GAMCO Global Gold, Natural Resources & Income Trust
Form N-CSR
March 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number 811-21698

GAMCO Global Gold, Natural Resources & Income Trust

(Exact name of registrant as specified in charter)

One Corporate Center

Rye, New York 10580-1422

(Address of principal executive offices) (Zip code)

Bruce N. Alpert

Gabelli Funds, LLC

One Corporate Center

Rye, New York 10580-1422

(Name and address of agent for service)

Registrant s telephone number, including area code: 1-800-422-3554

Date of fiscal year end: December 31

Date of reporting period: December 31, 2015

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct

comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

GAMCO Global Gold, Natural Resources & Income Trust

Annual Report December 31, 2015

(Y)our Portfolio Management Team

To Our Shareholders,

For the year ended December 31, 2015, the net asset value (NAV) total return of the GAMCO Global Gold, Natural Resources & Income Trust (the Fund) was (17.6)%, compared with total returns of 5.2% and (34.1)% for the Chicago Board Options Exchange (CBOE) Standard & Poor s (S&P) 500 Buy/Write Index and the Philadelphia Gold & Silver (XAU) Index, respectively. The total return for the Fund s publicly traded shares was (22.1)%. The Fund s NAV per share was $5.34, while the price of the publicly traded shares closed at $4.75 on the NYSE MKT. See below for additional performance information.

Enclosed are the financial statements, including the schedule of investments, as of December 31, 2015.

Comparative Results

Average Annual Returns through December 31, 2015 (a) (Unaudited)

	1 Year	5 Year	10 Year	Since Inception (03/31/05)
GAMCO Global Gold, Natural Resources & Income Trust				
NAV Total Return (b)	(17.59)%	(12.08)%	(3.56)%	(1.51)%
Investment Total Return (c)	(22.14)	(14.77)	(4.55)	(2.97)
CBOE S&P 500 Buy/Write Index	5.24	6.97	4.87	4.89
Barclays Government/Credit Bond Index	0.27	3.36	4.44	4.41
Energy Select Sector Index	(21.39)	(0.24)	3.90	5.26
XAU Index	(34.14)	(27.53)	(9.87)	(6.54)

(a) *Returns represent past performance and do not guarantee future results. Investment returns and the principal value of an investment will fluctuate. When shares are sold, they may be worth more or less than their original cost. Current performance may be lower or higher than the performance data presented. Visit www.gabelli.com for performance information as of the most recent month end. Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing.* The CBOE S&P 500 Buy/Write Index is an unmanaged benchmark index designed to reflect the return on a portfolio that consists of a long position in the stocks in the S&P 500 Index and a short position in a S&P 500 (SPX) call option. The Barclays Government/Credit Bond Index is a market value weighted index that tracks the performance of fixed rate, publicly placed, dollar denominated obligations. The XAU Index is an unmanaged indicator of stock market performance of large North American gold and silver companies. The Energy Select Sector Index is an unmanaged indicator of stock market performance of large U.S. companies involved in the development or production of energy products. Dividends and interest income are considered reinvested. You cannot invest directly in an index.

(b) Total returns and average annual returns reflect changes in the NAV per share and reinvestment of distributions at NAV on the ex-dividend date and are net of expenses. Since inception return is based on an initial NAV of $19.06.

(c)

Total returns and average annual returns reflect changes in closing market values on the NYSE MKT and reinvestment of distributions. Since inception return is based on an initial offering price of $20.00.

Summary of Portfolio Holdings (Unaudited)

The following table presents portfolio holdings as a percent of total investments as of December 31, 2015:

GAMCO Global Gold, Natural Resources & Income Trust

Long Positions	
Metals and Mining	54.9%
Energy and Energy Services	26.8%
U.S. Government Obligations	18.3%
	100.0%
Short Positions	
Call Options Written	(2.3)%
Put Options Written	(0.4)%
	(2.7)%

The Fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission (the SEC) for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain this information at www.gabelli.com or by calling the Fund at 800-GABELLI (800- 422- 3554). The Fund s Form N-Q is available on the SEC s website at www.sec.gov and may also be reviewed and copied at the SEC s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 800-SEC-0330.

Proxy Voting

The Fund files Form N-PX with its complete proxy voting record for the twelve months ended June 30, no later than August 31 of each year. A description of the Fund s proxy voting policies, procedures, and how the Fund voted proxies relating to portfolio securities is available without charge, upon request, by (i) calling 800-GABELLI (800-422-3554); (ii) writing to The Gabelli Funds at One Corporate Center, Rye, NY 10580-1422; or (iii) visiting the SEC s website at www.sec.gov.

GAMCO Global Gold, Natural Resources & Income Trust

Schedule of Investments December 31, 2015

Shares		Cost	Market Value
	COMMON STOCKS 79.4%		
	Energy and Energy Services 26.3%		
305,000	Anadarko Petroleum Corp.(a)	$ 31,695,919	$ 14,816,900
150,000	Apache Corp.(a)	16,405,823	6,670,500
21,275	Baker Hughes Inc.	1,558,606	981,841
114,000	Cabot Oil & Gas Corp.(a)	4,293,822	2,016,660
127,500	Cameron International Corp. (a)	8,657,037	8,058,000
80,000	Carrizo Oil & Gas Inc.	5,449,600	2,366,400
100,000	Cheniere Energy Inc.	7,578,680	3,725,000
950,000	Cobalt International Energy Inc. (a)	24,075,571	5,130,000
80,000	Concho Resources Inc.	9,552,800	7,428,800
130,000	CONSOL Energy Inc.(a)	4,308,393	1,027,000
80,000	Continental Resources Inc.	2,165,840	1,838,400
345,800	CVR Refining LP	7,966,164	6,545,994
250,000	Devon Energy Corp.(a)	17,748,800	8,000,000
96,400	Diamondback Energy Inc.	7,451,370	6,449,160
589,100	Encana Corp.	12,596,447	2,998,519
30,000	EOG Resources Inc.	2,937,900	2,123,700
16,800	FMC Technologies Inc.	668,781	487,368
150,000	Halliburton Co.	9,274,306	5,106,000
100,000	Kinder Morgan Inc.	1,544,000	1,492,000
190,000	Marathon Oil Corp.(a)	6,919,205	2,392,100
250,000	Marathon Petroleum Corp.(a)	14,502,500	12,960,000
645,000	Nabors Industries Ltd.	17,011,179	5,488,950
15,000	Newfield Exploration Co.	574,050	488,400
209,854	Noble Energy Inc.	11,705,929	6,910,492
50,000	Occidental Petroleum Corp.	4,849,344	3,380,500
330,000	Patterson-UTI Energy Inc.	10,676,337	4,976,400
23,200	Pioneer Natural Resources Co.	4,186,968	2,908,816
150,000	Plains GP Holdings LP, Cl. A	3,591,300	1,417,500
85,000	QEP Resources Inc.	2,611,200	1,139,000
142,500	Schlumberger Ltd.	13,538,055	9,939,375
237,100	SM Energy Co.(a)	16,188,392	4,661,386
35,000	Southwestern Energy Co.	244,044	248,850
335,000	Suncor Energy Inc.(a)	11,952,854	8,643,000
50,000	Sunoco LP	1,632,730	1,980,500
170,000	Superior Energy Services Inc.	5,631,182	2,289,900

205,000	The Williams Companies Inc.	11,588,350	5,268,500
130,000	Total SA, ADR	7,644,600	5,843,500
90,000	Valero Energy Corp.	6,234,600	6,363,900
375,000	Weatherford International plc (a)	8,031,927	3,146,250
200,000	WPX Energy Inc.	3,813,114	1,148,000
		339,057,719	178,857,561
	Metals and Mining 53.1%		
1,226,000	Agnico Eagle Mines Ltd.(a)	48,835,342	32,219,280
2,567,045	Alamos Gold Inc., Cl. A	22,838,840	8,445,578
1,891,000	AngloGold Ashanti Ltd., ADR (a)	43,807,763	13,426,100

Shares		**Cost**	**Market Value**
879,180	Antofagasta plc	$ 18,592,651	$ 6,082,573
1,086,656	AuRico Metals Inc.	578,299	471,196
3,868,500	B2Gold Corp.	11,193,976	3,945,870
2,020,000	Barrick Gold Corp.(a)	51,006,154	14,907,600
155,000	BHP Billiton Ltd., ADR	12,087,613	3,992,800
1,456,000	Centerra Gold Inc.	8,029,337	6,934,336
1,125,000	Detour Gold Corp.	12,995,618	11,715,870
3,038,900	Eldorado Gold Corp.(a)	35,159,597	9,025,533
495,000	Franco-Nevada Corp.	24,502,363	22,646,250
300,000	Freeport-McMoRan Inc.(a)	12,145,996	2,031,000
2,100,010	Fresnillo plc	29,262,204	21,918,639
500,000	Gold Fields Ltd., ADR	1,330,000	1,385,000
2,885,000	Goldcorp Inc.(a)	93,010,575	33,350,600
40,000	Labrador Iron Ore Royalty Corp.	729,070	277,228
472,000	MAG Silver Corp.	4,125,611	3,332,688
182,225	Newcrest Mining Ltd.	7,057,334	1,725,671
1,078,500	Newmont Mining Corp.(a)	55,502,448	19,402,215
3,174,800	OceanaGold Corp.	7,434,555	6,057,290
650,000	Osisko Gold Royalties Ltd.	7,452,113	6,421,551
850,000	Perseus Mining Ltd.	2,832,874	215,003
1,147,200	Primero Mining Corp.	5,739,028	2,615,616
906,500	Randgold Resources Ltd., ADR(a)	87,230,953	56,139,545
311,000	Rio Tinto plc, ADR(a)	17,231,617	9,056,320
623,577	Royal Gold Inc.(a)	49,465,337	22,741,853
5,909,090	Saracen Mineral Holdings Ltd. .	2,449,092	2,626,626
500,000	SEMAFO Inc.	3,145,726	1,268,338
570,000	Sibanye Gold Ltd., ADR	5,637,152	3,471,300
1,428,500	Silver Wheaton Corp.(a)	31,276,317	17,741,970
1,208,000	Tahoe Resources Inc.	24,781,294	10,473,360
3,121,000	Torex Gold Resources Inc.	3,296,083	2,841,989
70,000	US Silica Holdings Inc.	4,057,900	1,311,100
108,475	Vale SA, Cl. P, ADR	1,749,992	276,611

914,000	Yamana Gold Inc.	2,304,057	1,700,040
		748,874,881	362,194,539
	TOTAL COMMON STOCKS	1,087,932,600	541,052,100
	CONVERTIBLE PREFERRED STOCKS 0.5%		
	Energy and Energy Services 0.5%		
82,300	Kinder Morgan Inc.		
	9.750%, Ser. A	4,032,700	3,316,690
Principal Amount			
	CONVERTIBLE CORPORATE BONDS 1.0%		
	Metals and Mining 1.0%		
$ 1,600,000	B2Gold Corp.		
	3.250%, 10/01/18	1,429,077	1,334,000
4,800,000	Detour Gold Corp.		
	5.500%, 11/30/17	4,670,150	4,668,000

See accompanying notes to financial statements.

