2004 and 2003.

Revenues from our OSV segment increased to \$32.9 million for the first six months of 2004 compared to \$27.8 million for the first six months of 2003, an increase of \$5.1 million or 18.3%. Our utilization rate was 81.1% for the first six months of 2004 compared to 91.0% for the same period of 2003. The decrease in utilization was driven by having fewer long-term contracts and more vessels operating in the spot market in 2004. Spot market contracts are more susceptible to the weak market conditions that have existed over the past two years in the U.S. Gulf of Mexico. Our OSV average dayrate was \$9,636 for the first six months of 2004 compared to \$12,220 for the same period in 2003, a decrease of \$2,584 or 21.1%. The decrease in average dayrates primarily reflects the weak market conditions during the first half of 2004 and the change in our average vessel size after the addition of six 220' class vessels to our OSV fleet in mid-2003.

Revenues from our tug and tank barge segment totaled \$28.7 million for the first six months of 2004 compared to \$25.6 million for the same period in 2003, an increase of \$3.1 million or 12.1%. The segment revenue increase is primarily due to the colder than average winter patterns that occurred during the first quarter of 2004 and higher barrel movements for gasoline and diesel fuel during the second quarter of 2004. Our utilization rate increased to 85.5% for the first six months of 2004 compared to 75.4% for the same period in 2003 primarily due to the weather conditions and gasoline demand noted above and fewer drydocking days occurring in the second quarter of 2004 compared to the second quarter of 2003. Our average dayrate of \$11,181 for the six months ended June 30, 2004 was fairly constant with our average dayrate of \$11,239 for the same period of 2003.

Operating Expense. Our operating expense increased to \$28.0 million for the first six months of 2004 compared to \$21.0 million in the same period of 2003, an increase of \$7.0 million or 33.3%. The increase in operating expense is primarily the result of more vessels being in service during the first six months of 2004 compared to the first six months of 2003.

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Operating expense for our OSV segment increased \$4.5 million or 49.5% for the first six months of 2004 to \$13.6 million compared to \$9.1 million for the first six months of 2003. This increase was primarily the result of having an average of nine more vessels in service during the first six months of 2004 compared to the first six months of 2003. Average daily operating costs per vessel for the first six months of 2004 decreased over the same period of 2003 commensurate with the decrease in operating costs related to the change in our fleet complement in mid-2003.

Operating expense for our tug and tank barge segment was \$14.5 million for the first six months of 2004 compared to \$12.0 million for the same period in 2003, an increase of \$2.5 million or 20.8%. Tug and tank barge operating expenses as well as average daily operating costs per vessel increased primarily due to increased costs related to Homeland Security measures, training, repair and maintenance, and drydocking amortization expense related to vessels recertified during the trailing twelve months.

Depreciation and Amortization. Our depreciation and amortization expense of \$10.8 million for the six months ended June 30, 2004 increased \$3.2 million or 42.1% compared to \$7.6 million for the same period in 2003. Depreciation and amortization were higher in the first half of 2004 as a result of having an average of nine additional vessels in our fleet and increased drydocking activity compared to the same period in 2003. These expenses are expected to increase further with the delivery of five newly constructed tank barges and two newly acquired tugs and when these and any other recently acquired or newly constructed vessels undergo their initial 30 and 60 month recertifications.

General and Administrative Expense. Our general and administrative expense was \$6.3 million for the first six months of 2004 compared to \$5.7 million for the same period of 2003, an increase of \$0.6 million or 10.5%. This increase primarily resulted from increased overhead relating to the costs associated with the expansion of our fleet, and costs related to increased reporting obligations under the federal securities laws as a newly public company.

Interest Expense. Interest expense was \$9.8 million for the first six months of 2004 compared to \$8.6 million for the first six months of 2003, an increase of \$1.2 million or 14.0%. The increase in interest expense resulted from lower capitalized interest in 2004 related to the construction in progress of three vessels compared to the construction in progress of four vessels during the 2003 period. Capitalization of interest costs relating to new construction of vessels was approximately \$0.9 million and \$1.6 million for the six months ended June 30, 2004 and 2003, respectively. Average revolver balances were \$22.3 million and \$5.9 million for the six months ended June 30, 2004 and 2003, respectively.

Interest Income. Interest income was \$0.1 million in the first six months of 2004 and 2003, respectively. Average cash balances were \$18.3 million and \$18.5 million for the six months ended June 30, 2004 and 2003, respectively.

Income Tax Expense. Our effective tax rate was 37% and 38% for the first six months of 2004 and 2003, respectively. 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

Our capital requirements have historically been financed with cash flow from operations, issuances of our common equity and debt securities, and borrowings under our credit facilities. We require capital to fund ongoing operations, the construction of new vessels, acquisitions, vessel recertifications, discretionary capital expenditures and debt service. The nature of our capital requirements and the types of our financing sources are not expected to significantly change during 2004.

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We have a five-year \$100 million senior secured revolving credit facility with a borrowing base of \$60 million. As of June 30, 2004, we had \$60 million of credit immediately available under such facility. We have made, and may make additional, short-term draws on our revolving credit facility from time to time to satisfy scheduled capital expenditure requirements or for other corporate purposes. Any liquidity in excess of our planned capital expenditures will be utilized to repay debt or finance the implementation of our growth strategy, which includes expanding our fleet through the construction, retrofit of existing or acquisition of additional vessels, including OSVs and ocean-going tugs and tank barges, as needed to take advantage of the demand for such vessels. The five double-hulled tank barges currently being constructed will replace three single-hulled vessels that are required to be retired under OPA 90 prior to January 1, 2005 and increase the net barrel-carrying capacity of our fleet by approximately 320,000 barrels or 28%.

We believe that our current working capital, projected cash flow from operations and available capacity under our revolving credit facility, will be sufficient to meet our cash requirements for the foreseeable future. Although we expect to continue generating positive working capital through our operations, events beyond our control, such as mild winter conditions, a reduction in domestic consumption of refined petroleum products, or declines in expenditures for exploration, development and production activity may affect our financial condition or results of operations. The net proceeds generated by our initial public offering in March 2004 will allow us to further implement our growth strategy. However, depending on the market demand for OSVs, tugs and tank barges and other growth opportunities that may arise, we may require additional debt or equity financing.