GAMCO Global Gold, Natural Resources & Income Trust

Schedule of Investments (Continued) December 31, 2015

Principal Amount			Cost		Market Value
	CONVERTIBLE CORPORATE BONDS (Continued)				
	Metals and Mining (Continued)				
$ 1,500,000(b)	Wesdome Gold Inc. 7.000%, 05/24/17(c)(d)	$	1,473,695	$	1,074,706
			7,572,922		7,076,706
	TOTAL CONVERTIBLE CORPORATE BONDS		7,572,922		7,076,706
	CORPORATE BONDS 0.8%				
	Metals and Mining 0.8%				
1,725,000	AuRico Gold Inc., Ser. 144A, 7.750%, 04/01/20(c)		1,605,120		1,565,438
2,500,000	Gold Fields Orogen Holdings (BVI) Ltd., Ser. 144A, 4.875%, 10/07/20(c)		2,049,464		1,875,000
600,000	Kirkland Lake Gold Inc., 7.500%, 12/31/17		611,154		420,611
1,500,000	Thompson Creek Metals Company, Inc., 9.750%, 12/01/17		1,343,263		1,297,500
			5,609,001		5,158,549
	TOTAL CORPORATE BONDS		5,609,001		5,158,549
	U.S. GOVERNMENT OBLIGATIONS 18.3%				
125,122,000	U.S. Treasury Bills, 0.000% to 0.260% , 01/14/16 to 06/30/16(e)		124,983,967		124,994,610
TOTAL INVESTMENTS 100.0%		$	1,230,131,190		681,598,655

Market

	Value
CALL OPTIONS WRITTEN	
(Premiums received $30,753,061)	$ (15,690,002)
PUT OPTIONS WRITTEN	
(Premiums received $1,922,216)	(2,664,362)
Other Assets and Liabilities (Net)	28,224,000
PREFERRED STOCK	
(3,588,941 preferred shares outstanding)	(89,723,525)
NET ASSETS COMMON STOCK	
(112,645,302 common shares outstanding)	$ 601,744,766
NET ASSET VALUE PER COMMON SHARE	
($601,744,766 ÷ 112,645,302 shares outstanding)	$ 5.34

Number of Contracts		Expiration Date/ Exercise Price	Market Value
	OPTIONS CONTRACTS WRITTEN (f) (2.7)%		
	Call Options Written (2.3)%		
650	Agnico Eagle Mines Ltd.	Jan. 16/27.50	$ 29,250
2,500	Agnico Eagle Mines Ltd.	Jan. 16/34	6,250
1,500	Agnico Eagle Mines Ltd.	Jan. 16/35	3,000
2,400	Agnico Eagle Mines Ltd.	Feb. 16/34	39,600
1,350	Agnico Eagle Mines Ltd.	May 16/29	261,900
1,280	Agnico Eagle Mines Ltd.	May 16/30	207,360
1,280	Agnico Eagle Mines Ltd.	May 16/31	180,480
1,300	Agnico Eagle Mines Ltd.	May 16/32	157,300
4,250	Alamos Gold Inc.	Feb. 16/5	21,250
1,500	Alamos Gold Inc.	Mar. 16/5	19,500
9,100	Alamos Gold Inc.	Jun. 16/5	191,100
1,050	Anadarko Petroleum Corp.	Jan. 16/77.50	10,500
300	Anadarko Petroleum Corp.	Feb. 16/70	6,900
1,000	Anadarko Petroleum Corp.	May 16/60	160,000
700	Anadarko Petroleum Corp.	May 16/65	68,600
3,184	AngloGold Ashanti Ltd., ADR	Jan. 16/12	7,960
3,185	AngloGold Ashanti Ltd., ADR	Jan. 16/13	7,962
6,000	AngloGold Ashanti Ltd., ADR	Mar. 16/9	1,086,000
6,541	AngloGold Ashanti Ltd., ADR	Apr. 16/10	130,820
450	Antofagasta plc(g)	Jan. 16/640	0
429	Antofagasta plc(g)	Feb. 16/640	14,230
465	Apache Corp.	Jan. 16/50	7,905

250	Apache Corp.	Jan. 16/52.50	2,250
325	Apache Corp.	Feb. 16/50	30,550
460	Apache Corp.	Apr. 16/55	35,880
19,345	B2Gold Corp.	Jan. 16/1.50	0
3,638	Barrick Gold Corp.	Jan. 16/9	7,276
13,000	Barrick Gold Corp.	Apr. 16/9	403,000
3,562	Barrick Gold Corp.	Jul. 16/8	295,646
200	BHP Billiton Ltd., ADR	Jan. 16/32.50	1,400
41	BHP Billiton Ltd., ADR	Jan. 16/35	123
534	BHP Billiton Ltd., ADR	Feb. 16/32.50	4,539
775	BHP Billiton Ltd., ADR	Apr. 16/27.50	102,850
900	Cabot Oil & Gas Corp.	Jan. 16/27.50	9,000
1,221	Cabot Oil & Gas Corp.	Feb. 16/26.50	34,603
919	Cabot Oil & Gas Corp.	Apr. 16/20	140,148
640	Cameron International Corp.	Jan. 16/50	889,600
200	Carrizo Oil & Gas Inc.	Jan. 16/45	1,500
300	Carrizo Oil & Gas Inc.	Jan. 16/47.50	2,250
150	Carrizo Oil & Gas Inc.	Feb. 16/45	4,125
650	Carrizo Oil & Gas Inc.	Apr. 16/42.50	42,250
2,500	Centerra Gold Inc.(h)	Jan. 16/7	26,198
11,000	Centerra Gold Inc.(h)	Jan. 16/8	27,824
300	Cheniere Energy Inc.	Mar. 16/57.50	6,450
3,200	Cobalt International Energy Inc.	Jan. 16/9	16,000
200	Concho Resources Inc.	Jan. 16/115	1,500
200	Concho Resources Inc.	Mar. 16/115	31,000
400	Concho Resources Inc.	Apr. 16/115	88,284

See accompanying notes to financial statements.

GAMCO Global Gold, Natural Resources & Income Trust

Schedule of Investments (Continued) December 31, 2015

Number of Contracts		Expiration Date/ Exercise Price	Market Value
	OPTIONS CONTRACTS WRITTEN (f) (Continued)		
	Call Options Written (Continued)		
300	CONSOL Energy Inc.	Jan. 16/13	$ 600
500	CONSOL Energy Inc.	Jan. 16/16	1,500
500	CONSOL Energy Inc.	Jul. 16/11	42,250
800	Continental Resources Inc.	Jan. 16/35	1,600
2,000	Detour Gold Corp.(h)	Jan. 16/17	6,504
3,000	Detour Gold Corp.(h)	Mar. 16/16	173,448
2,250	Detour Gold Corp.(h)	Apr. 16/17	121,956
4,000	Detour Gold Corp.(h)	Jul. 16/16	469,755
800	Devon Energy Corp.	Jan. 16/47.50	15,200
400	Devon Energy Corp.	Feb. 16/47.50	3,364
400	Devon Energy Corp.	Feb. 16/50	1,828
225	Devon Energy Corp.	Mar. 16/50	1,958
675	Devon Energy Corp.	Apr. 16/50	16,537
164	Diamondback Energy Inc.	Jan. 16/77.50	4,920
400	Diamondback Energy Inc.	Mar. 16/77.50	90,000
400	Diamondback Energy Inc.	Jun. 16/80	142,000
8,432	Eldorado Gold Corp.	Jan. 16/6	21,080
14,738	Eldorado Gold Corp.	Mar. 16/4.25	110,093
5,432	Eldorado Gold Corp.	Apr. 16/4.50	40,740
1,695	Eldorado Gold Corp.	Apr. 16/5.50	12,712
1,250	Encana Corp.	Jan. 16/11	3,125
450	Encana Corp.	Apr. 16/10	5,625
150	EOG Resources Inc.	Jan. 16/90	150
75	EOG Resources Inc.	Feb. 16/80	5,850
75	EOG Resources Inc.	Apr. 16/80	15,225
168	FMC Technologies Inc.	Apr. 16/36	9,660
1,000	Franco-Nevada Corp.	Jan. 16/45	160,000
1,200	Franco-Nevada Corp.	Jan. 16/55	18,000
1,750	Franco-Nevada Corp.	Feb. 16/50	155,750
1,000	Franco-Nevada Corp.	Apr. 16/47.50	288,070
2,000	Franco-Nevada Corp.	Jul. 16/47.50	868,540
1,500	Freeport-McMoRan Inc.	Jan. 16/10	4,500
400	Freeport-McMoRan Inc.	Jan. 16/15	400
1,100	Freeport-McMoRan Inc.	Feb. 16/12	4,400
980	Fresnillo plc(g)	Feb. 16/740	303,392
700	Fresnillo plc(g)	Mar. 16/740	314,744
2,000	Gold Fields Ltd., ADR	Jul. 16/3	86,000