Operating Activities. We rely primarily on cash flows from operations to provide working capital for current and future operations. Cash flows from operating activities totaled \$12.9 million for the six months ended June 30, 2004, compared to \$13.4 million for the same period in 2003. This decrease in operating cash flows from the year-ago periods was primarily due to higher cash outlays for drydock recertification activity during the six months ended June 30, 2004. Our cash flow from operations for calendar 2004 should reflect a full year of revenue contribution from the nine vessels we added to our fleet in 2003 and nine months of activity for one OSV that entered service in March 2004. However, continued soft market conditions in the U.S. Gulf of Mexico, although improving, could temper cash flows from operations. During calendar 2004, we expect to drydock a total of eight OSVs, six tugs, and eight tank barges for recertification and/or discretionary vessel enhancements for an estimated total cost of approximately \$12.8 million.

As of December 31, 2003, we had federal tax net operating loss carryforwards of approximately \$37.4 million available through 2018 to offset future taxable income. These tax net operating losses were generated primarily through accelerated tax depreciation applied to our vessels. Our use of these federal tax 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 and planned fleet, however, we expect to continue generating federal tax net operating losses over the near term.

Investing Activities. Net cash used in investing activities was \$35.3 million for the six months ended June 30, 2004 compared to \$71.4 million for the same period in 2003. Cash used in investing activities for both periods were primarily for new vessel construction, vessel acquisitions and miscellaneous capital expenditures, and, for the six months ended June 30, 2003, an offset of \$1.7 million in cash proceeds from the sale of a single-hulled tank barge during such period. For the remainder of 2004, investing activities are anticipated to include costs for new vessel construction related to five double-hulled tank barges, capital expenditures comprised of discretionary vessel modifications and miscellaneous corporate equipment purchases, and the potential construction or acquisition of additional vessels.

Financing Activities. Net cash provided by financing activities was \$33.2 million for the six months ended June 30, 2004, generated primarily from net proceeds from our recent initial public

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offering of common stock, after payment of our then-existing outstanding borrowings under our revolving credit facility. For the six months ended June 30, 2003, net cash provided by financing activities was \$50.5 million generated primarily from the proceeds of borrowings under our revolving credit facility and issuance of our common stock to partially fund certain vessel purchases. On April 28, 2004, we received net proceeds of \$1.5 million from the issuance of additional shares of common stock pursuant to the exercise of an option by the underwriters of our initial public offering. For the remainder of 2004, we expect to generate cash from financing activities primarily from borrowings under our revolving credit facility as needed. In addition, we are continually evaluating our alternatives with respect to the potential refinancing of our senior unsecured notes.

Contractual Obligations

We have a \$100 million revolving credit facility with a borrowing base of \$60 million. As of June 30, 2004, we had no outstanding balance, as we used a portion of the net proceeds from our recent initial public offering to re-pay all borrowings thereunder. Thus, we have \$60 million of borrowing capacity immediately available under that facility.

As of June 30, 2004, we had outstanding debt of \$172.9 million, net of original issue discount, under our unsecured senior notes. The effective interest rate on the senior notes is 11.18% and is payable semi-annually each February 1 and August 1. The senior notes do not require any payments of principal prior to their stated maturity on August 1, 2008, but pursuant to the indenture under which the senior notes are issued, 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.

For additional information with respect to our revolving credit facility and our senior notes, please refer to note 4 of our unaudited consolidated financial statements included herein.

During the six months ended June 30, 2004, we expended \$19.0 million for new vessel construction, before allocation of construction period interest, which was comprised of \$1.5 million for an OSV and \$17.5 million for our tank barge newbuild program. We recently announced the exercise of an option with a shipyard for the construction of one additional double-hulled tank barge under our current tank barge newbuild program and an agreement with another shipyard for the construction of a fifth double-hulled tank barge. The five barges now under construction, along with two higher horsepower tugs that were recently purchased as power sources for these larger barges, are expected to cost approximately \$102 million in the aggregate, of which about \$27 million has already been incurred and paid during the fourth quarter of 2003 and the first six months of 2004. We expect to incur the remaining balance of \$75 million as follows: \$33 million during the remainder of 2004 and \$42 million in 2005. The timing of the incurrence of these costs is subject to change among periods based on the achievement of shipyard milestones. However, the amounts are not expected to change materially in the aggregate.

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 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.

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

- activity levels in the energy markets;
- changes in oil and natural gas prices;
- increases in supply of new vessels;
- the effects of competition;
- our ability to complete vessels under construction without significant delays or cost overruns;
- our ability to integrate acquisitions successfully;
- demand for refined petroleum products or in methods of delivery;
- loss of existing customers and our ability to attract new customers;
- changes in laws;
- changes in international economic and political conditions;
- 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 charter our vessels on acceptable terms; and
- our success at managing these 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 10⁵/₈% per annum and mature on August 1, 2008. Our revolving credit facility has a variable interest rate and, therefore, is not subject to interest rate risk. As of June 30, 2004, we had no drawings under such facility.

Our operations are primarily conducted between U.S. ports, including along the coast of Puerto Rico, and historically we have not been exposed to significant foreign currency fluctuation. However, as we expand our operations in select international markets, our exposure to certain risks typically associated with foreign currency fluctuation is expected to increase. 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.

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As of June 30, 2004, there were no material changes in our market or interest rate risk or material gains or losses associated with currency fluctuations since last reported on our Annual Report on Form 10-K for the period ended December 31, 2003.

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

In September 2003, we filed a Registration Statement on Form S-1 (Registration No. 333-108943) (as amended, the "Registration Statement"), in connection with our initial public offering of common stock. The Registration Statement was declared effective on March 25, 2004 and on March 31, 2004 we completed the initial public offering of 6,000,000 shares of our common stock, resulting in net proceeds of approximately \$71 million. On April 28, 2004, the Company issued an additional 126,000 shares of common stock pursuant to the exercise by the underwriters of the initial public offering of an option to purchase additional shares of common stock, resulting in net proceeds of approximately \$1.5 million. The Company plans to use the net proceeds of the offering to fund a portion of the costs of the construction of ocean-going, double-hulled tank barges, the retrofit of certain existing vessels, possible future acquisitions or additional new vessel construction, and for general corporate purposes. Pending these uses, we repaid debt under our revolving credit facility of \$40 million on March 31, 2004. The amount repaid can be reborrowed under our revolving credit facility, which currently has a \$60 million borrowing base. From March 31, 2004 to June 30, 2004, the Company also used \$23.3 million of the net proceeds from the public equity offering to fund expenditures related to its tank barge newbuild program and the acquisitions of two ocean-going tugs and one fast supply boat.

During the second quarter of 2004, we issued 9,090 shares of our common stock to certain holders of options granted under our Incentive Compensation Plan upon the exercise of such options. The total amount of consideration we received for the issuance of these shares was approximately \$48,000, net of taxes. 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

On June 30, 2004, we held our Annual Meeting of Stockholders. At the meeting, Bruce W. Hunt, Bernie W. Stewart and Andrew L. Waite were re-elected to serve on our board of directors as Class I directors until our 2007 Annual Meeting of Stockholders or until their successors shall have been duly elected and qualified or until their earlier resignation or removal. As to each of the foregoing directors, the number of shares cast for or against their re-election, as well as the number of abstentions and broker non-votes, were as follows:

<u>Name</u>	<u>For</u>	<u>Against</u>	<u>Abstentions/Broker Non-votes</u>
Bruce W. Hunt	19,538,322	53,254	—
Bernie W. Stewart	19,396,022	195,554	—
Andrew L. Waite	19,587,072	4,504	—

The other directors continuing in office after the meeting were Todd M. Hornbeck, Larry D. Hornbeck, Patricia B. Melcher and David A. Trice.

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In addition, at the annual meeting, our stockholders ratified the board of directors' appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2004 to conduct our annual audits and quarterly reviews of financial statements and tax and other advisory services. The number of shares cast for or against this matter, as well as the number of abstentions and broker non-votes, were as follows:

<u>For</u>	<u>Against</u>	<u>Abstentions/Broker Non-votes</u>
19,456,462	134,214	900

Item 5—Other Information

None.

Item 6—Exhibits and Reports on Form 8-K

(a) Exhibits:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	—Second Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on March 5, 2004 (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K for the period ended December 31, 2003).
3.2	—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).
*3.3	—Fourth Restated Bylaws of the Company adopted June 30, 2004
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).
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-LEE VAC Marine Operators, LLC, (f.k.a. HORNBECK-LEE VAC 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-LEE VAC Marine Operators, LLC, (f.k.a. HORNBECK-LEE VAC 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	—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).
4.4	—Third Supplemental Indenture and Amendment dated as of February 13, 2004, between Wells Fargo Bank Minnesota, National Association (as Trustee), the Company and Hornbeck Offshore Trinidad & Tobago, LLC, with Notation of Subsidiary Guarantee by Hornbeck Offshore Trinidad & Tobago, LLC (incorporated by reference to Exhibit 4.4 to the Company's Form 10-K for the period ended December 31, 2003).

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<u>Exhibit Number</u>	<u>Description of Exhibit</u>
4.5	—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 filed September 19, 2003, Registration No. 333-108943).
4.6	—Rights Agreement dated as of June 18, 2003 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).
4.7	—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).
4.8	—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).
4.9	—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 filed September 19, 2003, Registration No. 333-108943).
4.10	—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).
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4.12	—Specimen 10 ^{5/8} % Series B Senior 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).
4.13	—Specimen certificate for the Company's common stock, \$0.01 par value (incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 1 to Registration Statement on Form S-1 dated March 10, 2004, Registration No. 333-108943).
4.14	—Amendment to Rights Agreement dated as of March 5, 2004 between the Company and Mellon Investor Services LLC as Rights Agent. (Incorporated by reference to Exhibit 4.13 to the Company's Form 10-K for the period ended December 31, 2003).
*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 four Current Reports on Form 8-K, as follows:

On May 6, 2004, we furnished a report on Form 8-K announcing that we had issued a press release that reported first quarter 2004 results, the completion of our initial public offering and the construction of an additional double-hulled tank barge.

On May 26, 2004, we filed a report on Form 8-K announcing that two of our inside directors, Christian G. Vaccari and Richard W. Cryar, had resigned from the Board of Directors, effective immediately

On June 1, 2004, we filed a report on Form 8-K announcing that we had exercised our option to purchase the *HOS Hotshot*, a newly constructed 165-ft. fast supply boat that we had been operating under a bareboat charter since the vessel was delivered in April 2003. In addition, we announced that we had entered into a definitive agreement to purchase two 6,000 horsepower ocean-going tugs that were built in 1983.

On June 11, 2004, we filed a report on Form 8-K announcing that our 2004 annual meeting of stockholders would be held on June 30, 2004.

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

On July 23, 2004, we filed a report on Form 8-K announcing the construction of a fourth double-hulled tank barge and award of two long-term barge contracts.

On August 2, 2004, we filed a report on Form 8-K announcing the construction of a fifth double-hulled tank barge.

On August 4, 2004, we furnished a report on Form 8-K announcing that we had issued a press release that reported second quarter 2004 results.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

Hornbeck Offshore Services, Inc.

Date: August 10, 2004

/s/ JAMES O. HARP, JR.

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

Exhibits Index

Exhibit Number	Description of Exhibit
3.1	—Second Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on March 5, 2004 (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K for the period ended December 31, 2003).
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* Filed herewith.

**FOURTH RESTATED BYLAWS OF
HORNBECK OFFSHORE SERVICES, INC.**

Adopted by the Board of Directors: June 30, 2004

HORNBECK OFFSHORE SERVICES, INC.
(the "Corporation")
FOURTH RESTATED BYLAWS

ARTICLE I.

Offices

Section 1.1 Offices. The registered office of the Corporation shall be at 1209 Orange Street, Wilmington, Delaware 19805. The Corporation may have such other offices within or without the State of Delaware as the Board of Directors may from time to time establish.

ARTICLE II.

Capital Stock

Section 2.1 Certificate Representing Shares. Shares of the classes of capital stock of the Corporation shall be represented by certificates in such form or forms as the Board of Directors may approve; provided that, such form or forms shall comply with all applicable requirements of law or of the Certificate of Incorporation. Such certificates shall be signed by the Chief Executive Officer, President or a vice president, and by the secretary or an assistant secretary, of the Corporation and may be sealed with the seal of the Corporation or imprinted or otherwise marked with a facsimile of such seal. In the case of any certificate countersigned by any transfer agent or registrar, provided such countersigner is not the Corporation itself or an employee thereof, the signature of any or all of the foregoing officers of the Corporation may be represented by a printed facsimile thereof. If any officer whose signature, or a facsimile thereof, shall have been set upon any certificate shall cease, prior to the issuance of such certificate, to occupy the position in right of which his signature, or facsimile thereof, was so set upon such certificate, the Corporation may nevertheless adopt and issue such certificate with the same effect as if such officer occupied such position as of such date of issuance; and, issuance and delivery of such certificate by the Corporation shall constitute adoption thereof by the Corporation. The certificates shall be consecutively numbered, and as they are issued, a record of such issuance shall be entered in the books of the Corporation.