Number of Contracts		Expiration Date/ Exercise Price	Market Value
3,000	Gold Fields Ltd., ADR	Jan. 17/3	189,000
3,500	Goldcorp Inc.	Jan. 16/14	5,250
8,250	Goldcorp Inc.	Jan. 16/17	8,250
1,367	Goldcorp Inc.	Jan. 16/18	684
3,633	Goldcorp Inc.	Feb. 16/14	50,862
500	Halliburton Co.	Jan. 16/43	500
500	Halliburton Co.	Mar. 16/41	18,000
150	Halliburton Co.	Apr. 16/40	11,400
200	Halliburton Co.	Apr. 16/41	11,800
168	Icahn Enterprises LP	Jan. 16/20	2,520
750	Icahn Enterprises LP	Jan. 16/21	3,892
640	Icahn Enterprises LP	Mar. 16/22.50	9,600

Number of Contracts		Expiration Date/ Exercise Price	Market Value
780	Icahn Enterprises LP	Mar. 16/21	$ 31,871
1,120	Icahn Enterprises LP	May 16/21	70,291
210	Industrias Penoles SAB de CV(g)	Apr. 16/680	208,845
210	Industrias Penoles SAB de CV(g)	Apr. 16/700	173,367
1,000	Kinder Morgan Inc.	Jun. 16/17.50	90,000
2,000	MAG Silver Corp.(h)	Jan. 16/10	28,908
1,600	MAG Silver Corp.(h)	Feb. 16/10.50	37,580
1,120	MAG Silver Corp.(h)	Mar. 16/10.50	40,471
1,000	Marathon Oil Corp.	Jan. 16/24	5,000
450	Marathon Oil Corp.	Feb. 16/24	1,467
250	Marathon Oil Corp.	Apr. 16/15	23,500
250	Marathon Oil Corp.	Apr. 16/16	17,000
800	Marathon Petroleum Corp.	Mar. 16/55	151,992
1,000	Marathon Petroleum Corp.	Apr. 16/57.50	140,000
700	Marathon Petroleum Corp.	May 16/55	195,370
2,400	Nabors Industries Ltd.	Jan. 16/12	2,400
2,400	Nabors Industries Ltd.	Mar. 16/14	6,000
1,650	Nabors Industries Ltd.	Jun. 16/11	86,625
1,822	Newcrest Mining Ltd.(i)	Jan. 16/15	5,311
1,000	Newmont Mining Corp.	Jan. 16/19	21,000
3,000	Newmont Mining Corp.	Jan. 16/20	18,000
1,785	Newmont Mining Corp.	Mar. 16/19	171,360
1,500	Newmont Mining Corp.	Mar. 16/20	97,500
2,000	Newmont Mining Corp.	Jun. 16/19	327,000
1,500	Newmont Mining Corp.	Jun. 16/20	96,750
500	Noble Energy Inc.	Jan. 16/37.50	5,000
317	Noble Energy Inc.	Feb. 16/40	4,755
79	Noble Energy Inc.	Feb. 16/42.50	790
1,200	Noble Energy Inc.	Mar. 16/40	56,652
250	Occidental Petroleum Corp.	Jan. 16/75	2,750
250	Occidental Petroleum Corp.	Feb. 16/77.50	8,750
10,000	OceanaGold Corp.(h)	Feb. 16/3	67,717
10,500	OceanaGold Corp.(h)	Apr. 16/3	136,970
3,000	Osisko Gold Royalties Ltd.(h)	Jan. 16/15	9,756
3,000		Jan. 16/16	7,588

	Osisko Gold Royalties Ltd.(h)		
500	Osisko Gold Royalties Ltd.(h)	Apr. 16/15	20,778
600	Patterson-UTI Energy Inc.	Feb. 16/16	57,000
600	Patterson-UTI Energy Inc.	Feb. 16/17	36,000
1,100	Patterson-UTI Energy Inc.	Apr. 16/16	156,068
600	Patterson-UTI Energy Inc.	May 16/17	81,000
500	Patterson-UTI Energy Inc.	May 16/18	50,000
82	Pioneer Natural Resources Co.	Jan. 16/150	2,460
5,000	Primero Mining Corp.	Jan. 16/3	17,450
4,000	Primero Mining Corp.	Apr. 16/3	58,840
425	QEP Resources Inc.	Jan. 16/16	2,125

See accompanying notes to financial statements.

GAMCO Global Gold, Natural Resources & Income Trust

Schedule of Investments (Continued) December 31, 2015

Number of Contracts		Expiration Date/ Exercise Price	Market Value
	OPTIONS CONTRACTS WRITTEN (f) (Continued)		
	Call Options Written (Continued)		
200	QEP Resources Inc.	Mar. 16/16	$ 12,000
225	QEP Resources Inc.	Jun. 16/16	25,875
2,650	Randgold Resources Ltd., ADR	Jan. 16/67.50	53,000
500	Randgold Resources Ltd., ADR	Jan. 16/82.50	2,500
1,000	Randgold Resources Ltd., ADR	Mar. 16/70	120,000
950	Randgold Resources Ltd., ADR	Mar. 16/75	47,500
1,000	Randgold Resources Ltd., ADR	Mar. 16/77.50	35,000
1,500	Randgold Resources Ltd., ADR	May 16/67.50	459,300
1,000	Rio Tinto plc, ADR	Jan. 16/47.50	2,500
500	Rio Tinto plc, ADR	Apr. 16/37.50	8,750
510	Rio Tinto plc, ADR	Apr. 16/40	2,550
736	Royal Gold Inc.	Jan. 16/52.50	1,840
500	Royal Gold Inc.	Apr. 16/42.50	70,000
300	Schlumberger Ltd.	Jan. 16/77.50	900
325	Schlumberger Ltd.	Jan. 16/80	1,625
450	Schlumberger Ltd.	Feb. 16/80	9,900
800	Schlumberger Ltd.	Feb. 16/82.50	8,000
2,500	SEMAFO Inc.(h)	Apr. 16/3.50	63,236
1,400	Sibanye Gold Ltd., ADR	Jan. 16/9	196
2,400	Sibanye Gold Ltd., ADR	Apr. 16/5	300,000
1,900	Sibanye Gold Ltd., ADR	Jul. 16/5	275,500
1,773	Silver Wheaton Corp.	Jan. 16/15	3,546
2,989	Silver Wheaton Corp.	Jan. 16/17	4,484
2,068	Silver Wheaton Corp.	Feb. 16/15	28,952
2,500	Silver Wheaton Corp.	Mar. 16/15	70,000
2,500	Silver Wheaton Corp.	Jun. 16/15	152,500
1,231	SM Energy Co.	Jan. 16/55	21,542
800	SM Energy Co.	Feb. 16/45	14,000
790	SM Energy Co.	Aug. 16/25	183,675
700	Southwestern Energy Co.	Jun. 16/8	102,900
895	Southwestern Energy Co.	Jun. 16/11	68,020
1,000	Suncor Energy Inc.	Jan. 16/29	1,500
675	Suncor Energy Inc.	Mar. 16/27	56,700
1,675	Suncor Energy Inc.	Jun. 16/28	189,275
500	Sunoco LP	Mar. 16/35	275,000
850	Superior Energy Services Inc.	Mar. 16/17.50	23,375

850	Superior Energy Services Inc.	Jun. 16/15	123,250
2,080	Tahoe Resources Inc.	Jan. 16/11	5,179
6,000	Tahoe Resources Inc.	Mar. 16/10	270,000
425	The Williams Companies Inc.	Jan. 16/44	50,788

Number of Contracts		**Expiration Date/ Exercise Price**		**Market Value**
15,000	Torex Gold Resources Inc.(h)	Jan. 16/1.50	$	7,046
400	Total SA, ADR	Jan. 16/50		2,400
500	Total SA, ADR	Feb. 16/50		16,000
400	Total SA, ADR	Mar. 16/52.50		9,376
100	US Silica Holdings Inc.	Jan. 16/22.50		1,750
200	US Silica Holdings Inc.	Jan. 16/25		1,500
200	US Silica Holdings Inc.	Mar. 16/22		25,000
200	Us Silica Holdings Inc.	Jun. 16/23		40,000
400	Valero Energy Corp.	Jan. 16/65		250,000
300	Valero Energy Corp.	Mar. 16/70		67,500
200	Valero Energy Corp.	Jun. 16/70		124,000
1,000	Weatherford International plc	Jan. 16/12		25,000
1,000	Weatherford International plc	Feb. 16/13		7,500
1,750	Weatherford International plc	May 16/11		113,750
215	Whiting Petroleum Corp.	Jan. 16/25		538
115	Whiting Petroleum Corp.	Jan. 16/32.50		288
400	Whiting Petroleum Corp.	Jan. 16/37.50		1,000
450	Whiting Petroleum Corp.	Mar. 16/25		3,375
805	Whiting Petroleum Corp.	Mar. 16/26		6,037
1,000	WPX Energy Inc.	Feb. 16/7.50		35,000
1,000	WPX Energy Inc.	May 16/11		21,060
9,140	Yamana Gold Inc.	Jan. 17/2.50		301,620
	TOTAL CALL OPTIONS WRITTEN (Premiums received $30,753,061)			15,690,002
	Put Options Written (0.4)%			
10,000	Alamos Gold Inc.	Dec. 16/2.50		691,700
500	Continental Resources Inc.	Jan. 16/20		16,500
3,408	Eldorado Gold Corp	Jan. 16/5		698,640
250	Marathon Petroleum Corp.	Apr. 16/50		75,000
1,800	Newcrest Mining Ltd.(i)	Sep. 16/10		80,903
2,000	Osisko Gold Royalties Ltd.(h)	Jan. 16/13		20,958
2,000	Osisko Gold Royalties Ltd.(h)	Jul. 16/13		191,516
239	SM Energy Co.	Jan. 16/55		849,645
200	Sunoco LP	Mar. 16/30		11,000
200	Sunoco LP	Jun. 16/30		28,500
	TOTAL PUT OPTIONS WRITTEN (Premiums received $1,922,216)			2,664,362
	TOTAL OPTIONS CONTRACTS WRITTEN (Premiums received $32,675,277)		$	18,354,364

(a) Securities, or a portion thereof, with a value of $237,814,289 were deposited with the broker as collateral for options written.
(b) Principal amount denoted in Canadian Dollars.