Section 2.2 Stock Certificate Book and Stockholders of Record. The secretary of the Corporation shall maintain, among other records, a stock certificate book, the stubs in which shall set forth the names and addresses of the holders of all issued shares of the Corporation, the number of shares held by each, the number of certificates representing such shares, the date of issue of such certificates, and whether or not such shares originate from original issue or from transfer. The names and addresses of stockholders as they appear on the stock certificate book shall be the official list of stockholders of record of the Corporation for all purposes. The Corporation shall be entitled to treat the holder of record of any shares as the owner thereof for all purposes, and shall not be bound to recognize any equitable or other claim to, or interest in, such shares or any rights deriving from such shares on the part of any other person, including,

but without limitation, a purchaser, assignee, or transferee, unless and until such other person becomes the holder of record of such shares, whether or not the Corporation shall have either actual or constructive notice of the interest of such other person.

Section 2.3 Stockholder's Change of Name or Address. Each stockholder shall promptly notify the secretary of the Corporation, at its principal business office, by written notice of any change in name or address of the stockholder from that as it appears upon the official list of stockholders of record of the Corporation. The secretary of the Corporation shall then enter such changes into all affected Corporation records, including, but not limited to, the official list of stockholders of record.

Section 2.4 Transfer of Stock. The shares represented by any certificate of the Corporation are transferable only on the books of the Corporation by the holder of record thereof or by his duly authorized attorney or legal representative upon surrender of the certificate for such shares, properly endorsed or assigned. The Board of Directors may make such rules and regulations concerning the issue, transfer, registration and replacement of certificates as they deem desirable or necessary.

Section 2.5 Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents or registrars of the shares, or both, and may require all share certificates to bear the signature of a transfer agent or registrar, or both.

Section 2.6 Lost, Stolen or Destroyed Certificates. The Corporation may issue a new certificate for shares of stock in the place of any certificate theretofore issued and alleged to have been lost, stolen or destroyed; but, the Board of Directors may require the owner of such lost, stolen or destroyed certificate, or his legal representative, to furnish an affidavit as to such loss, theft, or destruction and to give a bond in such form and substance, and with such surety or sureties, with fixed or open penalty, as the board may direct, in order to indemnify the Corporation and its transfer agents and registrars, if any, against any claim that may be made on account of the alleged loss, theft or destruction of such certificate.

Section 2.7 Fractional Shares. Only whole shares of the stock of the Corporation shall be issued. In case of any transaction by reason of which a fractional share might otherwise be issued, the directors, or the officers in the exercise of powers delegated by the directors, shall take such measures consistent with the law, the Certificate of Incorporation and these Bylaws, including (for example, and not by way of limitation) the payment in cash of an amount equal to the fair value of any fractional share, as they may deem proper to avoid the issuance of any fractional share.

ARTICLE III.

The Stockholders

Section 3.1 Annual Meeting. Commencing in the calendar year 1998, the annual meeting of the stockholders, for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held at the principal office of the Corporation, at 10:00 a.m. local time, on the 10th day of May of each year unless such day is a

legal holiday, in which case such meeting shall be held at such hour on the first day thereafter which is not a legal holiday; or, at such other place and time as may be designated by the Board of Directors. Failure to hold any annual meeting or meetings shall not work a forfeiture or dissolution of the Corporation. If a stockholder intends to bring up items of business or nominate directors at any annual meeting, notice of such intent must be received at the Corporation's principal executive offices on the date that is at least the number of days before the annual meeting that is required from time to time under federal securities laws with respect to companies registered under the Securities Exchange Act of 1934.

Section 3.2 Special Meetings. Except as otherwise provided by law or by the Certificate of Incorporation, special meetings of the stockholders may be called by the chairman of the Board of Directors, the Chief Executive Officer, President, a majority of the directors, or the holders of not less than twenty-five percent (25%) of all the shares having voting power at such meeting, and shall be held at the principal office of the Corporation or at such other place, and at such time, as may be stated in the notice calling such meeting. Business transacted at any special meeting of stockholders shall be limited to the purpose stated in the notice of such meeting given in accordance with the terms of section 3.3.

Section 3.3 Notice of Meetings—Waiver. Written notice of each meeting of stockholders, stating the place, day and hour of any meeting and, in case of a special stockholders' meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of such meeting, either personally or by mail, by or at the direction of the Chief Executive Officer, President, the secretary, or the persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid. Such further or earlier notice shall be given as may be required by law. The signing by a stockholder of a written waiver of notice of any stockholders' meeting, whether before or after the time stated in such waiver, shall be equivalent to the receiving by him of all notice required to be given with respect to such meeting. Attendance by a person at a stockholders' meeting shall constitute a waiver of notice of such meeting except when a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. No notice of any adjournment of any meeting shall be required.

Section 3.4 Closing of Transfer Books and Fixing of Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no record date is fixed, the record date shall be as follows: the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders

entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and, the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 3.5 Voting List. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be made available to stockholders of record at the principal executive offices of the Corporation specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall be subject to lawful inspection by any stockholder at any time during the usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholders during the whole time of the meeting.

Section 3.6 Quorum, Voting and Officers. Except as otherwise provided by law, by the Certificate of Incorporation or by these bylaws, the holders of a majority of the shares entitled to vote and represented in person or by proxy shall constitute a quorum at a meeting of stockholders, but the stockholders present at any meeting, although representing less than a quorum, may from time to time adjourn the meeting to some other day and hour, without notice other than announcement at the meeting. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except in the case of the election of directors, the vote of the holders of a majority of the shares entitled to vote and represented at a meeting at which a quorum is present shall be the act of the stockholders' meeting, unless the vote of a greater number is required by law or the certificate of incorporation. In the case of votes for the election of directors at any stockholder meeting, the vote of a plurality of the shares entitled to vote and represented at a meeting at which a quorum is present shall be the act of the stockholders' meeting. The chairman of the board shall preside at, and the secretary shall keep the records of, each meeting of stockholders, and in the absence of either such officer, his duties shall be performed by any other officer authorized by these bylaws or any person appointed by resolution duly adopted at the meeting.