See accompanying notes to financial statements.

GAMCO Global Gold, Natural Resources & Income Trust

Schedule of Investments (Continued) December 31, 2015

(c) Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2015, the market value of Rule 144A securities amounted to $4,515,144 or 0.66% of total investments.
(d) At December 31, 2015, the Fund held an investment in a restricted and illiquid security amounting to $1,074,706 or 0.16% of total investments, which was valued under methods approved by the Board of Trustees as follows:

Acquisition Principal Amount	Issuer	Acquisition Date	Acquisition Cost	12/31/15 Carrying Value Per Bond
$1,500,000(b)	Wesdome Gold Inc.			
	7.000%, 05/24/17	05/18/12	$ 1,473,695	$71.6471

(e) At December 31, 2015, $70,653,000 of the principal amount was pledged as collateral for options written.
(f) At December 31, 2015, the Fund had written over-the-counter Option Contracts with Pershing LLC, Morgan Stanley, and The Goldman Sachs Group, Inc.
(g) Exercise price denoted in British pence.
(h) Exercise price denoted in Canadian dollars.
(i) Exercise price denoted in Australian dollars.
Non-income producing security.
Represents annualized yield at date of purchase.
ADR American Depositary Receipt

Geographic Diversification	% of Total Investments	Market Value
Long Positions		
North America	78.5%	$ 534,989,392
Europe.	15.0	102,186,827
South Africa	2.7	18,282,400
Latin America	2.6	17,579,936
Asia/Pacific	1.2	8,560,100
Total Investments	100.0%	$ 681,598,655

Short Positions		
North America	(2.5)%	$ (17,253,573)
Europe.	(0.1)	(1,014,577)
Asia/Pacific Rim	(0.1)	(86,214)
Total Investments	(2.7)%	$ (18,354,364)

See accompanying notes to financial statements.

GAMCO Global Gold, Natural Resources & Income Trust

Statement of Assets and Liabilities

December 31, 2015

Assets:	
Investments, at value (cost $1,230,131,190)	$ 681,598,655
Foreign currency (cost $2,315)	2,335
Cash	289,043
Deposit at brokers	28,188,692
Receivable for investments sold	357,213
Dividends and interest receivable	408,475
Deferred offering expense	266,388
Prepaid expense	7,886
Total Assets	711,118,687
Liabilities:	
Call options written (premiums received $30,753,061)	15,690,002
Put options written (premiums received $1,922,216)	2,664,362
Distributions payable	49,846
Payable for investments purchased	305,475
Payable for preferred shares repurchased	19,122
Payable for investment advisory fees	600,120
Payable for payroll expenses	101,384
Payable for accounting fees	7,500
Other accrued expenses	212,585
Total Liabilities	19,650,396
Preferred Shares:	
Series B Cumulative Preferred Shares (5.000%, $25 liquidation value, $0.001 par value, 4,000,000 shares authorized with 3,588,941 shares issued and outstanding)	89,723,525
Net Assets Attributable to Common Shareholders	$ 601,744,766
Net Assets Attributable to Common Shareholders Consist of:	
Paid-in capital	$ 1,409,224,653
Undistributed net investment income	336,987
Distributions in excess of net realized gain on investments, securities sold short, written options, and foreign currency transactions	(273,604,283)
Net unrealized depreciation on investments	(548,532,535)
Net unrealized appreciation on written options	14,320,913
Net unrealized depreciation on foreign currency translations	(969)

Net Assets	$ 601,744,766
Net Asset Value per Common Share:	
($601,744,766 ÷ 112,645,302 shares outstanding at $0.001 par value; unlimited number of shares authorized)	$ 5.34

Statement of Operations

For the Year Ended December 31, 2015

Investment Income:	
Dividends (net of foreign withholding taxes of $731,370)	$ 11,177,598
Interest	951,502
Total Investment Income	12,129,100
Expenses:	
Investment advisory fees	8,529,702
Shareholder communications expenses	372,444
Payroll expenses	252,523
Trustees fees	214,000
Legal and audit fees	153,571
Custodian fees	63,742
Accounting fees	45,000
Shareholder services fees	25,253
Interest expense	429
Miscellaneous expenses	177,645
Total Expenses	9,834,309
Less:	
Expenses paid indirectly by broker (See Note 3)	(7,394)
Net Expenses.	9,826,915
Net Investment Income	2,302,185
Net Realized and Unrealized Gain/(Loss) on Investments, Securities Sold Short, Written Options, and Foreign Currency:	
Net realized loss on investments	(254,324,931)
Net realized gain on securities sold short	58,729
Net realized gain on written options	91,069,583
Net realized loss on foreign currency transactions	(494,052)
Net realized loss on investments, securities sold short, written options, and foreign currency transactions	(163,690,671)

Net change in unrealized appreciation/depreciation:	
on investments	32,768,844
on written options	1,602,902
on foreign currency translations	(800)
Net change in unrealized appreciation/depreciation on investments, written options, and foreign currency translations	34,370,946
Net Realized and Unrealized Gain/(Loss) on Investments, Securities Sold Short, Written Options, and Foreign Currency	(129,319,725)
Net Decrease in Net Assets Resulting from Operations	(127,017,540)
Total Distributions to Preferred Shareholders	(4,531,445)
Net Decrease in Net Assets Attributable to Common Shareholders Resulting from Operations	$ (131,548,985)

See accompanying notes to financial statements.

GAMCO Global Gold, Natural Resources & Income Trust

Statement of Changes in Net Assets Attributable to Common Shareholders

	Year Ended December 31, 2015	Year Ended December 31, 2014
Operations:		
Net investment income	$ 2,302,185	$ 2,228,431
Net realized loss on investments, securities sold short, written options, and foreign currency transactions	(163,690,671)	(52,474,395)
Net change in unrealized appreciation/depreciation on investments, written options, and foreign currency translations	34,370,946	(123,554,232)
Net Decrease in Net Assets Resulting from Operations	(127,017,540)	(173,800,196)
Distributions to Preferred Shareholders:		
Net investment income	(83,002)	(2,112,605)
Return of capital	(4,448,443)	(2,519,410)
Total Distributions to Preferred Shareholders	(4,531,445)	(4,632,015)
Net Decrease in Net Assets Attributable to Common Shareholders Resulting from Operations.	(131,548,985)	(178,432,211)
Distributions to Common Shareholders:		
Net investment income	(1,733,920)	
Return of capital	(92,928,783)	(117,707,377)
Total Distributions to Common Shareholders	(94,662,703)	(117,707,377)
Fund Share Transactions:		
Net increase in net assets from common shares issued in offering		61,892,099
Increase in net assets from common shares issued upon reinvestment of distributions		4,256,226
Net decrease in net assets from repurchase of common shares	(435,405)	
Net increase in net assets from repurchase of preferred shares and transaction costs	365,063	329,791
Adjustments to offering costs for preferred shares credited to paid-in capital		20,000
Net Increase/(Decrease) in Net Assets from Fund Share Transactions	(70,342)	66,498,116
	(226,282,030)	(229,641,472)

Net Decrease in Net Assets Attributable to Common Shareholders		
Net Assets Attributable to Common Shareholders:		
Beginning of year	828,026,796	1,057,668,268
End of year (including undistributed net investment income of $336,987 and $0, respectively)	$ 601,744,766	$ 828,026,796

See accompanying notes to financial statements.

GAMCO Global Gold, Natural Resources & Income Trust

Financial Highlights

Selected data for a common share of beneficial interest outstanding throughout each year.

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Operating Performance:					
Net asset value, beginning of year	$ 7.35	$ 9.94	$ 13.26	$ 14.70	$ 18.25
Net investment income	0.02	0.03	0.07	0.11	0.11
Net realized and unrealized loss on investments, securities sold short, swap contracts, written options, and foreign currency transactions	(1.15)	(1.51)	(1.89)	(0.01)	(2.00)
Total from investment operations	(1.13)	(1.48)	(1.82)	0.10	(1.89)
Distributions to Preferred Shareholders: (a)					
Net investment income	(0.00)(b)	(0.02)	(0.00)(b)	(0.00)(b)	(0.00)(b)
Net realized gain			(0.05)	(0.07)	(0.10)
Return of capital	(0.04)	(0.02)			
Total distributions to preferred shareholders	(0.04)	(0.04)	(0.05)	(0.07)	(0.10)
Net increase/(decrease) in net assets attributable to common shareholders resulting from operations	(1.17)	(1.52)	(1.87)	0.03	(1.99)
Distributions to Common					

Shareholders:					
Net investment income	(0.02)		(0.06)	(0.02)	(0.09)
Net realized gain			(0.75)	(1.36)	(1.54)
Return of capital	(0.82)	(1.08)	(0.63)	(0.24)	(0.05)
Total distributions to common shareholders	(0.84)	(1.08)	(1.44)	(1.62)	(1.68)
Fund Share Transactions:					
Increase in net asset value from issuance of common shares		0.01	0.01	0.15	0.12
Increase in net asset value from repurchase of common shares	0.00(b)		0.00(b)		
Increase in net asset value from repurchase of preferred shares and transaction fees	0.00(b)	0.00(b)	0.01		

Average barge size (barrels)	71,651	72,271	72,082	70,670	68,109
Average utilization rate(8)	87.1%	82.2%	73.6%	78.1%	84.4%
Average dayrate(11)	$ 13,542	$ 11,620	$ 10,971	$ 9,499	$ 8,944
Effective dayrate	$ 11,795	$ 9,552	$ 8,075	$ 7,419	$ 7,549

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(1) Represents other operating income and expenses, including gains (or losses) on disposition of assets and equity in income from investments.
(2) Includes goodwill amortization of $126 for the year ended December 31, 2001. Effective January 1, 2002, SFAS No. 142, Goodwill and Other Intangible Assets required that goodwill and other indefinite-lived assets no longer be amortized, but instead be reviewed for impairment annually or more frequently if circumstances indicate potential impairment. Net income (loss) would have been $7,145 for the year ended December 31, 2001 if SFAS 142 had been in effect on January 1, 2001.
(3) For the years ended December 31, 2005 and 2004, stock options representing rights to acquire 42 and 273 shares, respectively, of common stock were excluded from the calculation of diluted earnings per share because the effect was antidilutive. Stock options are antidilutive when the results from operations are a net loss or when the exercise price of the options is greater than the average market price of the common stock for the period.
(4) Represents the remaining balance of approximately $15,500 in aggregate principal amount of the Company s 10.625% senior notes due 2008 that was redeemed on January 14, 2005 and excludes original issue discount associated with our 10.625% senior notes in the amount of $97 as of December 31, 2004.
(5) Excludes original issue discount associated with our 6.125% senior notes in the amount of $551 as of December 31, 2005. Excludes original issue discount associated with our 10.625% senior notes in the amount of $2,323, $2,694 and $3,024 as of December 31, 2003, 2002 and 2001, respectively. The amount as of December 31, 2003 includes $40,000 outstanding under our long-term, revolving credit facility.
(6) See our discussion of EBITDA as a non-GAAP financial measure immediately following these footnotes.
(7) We owned 25 OSVs at December 31, 2005. The *HOS Saylor* and *HOS Navegante* were acquired in January 2005 and March 2005, respectively.
(8) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
(9) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.
(10) The averages for the year ended December 31, 2003 give effect to our sale of the *Energy 5502* on January 28, 2003 and our acquisition of the *Energy 8001* on February 28, 2003. As of December 31, 2004, our tank barge fleet consisted of 16 vessels, of which three tank barges were retired from service by the end of 2004. We owned 18 active tank barges at December 31, 2005. The averages for the year ended December 31, 2005 reflect the delivery of five double-hulled tank barges under our first newbuild program, including two 135,000-barrel double-hulled tank barges in March 2005 and December 2005 and three 110,000-barrel double-hulled tank barges in July 2005, October 2005 and December 2005, respectively.
(11) Average dayrates represent average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost of in-chartering third-party equipment paid by customers.

Non-GAAP Financial Measures

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

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

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

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

The following table provides the detailed components of EBITDA, as we define that term, for the following periods (in thousands).

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Components of EBITDA:					
Net income (loss)	$ 37,443	$ (2,483)	$ 11,190	$ 11,647	$ 7,019
Interest, net:					
Debt obligations	12,558	17,698	18,523	16,207	10,665
Put warrants (1)					2,952
Interest income	(3,178)	(356)	(178)	(667)	(1,455)
Total interest, net	9,380	17,342	18,345	15,540	12,162
Income tax expense (benefit)	21,538	(1,320)	6,858	7,139	5,737
Depreciation	19,954	17,408	14,393	10,351	6,501
Amortization	7,316	5,727	3,197	1,945	1,169
Loss on early extinguishment of debt (2)	1,698	22,443			3,029
EBITDA	$ 97,329	$ 59,117	$ 53,983	$ 46,622	$ 35,617

(1) Interest expense from put warrants represents an adjustment to the estimated fair value of the put warrants. According to the Emerging Issues Task Force, or EITF, Issue 88-9, as supplemented by EITF Issue 00-19, which we have adopted, we are required to account for warrants that contain put options at their estimated fair value with the changes reported as interest. We repurchased and terminated all of the warrants for $14,500 in October 2001.

(2) A loss on early extinguishment of debt was recorded during 2001 resulting from the write-off of deferred financing costs upon the refinancing of all our debt through the issuance of our 10.625% senior notes in July 2001. For the year ended December 31, 2004, amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the repurchase of 91% the 10.625% senior notes in November 2004. For the year ended December 31, 2005, amount includes the repurchase premium, related fees and expenses and the write-off of unamortized original issue discount and deferred financing costs related to the redemption of the remaining 9% of the 10.625% senior notes in January 2005.

The following table reconciles EBITDA to cash flows provided by operating activities for the following periods (in thousands).

Year Ended December 31,				
2005	**2004**	**2003**	**2002**	**2001**

EBITDA Reconciliation to GAAP:					
EBITDA	$ 97,329	$ 59,117	$ 53,983	$ 46,622	$ 35,617
Cash paid for deferred drydocking charges	(6,827)	(8,530)	(6,100)	(2,409)	(1,745)
Cash paid for interest	(17,888)	(24,023)	(19,718)	(19,075)	(5,577)
Changes in working capital	5,139	(4,960)	(1,993)	(460)	4,972
Changes in other, net	(1,947)	(199)	(673)	277	78
Cash flows provided by operating activities	$ 75,806	$ 21,405	$ 25,499	$ 24,955	$ 33,345

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

- EBITDA does not reflect the future capital expenditure requirements that may be necessary to replace our existing vessels as a result of normal wear and tear,

- EBITDA does not reflect the interest, future principal payments and other financing-related charges necessary to service the debt that we have incurred in acquiring and constructing our vessels,

- EBITDA does not reflect the deferred income taxes that we will eventually have to pay once we are no longer in an overall tax net operating loss carryforward position, and

- EBITDA does not reflect changes in our net working capital position.

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

Item 7 ***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 in conjunction with our historical consolidated financial statements and their notes included elsewhere in this Annual Report on Form 10-K. 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 or as a result of certain factors such as those set forth below under Forward Looking Statements.

General

We own a fleet of 25 technologically advanced, new generation OSVs, which includes two foreign-flagged AHTS vessels that primarily operate as supply vessels and for towing jack-up rigs. We also own and operate one fast supply vessel and own two former coastwise sulfur tankers that are being converted into MPSVs. Currently, 20 of our OSVs are operating in the U.S. Gulf of Mexico, or GoM, four of our OSVs are operating offshore Trinidad, and one OSV and a fast supply vessel are working offshore Mexico. We also own 12 active ocean-going tugs and 18 active ocean-going tank barges, six of which are double-hulled. Currently, 16 of our tank barges are operating in the northeastern United States, primarily New York Harbor, and two are operating in Puerto Rico. The current fleet count reflects five double-hulled barges delivered in 2005 under our first tug and tank barge newbuild program, and is net of the retirement of three single-hulled tank barges at the end of 2004. We also plan to build several new double-hulled tank barges with an aggregate 400,000 barrels of additional barrel-carrying capacity and, unlike our first tank barge newbuild program, we may construct the related ocean-going tugs to be used as power units for the new barges. All of the new vessels to be constructed under the second tug and tank barge newbuild program are expected to be delivered from early mid-2007 through mid-2008. Upon completion of our second tug and tank barge newbuild program, 58% of our tank barge fleet barrel-carrying capacity will be double-hulled, up from 46% today and 7% at the end of 2004.

We charter our OSVs on a dayrate basis, under which the customer pays us a specified dollar amount for each day during the term of the contract, pursuant to either fixed term or

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spot time charters. A fixed term time charter is a contract for a fixed period with a specified dayrate, generally paid monthly. Spot time charters in the OSV industry are generally charter contracts with either relatively short fixed or indefinite terms. In all time charters, spot or fixed, the vessel owner absorbs crew, insurance and repair and maintenance costs in connection with the operation of the vessel, while customers absorb all other direct operating costs. In addition, in a typical time charter, the charterer obtains the right to direct the movements and utilization of the vessel while the vessel owner retains operational control over the vessel.

All of our OSVs and our fast supply vessel operate under time charters, including eleven that are chartered under long-term contracts with expiration dates ranging from March 2006 through June 2007. The long-term contracts for our supply vessels are consistent with those used in the industry and are typically either fixed for a term of one or more years or are tied to the duration of a long-term contract for a drilling rig for which the vessel provides services. These contracts generally contain, among others, provisions governing insurance, reciprocal indemnifications, performance requirements and, in certain instances, dayrate escalation terms and renewal options.

While OSVs service existing oil and gas production platforms as well as exploration and development activities, incremental OSV demand depends primarily upon the level of drilling activity, which can be influenced by a number of factors, including oil and natural gas prices and drilling budgets of exploration and production companies. As a result, utilization rates have historically been tied to oil and natural gas prices and drilling activity. However, the relatively large capital commitments, longer lead times and investment horizons associated with deepwater and deep well projects have diminished the significance of these factors compared to conventional shelf projects.

We have developed, through a series of three newbuild programs, a proprietary fleet of 200, 240, and 265 class new generation OSVs to meet the diverse needs of our customers. Through acquisitions, we have broadened the mix of our fleet to include additional 200 class vessels that are well suited for deep shelf gas exploration and other complex shelf drilling applications and to fill the increasing demand for modern equipment for conventional drilling on the Continental Shelf. We have continued our efforts to expand the services that we offer our customers with the acquisition of two AHTS vessels, which primarily serve as 240 class supply vessels and for towing jack-up rigs, the ongoing conversion of two coastwise sulfur tankers for use as 370 class MPSVs, and the commencement of our fourth OSV newbuild program that will add, in the aggregate, up to 37,000 deadweight tons of capacity to our OSV fleet, including up to six 240 EDF class vessels that were announced in February 2006.

Although the demand for new generation equipment has historically been driven by deepwater, deep shelf and highly complex projects, we are experiencing increased demand for our vessels for all types of projects, including transition zone and shelf activity, irrespective of water depth, drilling depth or project type, and non-oil and gas production activities, including military applications. Notably, this prevailing shift in customer preference does not appear to be limited to the U.S. Gulf of Mexico, as we have also observed this preference in foreign areas such as Mexico, Trinidad, Brazil and West Africa.

Soft market conditions for OSVs in the U.S. Gulf of Mexico persisted from the second half of 2002 through the first half of 2004. Since the second half of 2004, OSV market conditions in the U.S. Gulf of Mexico have improved substantially. Our average dayrates have risen

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approximately $6,300 since April 2004 to an average of approximately $15,900 per day for the fourth quarter 2005, while our fleetwide OSV utilization has risen from roughly 70% to 95% over the same time span. This combination of increased dayrates and utilization has resulted in our effective, or utilization-adjusted, OSV dayrate more than doubling since April 2004.