Section 3.7 Voting at Meetings. Each outstanding share shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders except to the extent that the Certificate of Incorporation or the laws of the State of Delaware provide otherwise.

Section 3.8 Proxies. A stockholder may vote either in person or by proxy executed in writing by the stockholder; but, no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

Section 3.9 Balloting. All elections of directors shall be by written ballot. Upon the demand of any stockholder, the vote upon any other question before the meeting shall be by ballot. At each meeting, inspectors of election may be appointed by the presiding officer of the meeting; and, at any meeting for the election of directors, inspectors shall be so appointed on the demand of any stockholder present or represented by proxy and entitled to vote in such election of directors. No director or candidate for the office of director shall be appointed as such inspector. The number of votes cast by shares in the election of each director shall be recorded in the minutes.

Section 3.10 Voting Rights; Prohibition of Cumulative Voting for Directors. Each outstanding share of common stock shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of stockholders. No stockholder shall have the right to cumulate his votes for the election of directors but each share shall be entitled to one vote in the election of each director. In the case of any contested election for any directorship, the candidate for such position receiving votes representing a plurality of the shares present in person or represented by proxy at the meeting and entitled to vote thereon shall be elected to such position.

Section 3.11 Record of Stockholders. The Corporation shall keep at its principal business office, or the office of its transfer agents or registrars, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

Section 3.12 Presiding Officer and Conduct of Meetings. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and shall automatically serve as Chairman of such meetings. In the absence of the Chairman of the Board of Directors, or if the Directors neglect or fail to elect a Chairman, then the Chief Executive Officer of the Corporation shall preside at the meetings of the stockholders and shall automatically be the Chairman of such meeting, unless and until a different person is elected by a majority of the shares entitled to vote at such meeting. Subject to the following, annual and special meetings of stockholders generally shall follow accepted rules of practice and procedure for the orderly conduct of stockholder meetings:

(a) The Chairman of the meeting shall have absolute authority over matters of procedure and there shall be no appeal from the ruling of the Chairman.

(b) If disorder should arise that prevents continuation of the legitimate business of the meeting, the Chairman may call upon an individual designated as the Sergeant-at-Arms to take appropriate steps to eliminate the disorder or the Chairman may quit the chair and announce the adjournment of the meeting; and upon his so doing, the meeting shall be immediately adjourned.

(c) The Chairman may ask or require anyone not a bona fide stockholder or proxy entitled to vote thereat to leave the meeting.

Section 3.13 Director Nominations and Stockholder Proposals.

(a) At the annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the annual meeting. Nominations of

individuals for election to the Board of Directors must be made in accordance with the procedures set forth in Section 3.1 hereof. To be properly brought before the annual meeting of stockholders, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) brought before the meeting by or at the direction of the Board of Directors pursuant to resolution duly adopted with respect thereto, or (iii) otherwise properly brought before the meeting by a stockholder of the Corporation who is a stockholder of record at the time of giving notice provided for in this Section 3.13, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 3.13. The Chairman of the annual meeting shall, if the facts warrant, determine and declare to the meeting that the business was not properly brought before the meeting in accordance with the provisions of this Article III, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(b) Consistent with Section 3.1 of these Bylaws, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof, in writing to the Secretary of the Corporation and must otherwise have complied with the requirements set forth in these Bylaws with respect to such notice. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 90 nor more than 120 days before the anniversary date of the immediately preceding annual meeting of stockholders of the Corporation; provided, however, if the date of the meeting has changed more than thirty (30) days from the prior year, then notice must be delivered or mailed and received by such other date as may be set forth by the Corporation. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's stock transfer books, of the stockholder proposing such business, (iii) the class and number of shares of voting stock of the Corporation that are beneficially owned by the stockholder; (iv) a representation that the stockholder intends to appear in person or by proxy at the meeting to bring the proposed business before the annual meeting, (v) a description of any material interest of the stockholder in such business and (vi) the text of any proposal, along with a statement in support of such proposal, that the stockholder wishes to bring to the attention of the Board of Directors. A stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and the rules and regulations thereunder with respect to the matters set forth in this Article III, including the time periods set forth thereunder for stockholder proposals requested to be included in the Corporation's proxy statement to stockholders.

(c) Notwithstanding any other provision of these Bylaws, the Corporation shall be under no obligation to include any stockholder proposal in its proxy statement or otherwise present any such proposal to stockholders at a meeting of stockholders if the Board of Directors reasonably believes that the proponents thereof have not complied with the applicable requirements of the Exchange Act, and the rules and regulations promulgated thereunder; and the Corporation shall not be required to include in its proxy statement to stockholders any stockholder proposal not required to be included in its proxy statement to stockholders in accordance with the Exchange Act and such rules or regulations; provided,

however, that nothing in this Article III shall be deemed to affect the rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE IV.

The Board of Directors

Section 4.1 Number, Qualifications and Term. The business affairs of the Corporation shall be managed or be under the direction of the Board of Directors; and, subject to any restrictions imposed by law, by the Certificate of Incorporation, or by these Bylaws, the Board of Directors may exercise all the powers of the Corporation. The Board Directors shall consist of at least four (4) members but no more than nine (9) members, as such number is determined from time to time by a vote of at least 66-2/3% of the directors then in office. The number may be decreased below four (4) or increased above nine (9) only by (a) the vote of holders of at least eighty percent (80%) of the shares entitled to vote thereon, or (b) the unanimous vote of the Board of Directors. No decrease in number of directors shall shorten the term of any incumbent director. Directors need not be residents of Delaware but shall be stockholders of the Corporation. Except as otherwise provided in Section 4.3 of these Bylaws, the Board of Directors shall be divided into three classes, each class to be as nearly equal in number as possible. The terms of office of directors of the first class are to expire at the first annual meeting of stockholders after their election or appointment, that of the second class is to expire at the second annual meeting after their election or appointment, and that of the third class is to expire at the third annual meeting after their election or appointment. Thereafter, each director shall serve for a term ending on the date of the third annual meeting of stockholders following the annual meeting at which such director was elected. Any such election shall be conducted in accordance with Section 3.10 of these Bylaws. Each person elected a director shall hold office until his successor is duly elected and qualified or until his earlier resignation or removal in accordance with Section 4.2 of these Bylaws. To alter or repeal this classified board provision, the affirmative vote of the holders of at least eighty percent (80%) of the shares entitled to vote thereon is required.