Market conditions in the U.S. Gulf of Mexico continue to show positive trends such as the increased level of approved applications to drill deepwater wells and certain operators construction commitments for new deepwater floating rigs, deep shelf jack-up rigs, floating production units, subsea tie-backs and other deepwater production infrastructure, as well as the additional demand for vessels in connection with rehabilitating infrastructure damaged by Hurricanes Katrina and Rita. Another indication of the encouraging visible demand is rising dayrates and utilization for all classes of offshore rigs, which in the past has been a barometer for OSV dayrates. The supply fundamentals for new generation OSVs could further impact market conditions. The average age of conventional 180 class OSVs is approximately 26 years; therefore, we expect that there will be a continued and accelerated attrition rate for such vessels working in the U.S. Gulf of Mexico and abroad. Although OSVs have been recently constructed to replace the worldwide conventional 180 class tonnage being removed from service, several U.S.-flagged new generation OSVs have left the U.S. Gulf of Mexico for foreign markets, which is a long-term trend that we expect to continue. Additionally, there are signs that the improved market conditions in the U.S. Gulf of Mexico could be a long-term trend. For example, in the offshore oil and natural gas lease sale during 2005 by the Minerals Management Service, interest in acquiring leases was the highest it had been since 2001, a 6% increase from 2004, with 53% of the leases bid on being located in ultra-deep water.

Generally, we operate an ocean-going tug and tank barge together as a tow to transport petroleum products between U.S. ports and along the coast of Puerto Rico. We operate our tugs and tank barges under fixed time charters, spot time charters, contracts of affreightment and consecutive voyage contracts. A fixed term time charter is a contract for a fixed period of time with a specified day rate, generally paid monthly. Spot time charters in the tug and tank barge industry are generally single-voyage contracts of affreightment, consecutive voyage contracts, or time charter contracts with either relatively short fixed or indefinite terms. A consecutive voyage contract is a contract for the transportation of cargo for a specified number of voyages between designated ports over a fixed period of time under which we are paid based on the volume of products we deliver per voyage. Under consecutive voyage contracts, in addition to earning revenues for volumes delivered, we earn a standby hourly rate between voyages. We may also charter vessels to a third party under a bareboat charter. A bareboat charter is a net lease in which the charterer takes full operational control over the vessel for a specified period of time for a specified daily rate that is generally paid monthly to the vessel owner. The bareboat charterer is solely responsible for the operation and management of the vessel and must provide its own crew and pay all operating and voyage expenses. We also provide tug services to third party vessels on a periodic basis. Typically, these services include vessel docking and towage assistance.

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

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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 regularly evaluate our customers needs and often elect to accelerate scheduled drydockings to take advantage of certain market opportunities. However, as we shift more of our fleet from COAs to time charters, some of our historic seasonality will be diminished.

As the most recent major OPA 90 milestone approached on January 1, 2005 and since that date, 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 our first double-hulled tank barge newbuild program to replace some of our existing single-hulled tank barges that we anticipated retiring from service in accordance with OPA 90. Under our first newbuild program, two 135,000-barrel double-hulled tank barges were placed in service in March 2005 and December 2005, respectively, and three 110,000-barrel double-hulled tank barges were placed in service in July 2005, October 2005 and December 2005, respectively. This newbuild program more than replaced the barrel-carrying capacity that we lost when we retired three of our single-hulled tank barges from service at the end of 2004, as mandated by OPA 90. On September 26, 2005, the Company announced a second newbuild program that will add double-hulled tank barges with 400,000 barrels of aggregate carrying capacity plus related offshore tugs to our existing fleet. The tugs and double-hulled tank barges under the second newbuild program are currently expected to be delivered from mid-2007 through mid-2008.

Our operating costs are primarily a function of fleet size and utilization levels. The most significant direct operating costs are wages paid to vessel crews, maintenance and repairs and marine insurance. Because most of these expenses are incurred 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

Our consolidated financial statements included in this Annual Report on Form 10-K have been prepared in accordance with accounting principles generally accepted in the United States. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles. In other circumstances, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon

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available information. We base our estimates and judgments on historical experience and various other factors that we believe are reasonable based upon the information available. Actual results may differ from these estimates under different assumptions and conditions. We believe that of our significant accounting policies discussed in Note 2 to our consolidated financial statements, the following may involve estimates that are inherently more subjective.

Purchase Accounting. Purchase accounting requires extensive use of estimates and judgments to allocate the cost of an acquired enterprise to the assets acquired and liabilities assumed. The cost of each acquired operation is allocated to the assets acquired and liabilities assumed based on their estimated fair values. These estimates are revised during an allocation period as necessary when, and if, information becomes available to further define and quantify the value of the assets acquired and liabilities assumed. For example, costs related to the recertification of acquired vessels that are drydocked within the allocation period immediately following the acquisition of such vessels are reflected as an adjustment to the value of the vessels acquired and the liabilities assumed related to the drydocking. The adjusted basis of the vessel is depreciated over the estimated useful lives of the vessel. The allocation period does not exceed one year from the date of the acquisition. To the extent additional information to refine the original allocation becomes available during the allocation period, the allocation of the purchase price is adjusted. For example, if an acquired vessel was subsequently disposed of within the allocation period, the sales price of the vessel would be used to adjust the original assigned value to the vessel at the date of acquisition such that no gain or loss would be recognized upon disposition during the allocation period. If information becomes available after the allocation period, those items are reflected in operating results.

Carrying Value of Vessels. We depreciate our tugs, tank barges, and OSVs over estimated useful lives of 14 to 25 years, three to 25 years and 20 to 25 years, respectively. The useful lives used for single-hulled tank barges are based on their classification under OPA 90, and for double-hulled tank barges it is 25 years. In assigning depreciable lives to these assets, we have considered the effects of both physical deterioration largely caused by wear and tear due to operating use and other economic and regulatory factors that could impact commercial viability. To date, our experience confirms that these policies are reasonable, although there may be events or changes in circumstances in the future that indicate the recoverability of the carrying amount of a vessel might not be possible. Examples of events or changes in circumstances that could indicate that the recoverability of a vessel s carrying amount should be assessed might include a change in regulations such as OPA 90, a significant decrease in the market value of a vessel and current period operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with a vessel. If events or changes in circumstances as set forth above indicate that a vessel s carrying amount may not be recoverable, we would then be required to estimate the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the vessel, we would be required to recognize an impairment loss.

Recertification Costs. Our tugs, tank barges and OSVs are required by regulation to be recertified after certain periods of time. These recertification costs are incurred while the vessel is in drydock where other routine repairs and maintenance are performed and, at times, major replacements and improvements are performed. We expense routine repairs and

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maintenance as they are incurred. Recertification costs can be accounted for in one of three ways: (1) defer and amortize, (2) accrue in advance, or (3) expense as incurred. Companies in our industry typically use either the defer and amortize or the expense as incurred accounting method. We defer and amortize recertification costs over the length of time that the recertification is expected to last, which is generally 30 or 60 months. Major replacements and improvements, which extend the vessel s economic useful life or functional operating capability, are capitalized and depreciated over the vessel s remaining economic useful life. Inherent in this process are estimates we make regarding the specific cost incurred and the period that the incurred cost will benefit.

Revenue Recognition. We charter our OSVs to customers under time charters based on a daily rate of hire and recognize revenue as earned on a daily basis during the contract period of the specific vessel. Tugs and tank barges are often contracted to customers under contracts of affreightment, under which revenue is recognized based on the number of days incurred for the voyage as a percentage of total estimated days applied to total estimated revenues. Voyage related costs are expensed as incurred. Substantially all voyages under these contracts are less than 10 days in length. We also contract our tugs and tank barges under time charters based on a daily rate of hire. Revenue is recognized on such contracts as earned on a daily basis during the contract period of the specific vessel.

Allowance for Doubtful Accounts. Our customers are primarily major and independent, domestic and international, oil and oil service companies. Our customers are granted credit on a short-term basis and related credit risks are considered minimal. We usually do not require collateral. We provide an estimate for uncollectible accounts based primarily on management s judgment. Management uses historical losses, current economic conditions and individual evaluations of each customer to make adjustments to the allowance for doubtful accounts. Our historical losses have not been significant. However, because amounts due from individual customers can be significant, future adjustments to the allowance can be material if one or more individual customers balances are deemed uncollectible.

Income Taxes. We follow SFAS No. 109, Accounting for Income Taxes. SFAS 109 requires the use of the liability method of computing deferred income taxes. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The assessment of the realization of deferred tax assets, particularly those related to tax operating loss carryforwards, involves the use of management s judgment to determine whether it is more likely than not that we will realize such tax benefits in the future.

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Results of Operations

The tables below set forth, by segment, the average dayrates and utilization rates and effective dayrates for our vessels and the average number of vessels owned during the periods indicated. These OSVs and tug and tank barges generate substantially all of our revenues and operating profit.

The table does not include the results of operations of the *HOS Hotshot*, a 165-ft. new generation fast supply vessel that we acquired in May 2004.

	Years Ended December 31,		
	2005	2004	2003
Offshore Supply Vessels:			
Average number of vessels	24.6	22.8	17.3
Average fleet capacity (deadweight)	57,658	51,938	41,312
Average vessel capacity (deadweight)	2,341	2,274	2,353
Average utilization rate(1)	96.2%	87.5%	88.6%
Average dayrate(2)	$ 13,413	$ 10,154	$ 10,940
Effective dayrate(4)	$ 12,903	$ 8,885	$ 9,693
Tugs and Tank Barges:			
Average number of tank barges	14.6	16.0	15.9
Average fleet capacity (barrels)	1,072,075	1,156,330	1,145,064
Average barge size (barrels)	71,651	72,271	72,082
Average utilization rate(1)	87.1%	82.2%	73.6%
Average dayrate(3)	$ 13,542	$ 11,620	$ 10,971
Effective dayrate(4)	$ 11,795	$ 9,552	$ 8,075

(1) Utilization rates are average rates based on a 365-day year. Vessels are considered utilized when they are generating revenues.
(2) Average dayrates represent average revenue per day, which includes charter hire and brokerage revenue, based on the number of days during the period that the OSVs generated revenue.
(3) Average dayrates represent average revenue per day, including time charters, brokerage revenue, revenues generated on a per-barrel-transported basis, demurrage, shipdocking and fuel surcharge revenue, based on the number of days during the period that the tank barges generated revenue. For purposes of brokerage arrangements, this calculation excludes that portion of revenue that is equal to the cost paid by customers of in-chartering third-party equipment.
(4) Effective dayrate represents the average dayrate multiplied by the average utilization rate.

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

	Year Ended December 31,		
	2005	**2004**	**2003**
Revenues by segment:			
Offshore supply vessels			
Domestic	$ 88,772	$ 59,886	$ 50,044
Foreign	28,663	15,407	12,358
	117,435	75,293	62,402
Tugs and tank barges			
Domestic	57,379	50,465	43,206
Foreign (1)	7,772	6,503	5,205
	65,151	56,968	48,411
	$ 182,586	$ 132,261	$ 110,813
Operating expenses by segment:			
Offshore supply vessels	$ 35,936	$ 29,724	$ 22,786
Tugs and tank barges	30,974	28,796	24,019
	$ 66,910	$ 58,520	$ 46,805
Depreciation and amortization by segment:			
Offshore supply vessels	$ 15,197	$ 12,876	$ 9,381
Tugs and tank barges	12,073	10,259	8,209
	$ 27,270	$ 23,135	$ 17,590
Loss on early extinguishment of debt	$ 1,698	$ 22,443	$
General and administrative expenses	$ 20,327	$ 14,759	$ 10,731
Interest expense	$ 12,558	$ 17,698	$ 18,523
Interest income	$ 3,178	$ 356	$ 178
Income tax expense (benefit)	$ 21,538	$ (1,320)	$ 6,858

(1) Included are the amounts applicable to our Puerto Rico tug and tank barge operations, even though Puerto Rico is considered a possession of the United States and the Jones Act applies to vessels operating in Puerto Rican waters.

Year Ended December 31, 2005 Compared To Year Ended December 31, 2004

Revenues. Revenues were $182.6 million in 2005, compared to $132.3 million in 2004, an increase of $50.3 million or 38.0%. Revenues increased primarily as a result of the strengthening market conditions in our OSV and tug and tank barge business segments, and to a lesser extent, our average operating fleet increasing to 53 vessels at the end of 2005 from 51 vessels at the end of 2004.

Revenues from our OSV segment increased $42.1 million, or 55.9%, to $117.4 million in 2005, compared to $75.3 million in 2004. Our revenue growth is primarily attributable to the increases in OSV utilization and dayrates compared to the prior year and the addition of two AHTS vessels during the first quarter of 2005. Our utilization rate was 96.2% in 2005 compared to 87.5% in 2004. Our OSV average dayrate was $13,413 in 2005 compared to $10,154 in 2004, an increase of $3,259, or 32.1%. The increase in dayrates and utilization is

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primarily related to the significant improvement in the U.S. Gulf of Mexico market. Domestic revenues for our OSV segment were $88.8 million in 2005, an increase of $28.9 million or 48.2%, compared to $59.9 million in 2004 due to the recovery of the OSV market in the U.S. Gulf of Mexico. Foreign revenues for our OSV segment increased to $28.7 million for 2005, compared to $15.4 million in 2004, an increase of $13.3 million or 86.4%, due to having an average of three more vessels operating internationally during 2005. Based on current market trends, we anticipate that our fleetwide OSV effective dayrates will remain above 2005 levels through calendar 2006.

Revenues from our tug and tank barge segment increased $8.2 million, or 14.4%, to $65.2 million in 2005, compared to $57.0 million in 2004. Our utilization rate increased to 87.1% for 2005 compared to 82.2% for 2004. Our average dayrate of $13,542 for 2005 increased $1,922, or 16.5%, from the average dayrate of $11,620 in 2004. The increase in dayrates is attributed to higher demand for our equipment in the northeastern United States and the ability of the five double-hulled barges delivered under our first newbuild program to command higher rates as newbuild double-hulled tank barges with higher barrel-carrying capacity compared to our remaining single-hulled fleetwide average barrel-carrying capacity.

Operating Expense. Our operating expense increased to $66.9 million in 2005, compared to $58.5 million in 2004, an increase of $8.4 million or 14.4%. The increase in operating expense during 2005 is primarily due to prevailing cost inflation trends in the oilfield and the effect of recent vessel acquisitions and newbuild deliveries, offset in part by mandatory vessel retirements at the end of 2004.

Operating expense for our OSV segment increased $6.2 million, or 20.9%, to $35.9 million in 2005, compared to $29.7 million in 2004. Operating expenses were higher in 2005 due to increased crewing requirements on vessels to meet customer demand, higher insurance costs, and the addition of two AHTS vessels to our fleet in January 2005 and March 2005.

Operating expense for our tug and tank barge segment was $31.0 million in 2005, compared to $28.8 million in 2004, an increase of $2.2 million or 7.6%. Operating expenses increased due to higher fuel prices and personnel costs and the addition of two higher horsepower, ocean-going tugs and five double-hulled newbuild tank barges, offset in part by the effect of the mandatory removal of three single-hulled tank barges from service at the end of 2004. Average daily operating expense in 2006 for the tug and tank barge segment is expected to increase as a result of a full year contribution of five double-hulled tank barges and two higher horsepower tugs.

Depreciation and Amortization. Our depreciation and amortization expense of $27.3 million in 2005 increased $4.2 million or 18.2% compared to $23.1 million in 2004. This increase is primarily related to increased drydocking activity compared to 2004 and the impact of adding two AHTS vessels, five double-hulled tank barges and two 6,100 horsepower ocean-going tugs to our fleet, offset in part by the effect of the mandatory removal of three single-hulled tank barges from service since 2004. These expenses are expected to increase further when the vessels under our recently announced expansion programs are placed in service and when these and any other recently acquired and newly constructed vessels undergo their initial 30 and 60 month recertifications.

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Loss on Early Extinguishment of Debt. On November 3, 2004, we commenced a cash tender offer for all of the $175 million in aggregate principal amount of our 10.625% senior notes. Senior notes totaling approximately $159.5 million, or 91% of such notes outstanding, were validly tendered during the designated tender period. The remaining $15.5 million of our 10.625% senior notes were redeemed on January 14, 2005. Losses on early extinguishment of debt of approximately $1.7 million and $22.4 million were recorded during 2005 and 2004, respectively and includes the redemption costs and an allocable portion of the write-off of unamortized financing costs and original issue discount, and a bond redemption premium.

General and Administrative Expense. Our general and administrative expense was $20.3 million for 2005, compared to $14.8 million in 2004, an increase of $5.5 million or 37.2%. This increase resulted from higher personnel and health insurance costs, including variable incentive compensation commensurate with our record financial results, and costs associated with corporate governance initiatives such as compliance with the Sarbanes-Oxley Act. General and administrative expenses were expected to increase due to our continued growth via vessel acquisitions, our newbuild and conversion programs and our increased reporting obligations under federal securities and corporate governance laws and stock exchange requirements. However, we expect the ratio of general and administrative expenses to revenues to remain at our historical levels of approximately 11% of revenues.

Interest Expense. Interest expense was $12.6 million in 2005, compared to $17.7 million in 2004, a decrease of $5.1 million or 28.8%. The decrease in interest expense primarily relates to the refinancing of our 10.625% senior notes with 6.125% senior notes at the end of 2004. Other factors causing a decrease in interest expense was higher capitalized interest recorded during 2005 due to our fleet expansion programs. Capitalized interest was $3.9 million and $3.0 million for 2005 and 2004, respectively. See Liquidity and Capital Resources for further discussion.

Interest Income. Interest income was $3.2 million in 2005, an increase of $2.8 million or 700%, compared to $0.4 million in 2004. The increase in interest income resulted from increased interest rates and a higher average cash balance of $163.0 million, primarily due to the early fourth quarter 2005 debt and equity offerings, compared to $33.6 million in 2004. Our cash balance as of December 31, 2005 was $271.7 million.

Income Tax Expense. Our effective tax rate was 36.5% in 2005 and we recorded an income tax benefit in 2004 due to a pre-tax loss attributable to an early extinguishment of debt. See Liquidity and Capital Resources for further discussion. We also recorded deferred taxes due to our federal tax net operating loss carryforwards primarily generated by accelerated depreciation for tax purposes of approximately $92 million as of December 31, 2005. These loss carryforwards are available through 2020 to offset future taxable income. 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.

Year Ended December 31, 2004 Compared To Year Ended December 31, 2003

Revenues. Revenues were $132.3 million in 2004, compared to $110.8 million in 2003, an increase of $21.5 million or 19.4%. The increase in revenues was primarily the result of the

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year-over-year increase in the size of our fleet. Our operating fleet grew from an average of 45 vessels during 2003 to an average of 51 vessels during 2004. The additional revenues generated by newly constructed or acquired vessels that were not in operation during all of 2003 and 2004 accounted for $15.8 million of the increase in our revenues. We also experienced a $5.7 million increase in revenues from our 45 vessels that were in service during each of the years ended December 31, 2004 and 2003 due to improving market conditions in both of our business segments.

Revenues from our OSV segment increased to $75.3 million in 2004, compared to $62.4 million for 2003, an increase of $12.9 million or 20.7%. Our average OSV fleet size grew by 5.5 vessels during 2004 compared to 2003. The average utilization rate was 87.5% for 2004, compared to 88.6% for 2003. Although there was a 1.1% decrease in utilization for 2004, the early stages of 2004 were marked with utilization in the mid to low-80 s while the latter part of 2004 had utilization in the low to mid-90 s. Our OSV average dayrate was $10,154 for 2004, compared to $10,940 for 2003, a decrease of $786 or 7.2%. The decrease in average dayrates primarily reflected the change in our average vessel size as 2004 was the first full year of operating results for the six 220 class vessels that were acquired in mid-2003. While our annual average dayrates were lower in 2004 compared to 2003, average dayrates for the fourth quarter of 2004 have returned to annual 2003 levels. Domestic revenues were also higher in 2004 than the prior year due mainly to the recovery of the OSV market in the U.S. Gulf of Mexico. Foreign revenues were positively impacted by having two additional vessels working internationally during 2004.