Section 4.2 Removal. Any director or the entire Board of Directors may be removed from office, at any time, but only for cause, at any meeting of stockholders by the affirmative vote of at least 80% of the shares of the stockholders entitled to vote at such meeting, if notice of the intention to act upon such matter shall have been given in the notice calling such meeting. If the notice calling such meeting shall have been so provided, the vacancy caused by such removal may be filled at such meeting by the affirmative vote of at least 80% of the shares of the stockholders present in person or by proxy and entitled to vote. "Cause" is defined to include only: Conviction of a felony; declaration of unsound mind by order of court; gross dereliction of duty; commission of an action involving moral turpitude; or commission of an action which constitutes intentional misconduct or a knowing violation of law if such action in either event results both in an improper substantial personal benefit and a material injury to the Corporation.

Section 4.3 Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. When one or more directors shall die, resign, or be removed from the board, a majority of the directors then in office, including, if applicable, those who have so resigned effective at a future date, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies. A director appointed to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Section 4.4 Regular Meetings. Regular meetings of the Board of Directors shall be held immediately following each annual meeting of stockholders, at the place of such meeting, and at such other times and places as the Board of Directors shall determine. Ten days notice of any kind of such regular meetings (other than the meeting immediately following the annual meeting) needs to be given to either old or new members of the Board of Directors.

Section 4.5 Special Meetings. Special meetings of the Board of Directors shall be held at any time by call of the Chairman of the Board, the Chief Executive Officer, the President, or a majority of the Board of Directors. The secretary shall give notice of each special meeting to each director at his usual business or residence address by mail at least three days before the meeting or by electronic mail, facsimile transmission, telegraph or telephone at least one day before such meeting. Except as otherwise provided by law, by the Certificate of Incorporation, or by these bylaws, such notice need not specify the business to be transacted at, or the purpose of, such meeting. No notice shall be necessary for any adjournment of any meeting. The signing of a written waiver of notice of any special meeting by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the receiving of such notice. Attendance of a director at a meeting shall also constitute a waiver of notice of such meeting, except where a director attends a meeting for the express and announced purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 4.6 Quorum. A majority of the number of directors fixed by or in accordance with these bylaws shall constitute a quorum for the transaction of business and the act of not less than a majority of such quorum of the directors shall be required in order to constitute the act of the Board of Directors, unless the act of a greater number shall be required by law, by the Certificate of Incorporation or by these bylaws, or by other agreement or contract.

Section 4.7 Procedure at Meetings. The Board of Directors, at each regular meeting held immediately following the annual meeting of stockholders, shall appoint one of their number as chairman of the Board of Directors. The chairman of the board shall preside at meetings of the board. In his absence at any meeting, any officer authorized by these bylaws or any member of the board selected by the members present shall preside. The secretary of the Corporation shall act as secretary at all meetings of the board. In his absence, the presiding officer of the meeting may designate any person to act as secretary. At meetings of the Board of Directors, the business shall be transacted in an orderly manner in accordance with those procedures set forth in Appendix A attached hereto. At any meeting, by a majority vote of the

Board of Directors, the Board of Directors may adopt the Robert's Rules of Order to govern the conduct of such meeting.

Section 4.8 Presumption of Assent. Any director of the Corporation who is present at a meeting of the Board of Directors or any committee thereof at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before adjournment thereof or shall forward such dissent by registered mail to the secretary of the Corporation immediately after the adjournment of the meeting. Such right to have dissent entered into the minutes or to file a written dissent shall not apply to a director who voted in favor of such action or abstained.

Section 4.9 Action Without a Meeting. Any action required by statute or permitted to be taken at a meeting of the directors of the Corporation, or of any committee thereof, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all directors or all committee members as the case may be, and if the consent in writing shall be filed with the minutes of the proceedings of the board or committee.

Section 4.10 Compensation. As determined from time to time by resolution of the Board of Directors, directors may receive stated annual directors fees for their service payable in one or more installments, and a fixed sum and reimbursement for reasonable expenses of attendance, if any, that may be allowed for attendance at each regular or special meeting of the Board of Directors or at any meeting of the executive committee of directors, if any, to which such director may be elected in accordance with the following section 4.11; but, nothing herein shall preclude any director from serving the Corporation in any other capacity or receiving compensation or reimbursement of expenses therefor.

Section 4.11 Executive Committee. The Board of Directors, by resolution adopted by a majority of the number of directors fixed by these bylaws, may designate an executive committee, which committee shall consist of two or more of the directors of the Corporation. Such executive committee may exercise such authority of the Board of Directors in the business and affairs of the Corporation as the Board of Directors may by resolution duly delegate to it except as prohibited by law. The designation of such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law. Any member of the executive committee may be removed by the Board of Directors by the affirmative vote of a majority of the number of directors fixed by or in accordance with the bylaws whenever in the judgment of the board the best interests of the Corporation will be served thereby.

The executive committee shall keep regular minutes of its proceedings and report the same to the Board of Directors when required. The minutes of the proceedings of the executive committee shall be placed in the minute book of the Corporation. Each member of the executive committee shall receive such compensation for executive committee membership and participation in executive 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. The Board of Directors may by resolution passed by a majority of the

Board of Directors, designate additional committees, which committees shall have such power and authority and will perform such functions as may be provided in such resolution.

Section 4.12 Other Committees. The Board of Directors may appoint an audit committee, compensation committee, nominating/ corporate governance 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/corporate governance 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.

ARTICLE V.

Officers

Section 5.1 Number. The officers of the Corporation shall be chosen by the Board of Directors and shall include a Chief Executive Officer, a President, and a Secretary, each of whom shall be elected by the Board of Directors. Such other officers (including vice presidents) and assistant officers as may be deemed necessary, may be elected or appointed by the Board of Directors. Any two (2) or more offices may be held by the same person.

Section 5.2 Election; Term; Qualification. Officers shall be chosen by the Board of Directors annually at the meeting of the Board of Directors following the annual stockholders' meeting. Each officer shall hold office until his death, resignation, or removal, subject to reappointment at each annual Board of Directors meeting immediately following the annual stockholders meeting.

Section 5.3 Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby; but, such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create any contract rights.

Section 5.4 Vacancies. Any vacancy in any office for any cause may be filled by appointment of the Chief Executive Officer or President subject to ratification by the Board of Directors at any meeting.

Section 5.5 Duties. The officers of the Corporation shall have such powers and duties, except as modified by the Board of Directors, as generally pertain to their offices, respectively, as well as such powers and duties as from time to time shall be conferred by the Board of Directors and by these bylaws.

Section 5.6 Chief Executive Officer. The Chief Executive Officer shall be subject to the control of the Board of Directors, and shall in general supervise and control all business and affairs of the Corporation. The Chief Executive Officer may sign, with the Secretary or any other proper officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation, deeds, mortgages, bonds, contracts, and other obligations in the name of the Corporation, which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed and executed; and in general shall perform all duties incident to the office of Chief Executive Officer and such other duties as may be prescribed by the Board of Directors from time to time. In the absence of the Chairman, or if the directors neglect or fail to elect a Chairman, then the Chief Executive Officer of the Corporation, if he is a member of the Board of Directors, shall automatically serve as Chairman of the Board of Directors.

Section 5.7 The President. In the absence of the Chief Executive Officer, or in the event of his death or inability to act or refusal to act, the President shall perform the duties of the Chief Executive Officer and when so acting shall have all of the powers of and be subject to all of the restrictions upon the Chief Executive Officer. In general, he shall perform all duties incident to the office of President and such other duties as may be prescribed by the Chief Executive Officer or the Board of Directors from time to time.

Section 5.8 The Vice Presidents. At the request of the Chief Executive Officer, or President, or in their absence or disability, the vice presidents, in the order of their election, shall perform the duties of the Chief Executive Officer and President, and, when so acting, shall have all the powers of, and be subject to all restrictions upon, the President. Any action taken by a vice president in the performance of the duties of the Chief Executive Officer or President shall be conclusive evidence of the absence or inability to act of the President at the time such action was taken. The vice presidents shall perform such other duties as may, from time to time, be assigned to them by the Board of Directors, the Chief Executive Officer or the President. A vice president may sign, with the secretary or an assistant secretary, certificates of stock of the Corporation.

Section 5.9 Secretary. The secretary shall keep the minutes of all meetings of the stockholders, of the Board of Directors, and of the executive committee, if any, of the board of directors, in one or more books provided for such purpose and shall see that all notices are duly given in accordance with the provisions of these bylaws or as required by law. He shall be custodian of the corporate records and of the seal (if any) of the Corporation and see, if the Corporation has a seal, that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; shall have general charge of the stock certificate books, transfer books and stock ledgers, and such other books and papers of the Corporation as the Board of Directors may direct, all of which shall, at all reasonable

times, be open to the examination of any director, upon application at the office of the Corporation during business hours; and in general shall perform all duties and exercise all powers incident to the office of the secretary and such other duties and powers as the Board of Directors, the Chief Executive Officer or the President from time to time may assign to or confer on him.

Section 5.10 Treasurer. The treasurer shall keep complete and accurate records of account, showing at all times the financial condition of the Corporation. He shall be the legal custodian of all money, notes, securities and other valuables which may from time to time come into the possession of the Corporation. He shall furnish at meetings of the Board of Directors, or whenever requested, a statement of the financial condition of the Corporation, and shall perform such other duties as these bylaws may require or the Board of Directors may prescribe.

Section 5.11 Assistant Officers. Any assistant secretary or assistant treasurer appointed by the Board of Directors shall have power to perform, and shall perform, all duties incumbent upon the secretary or treasurer of the Corporation, respectively, subject to the general direction of such respective officers, and shall perform such other duties as these bylaws may require or the Board of Directors, the Chief Executive Officer or the President may prescribe.

Section 5.12 Salaries. The salaries or other compensation of the officers shall be fixed from time to time by the Board of Directors or the compensation committee appointed by the Board of Directors, consistent with any legal or stock exchange requirements. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director of the Corporation.

Section 5.13 Bonds of Officers. The Board of Directors may secure the fidelity of any officer of the Corporation by bond or otherwise, on such terms and with such surety or sureties, conditions, penalties or securities as shall be deemed proper by the Board of Directors.

Section 5.14 Delegation. The Board of Directors may delegate temporarily the powers and duties of any officer of the Corporation, in case of his absence or for any other reason, to any other officer, and may authorize the delegation by any officer of the Corporation of any of his powers and duties to any agent or employee, subject to the general supervision of such officer.

ARTICLE VI.

Miscellaneous

Section 6.1 Dividends. Dividends on the outstanding shares of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid by the Corporation in cash, in property, or in the Corporation's own shares, but only out of the surplus of the Corporation, except as otherwise allowed by law and the Certificate of Incorporation.

Subject to limitations upon the authority of the Board of Directors imposed by law or by the Certificate of Incorporation, the declaration of and provision for payment of dividends shall be at the discretion of the Board of Directors.

Section 6.2 Contracts. The Chief Executive Officer and President shall have the power and authority to execute, on behalf of the Corporation, contracts or instruments in the ordinary course of business, and in addition the Board of Directors may authorize any officer or officers, agent or agents, of the Corporation to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors or by these bylaws, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement, or to pledge its credit or to render it pecuniarily liable for any purpose or in any amount.

Section 6.3 Checks, Drafts, etc. All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officers or employees of the Corporation as shall from time to time be authorized pursuant to these bylaws or by resolution of the Board of Directors.

Section 6.4 Depositories. All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such banks or other depositories as the Board of Directors may from time to time designate, and upon such terms and conditions as shall be fixed by the Board of Directors. The Board of Directors may from time to time authorize the opening and maintaining within any such depository as it may designate, of general and special accounts, and may make such special rules and regulations with respect thereto as it may deem expedient.

Section 6.5 Endorsement of Stock Certificates. Subject to the specific directions of the Board of Directors, any share or shares of stock issued by any corporation and owned by the Corporation, including reacquired shares of the Corporation's own stock, may, for sale or transfer, be endorsed in the name of the Corporation by the Chief Executive Officer, President or any vice president; and such endorsement may be attested or witnessed by the secretary or any assistant secretary either with or without the affixing thereto of the corporate seal.

Section 6.6 Corporate Seal. The corporate seal, if any, shall be in such form as the Board of Directors shall approve, and such seal, or a facsimile thereof, may be impressed on, affixed to, or in any manner reproduced upon, instruments of any nature required to be executed by officers of the Corporation.

Section 6.7 Fiscal Year. The fiscal year of the Corporation shall be the calendar year.

Section 6.8 Books and Records. The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its stockholders and Board of Directors, and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

Section 6.9 Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Chief Executive Officer or the President. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 6.10 Indemnification of Officers, Directors, Employees and Agents.

(a) Mandatory Indemnification. Each person who at any time is or was a director or officer of the Corporation, and is threatened to be or is made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, member, employee, trustee, agent or similar functionary of another domestic or foreign corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other for-profit or non-profit enterprise (all such persons entitled to indemnification hereunder being referred to as "Indemnitees"), whether the basis of a Proceeding is alleged action in such person's official capacity or in another capacity while holding such office, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law (the "DGCL") or any other applicable law as may from time to time be in effect (but, in the case of any amendment of an existing statute or enactment of a new statute, only to the extent that such amendment or new statute permits the Corporation to provide broader indemnification rights than law existing prior to such amendment or enactment permitted the Corporation to provide), against all expense, liability and loss (including, without limitation, court costs and attorneys' fees, judgments, fines, excise taxes or penalties, and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection with a Proceeding, so long as a majority of disinterested directors, the stockholders, or independent legal counsel through a written opinion determines that such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and in the case of a criminal Proceeding, such person had no reasonable cause to believe his conduct was unlawful. Such indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation or a director, officer, partner, venturer, proprietor, member, employee, trustee, agent or similar functionary of another domestic or foreign corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other for-profit or non-profit enterprise, and shall inure to the benefit of such person's heirs, executors and administrators. The Corporation's obligations under this Section 6.10(a) include, but are not limited to, the convening of any meeting and the consideration thereof of any matter which is required by statute to determine the eligibility of any person for indemnification.

(b) Prepayment of Expenses. Expenses incurred by a director or officer of the Corporation in defending a Proceeding shall be paid by the Corporation in advance of the final disposition of such Proceeding to the fullest extent permitted by, and only in compliance with, the DGCL or any other applicable laws as may from time to time be in effect, including, without limitation, any provision of the DGCL that requires, as a condition precedent to such expense advancement, the delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director is not entitled to be indemnified under Section 6.10(a) or otherwise. Repayments of all amounts so advanced shall be upon such terms and conditions, if any, as the Corporation's Board of Directors deems appropriate. Notwithstanding the foregoing, in no event shall a director or executive officer be entitled to the advancement of expenses 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 a director or executive officer constitutes a personal loan in contravention of Section 402 of the Sarbanes-Oxley Act of 2002 or any similar law or regulation.

(c) Vesting. The Corporation's obligation to indemnify and to prepay expenses under Sections 6.10(a) and 6.10(b) shall arise, and all rights granted to the Corporation's directors and officers hereunder shall vest, at the time of the occurrence of the transaction or event to which a Proceeding relates, or at the time that the action or conduct to which such Proceeding relates was first taken or engaged in (or omitted to be taken or engaged in), regardless of when such Proceeding is first threatened, commenced or completed (and whether arising out of a transaction or event occurring before or after adoption of this Section 6.10). Notwithstanding any other provision of the Certificate of Incorporation or bylaws of the Corporation, no action taken by the Corporation subsequent to the adoption of this Section 6.10, either by amendment of the Certificate of Incorporation or these bylaws of the Corporation or otherwise, shall diminish or adversely affect any rights to indemnification or prepayment of expenses granted under Sections 6.10(a) and 6.10(b) which shall have become vested as aforesaid prior to the date that such amendment or other corporate action is effective or taken, whichever is later.

(d) Enforcement. If a claim under Section 6.10(a) and/or Section 6.10(b) is not paid in full by the Corporation within 30 days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit in a court of competent jurisdiction against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any such suit (other than a suit brought to enforce a claim for expenses incurred in defending any Proceeding in advance of its final disposition when the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the DGCL or other applicable law to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. The failure of the Corporation (including its Board of Directors, independent legal counsel, or stockholders) to have made a determination prior to the commencement of such suit as to whether indemnification is proper in the circumstances based upon the applicable standard of conduct set forth in the DGCL or other applicable law shall neither be a defense to the action nor create a presumption that the claimant has not met the applicable standard of conduct. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had reasonable cause to believe that his conduct was unlawful.

(e) Nonexclusive. The indemnification provided by this Section 6.10 shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any statute, the Corporation's Certificate of Incorporation, other provisions of these bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

(f) Permissive Indemnification. The rights to indemnification and prepayment of expenses which are conferred on the Corporation's directors and officers by Sections 6.10(a) and 6.10(b) may be conferred upon any employee or agent of the Corporation or other person serving at the request of the Corporation if, and to the extent, authorized by the Board of Directors.

(g) Insurance. The Corporation shall have power to purchase and maintain insurance, at its expense, on behalf of any Indemnitee against any expense, liability or loss asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Corporation's Certificate of Incorporation, the provisions of this Section 6.10, the DGCL or other applicable law.

(h) Limitation of Personal Liability. Notwithstanding any language in these bylaws that may be construed to the contrary, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the DGCL, or any successor provision, or (iv) for any transaction from which the director derived an improper personal benefit.

Section 6.11 Meetings by Telephone. Subject to the provisions required or permitted by these bylaws or the laws of the State of Delaware for notice of meetings, members of the Board of Directors, or members of any committee designated by the Board of Directors, may participate in and hold any meeting required or permitted under these bylaws by telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such a meeting, except where a person participates in the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 6.12 Transactions with Affiliated Parties. Any transaction with affiliated parties must be approved by a majority of the Board of Directors, including a majority of the disinterested members of the Board of Directors, and must be on terms considered by such disinterested directors to be no less favorable than those that the Corporation could obtain from unaffiliated parties.

Section 6.13 Appointment of Auditors. The Audit Committee of the Board of Directors shall have the sole authority to appoint, retain and terminate the independent auditor to audit the corporation's financial statements.

ARTICLE VII.

Amendments

Section 7.1 Amendments. These Bylaws may be altered, amended or repealed or new Bylaws adopted as set forth in the Certificate of Incorporation.

APPENDIX A

The following procedures shall be followed in the conduct of each Board of Directors or committee meeting:

1. Motion is made.
2. Motion is seconded.
3. Free and open discussion.
4. If seconded, after discussion a vote is taken.
5. Record the number of votes for and against the Motion.
6. Record the name of the individual making the Motion.
7. Record the name of the individual seconding the Motion.
8. Record the names of any individual voting against the Motion who acts pursuant to Section 4.8.
9. Declare the vote unanimous if applicable.

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: August 10, 2004

By: /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: August 10, 2004

By: /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 June 30, 2004, 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: August 10, 2004

By: /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 June 30, 2004, 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: August 10, 2004

By: /s/ JAMES O. HARP, JR.

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