Revenues from our tug and tank barge segment totaled $57.0 million in 2004, compared to $48.4 million in 2003, an increase of $8.6 million or 17.8%. Our utilization rate increased to 82.2% for 2004, compared to 73.6% for 2003, primarily due to extended cold weather in the spring of 2004, fewer days out of service for drydockings and repairs in 2004 compared to 2003, and increased movements of diesel and unleaded gasoline barrels as gasoline inventories during the summer of 2004 were at 30-year seasonal record lows. Our average dayrates were $649 higher in 2004 than the prior year as a tightening tank barge market in the northeastern United States contributed to higher freight rates and fuel shortages during the summer of 2004 that caused higher barrel movements for gasoline and diesel fuel.

Operating Expenses. Our operating expenses increased to $58.5 million for 2004, compared to $46.8 million in 2003, an increase of $11.7 million or 25.0%. The increase in operating expenses was the result of having more vessels in service during 2004 compared to 2003 and increasing costs related to newly instituted Homeland Security measures, training, repair and maintenance, and insurance.

Operating expenses for our OSV segment increased $6.9 million, or 30.3%, in 2004 to $29.7 million, compared to $22.8 million in 2003. This increase was primarily the result of having an average of six more new OSVs in service during 2004 compared to 2003. Daily operating costs per vessel in the OSV segment 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 expenses for our tug and tank barge segment was $28.8 million for 2004, compared to $24.0 million in 2003, an increase of $4.8 million or 20.0%. The increase in operating expenses was primarily the result of higher fuel, insurance and personnel costs

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along with the increased cost of compliance of newly instituted Homeland Security measures. Average daily operating costs per vessel for 2004 increased over 2003 commensurately with the overall increase in operating expenses discussed above.

Depreciation and Amortization. Our depreciation and amortization expense of $23.1 million for 2004 increased $5.5 million or 31.3% compared to $17.6 million for 2003. Depreciation and amortization were higher in 2004 as a result of having an average of six additional vessels in our fleet and increased drydocking activity compared to 2003. These expenses are expected to increase further with the recent acquisition of two ocean-going tugs, two AHTS vessels and the construction of five double-hulled tank barges, and when these and any other recently acquired and newly constructed vessels undergo their initial 30 and 60 month recertifications.

Loss on Early Extinguishment of Debt. On November 3, 2004, we commenced a cash tender offer for all of the $175 million in aggregate principal amount of our 10.625% senior notes. Senior notes totaling approximately $159.5 million, or 91% of such notes outstanding, were validly tendered during the designated tender period. The remaining $15.5 million of our 10.625% senior notes were redeemed on January 14, 2005. A loss on early extinguishment of debt of approximately $22.4 million was recorded during the fourth quarter of 2004 and includes the tender offer costs and an allocable portion of the write off of unamortized financing costs and original issue discount, and a bond redemption premium. A loss on early extinguishment of debt of approximately $1.7 million will be recorded for the first quarter of 2005 for those costs allocable to the $15.5 million of our 10.625% senior notes redeemed on January 14, 2005.

General and Administrative Expenses. Our general and administrative expenses were $14.8 million for 2004, compared to $10.7 million in 2003, an increase of $4.1 million or 38.3%. This increase primarily resulted from increased overhead relating to the additional vessels purchased, the increased costs of operating as a public company and, during the fourth quarter 2004, several discrete charges related to increased employee bonuses, insurance and legal fees. General and administrative expenses are expected to trend higher in 2005 to accommodate our continued growth via vessel acquisitions, the current construction of five double-hulled tank barges, and our increased reporting obligations under federal securities and corporate governance laws and stock exchange requirements.

Interest Expense. Interest expense from debt obligations was $17.7 million in 2004, compared to $18.5 million in 2003, a decrease of $0.8 million or 4.3%. The decrease in interest expense primarily relates to having an average balance outstanding under our revolving credit facility of $12.0 million during 2004 compared to $20.0 million during 2003 and having outstanding balances on such facility during only three months of 2004 compared to 11 months of 2003. Other factors causing a decrease in interest expense are continued increases in our capitalized interest due to the construction of double-hulled tank barges and the November 2004 issuance of 6.125% senior notes to repurchase a portion of our outstanding 10.625% senior notes. See Liquidity and Capital Resources for further discussion. Capitalization of interest costs relating to new construction of vessels was approximately $3.0 million for 2004 compared to $2.7 million for 2003.

Interest Income. Interest income was $0.4 million in 2004, compared to $0.2 million in 2003, an increase of $0.2 million or 100%. The increase in interest income resulted from

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increased interest rates along with higher average cash balances invested during 2004 compared to 2003. Average cash balances were $33.6 million and $17.6 million for the years ended December 31, 2004 and 2003, respectively.

Income Tax Expense. We recorded an income tax benefit for 2004, compared to an income tax provision for 2003, due to a pre-tax loss attributable to an early extinguishment of debt. See Liquidity and Capital Resources for further discussion. We also recorded deferred taxes due to our federal tax net operating loss carryforwards primarily generated by accelerated depreciation for tax purposes of approximately $95 million as of December 31, 2004. These loss carryforwards are available through 2018 to offset future taxable income. 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, proceeds from issuances of our debt and common equity securities, and borrowings under our credit facilities. We require capital to fund ongoing operations, 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 change significantly during 2006.

We have a five-year $100 million senior secured revolving credit facility with a current borrowing base of $60 million. As of December 31, 2005, we had $60 million of credit immediately available under such facility. On October 5, 2005, we used a portion of the net proceeds from a public offering of common stock and a concurrent private placement of additional 6.125% senior notes to pay down our revolving credit facility to a zero balance. 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 of new vessels, conversion or retrofit of existing vessels or acquisition of additional vessels, including OSVs, MPSVs, AHTS vessels, fast supply vessels, ocean-going tugs, tank barges and tankers, as needed to take advantage of the demand for such vessels.

On August 31 and September 1, 2005, respectively, we filed with the Commission registration statements on Form S-3 and Form S-4 in connection with a $350.0 million universal shelf and a $150.0 million acquisition shelf. On September 15, 2005, each of these registration statements was declared effective by the Commission. On October 4, 2005, we closed the private placement of $75.0 million of additional 6.125% senior notes that were priced at 99.25% of principal. On October 5, 2005, we closed an underwritten public offering of 6.1 million shares of our common stock at a price to the public of $35.35 per share, for total gross proceeds to us of $215.6 million before underwriting discounts, commissions and offering expenses. This public offering also included an additional 2.0 million shares sold by a selling stockholder, but we did not receive any proceeds from such sale.

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

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requirements for the foreseeable future and, together with the proceeds from the October 2005 senior notes and common stock offerings, will fund the recently announced vessel newbuild and conversion programs. 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. 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 $75.8 million in 2005, $21.4 million in 2004, and $25.5 million in 2003. The increase in operating cash flows from 2004 to 2005 was primarily related to substantially improved market conditions in both of our business segments, reduced drydock expenditures, the growth of our fleet and the net effect of the bond refinancing that we commenced in November 2004, which resulted in a lower interest rate and a change in the timing of our interest payments. Our cash flow from operations for the year ended December 31, 2005 reflects a full period of revenue contribution from one OSV and one fast supply vessel that were added to our fleet during 2004 and partial period contributions from two AHTS vessels and five new double-hulled tank barges that were placed in service during 2005. The decrease in operating cash flows from 2003 to 2004 was due to increased cash outlays associated with OSV drydocking activity and the timing of interest payments resulting from the early extinguishment of debt in November 2004. Our cash flows from operations are expected to trend higher in 2006, as we will have a full year of revenue contribution from the five new double-hulled tank barges and two AHTS vessels that were delivered and acquired, respectively, during 2005. In 2006, we expect to drydock a total of eleven OSVs, five tugs, and six tank barges for recertification and/or discretionary vessel enhancements, which together with non-vessel capital expenditures related primarily to information technology initiatives, is estimated to cost approximately $24.0 million.

As of December 31, 2005, we had federal tax net operating loss carryforwards of approximately $92 million available through 2020 to offset future federal taxable income. These federal tax net operating losses were generated primarily through accelerated tax depreciation applied to our vessels. Our use of these 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 projected fleet, we expect to continue generating federal tax net operating losses over the near term.

Investing Activities. Cash invested for 2005 was approximately $120.6 million, which primarily consisted of construction costs incurred for our first tank barge newbuild program and the acquisitions of two foreign-flagged AHTS vessels and one coastwise tanker, the latter of which will be retrofitted under the MPSV conversion program described below. The *HOS Saylor* and *HOS Navegante* were purchased in January and March 2005, respectively. The aggregate purchase price and retrofit costs, excluding capitalized interest, incurred during 2005 for the AHTS vessels was $29.2 million. We also took delivery of five double-hulled newbuild tank barges, the *Energy 13501, Energy 13502, Energy 11103*, *Energy 11104* and *Energy 11105,* throughout 2005. These five new double-hulled tank barges have more than

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replaced the barrel-carrying capacity of the three single-hulled vessels that were retired from service by January 1, 2005, pursuant to OPA 90. The net increase in our fleet barrel-carrying capacity since 2004 is approximately 330,000 barrels, or 29%.

In August and September 2005, we acquired two 6,100 horsepower tugs, which were renamed the *Eagle Service* and *Patriot Service*, respectively. The aggregate cost, before capitalized interest, to purchase and retrofit these vessels is expected to be approximately $16.0 million, of which $12.5 million was incurred in 2005. The two new tugs are expected to be placed in service during the late first quarter of 2006 to service newbuild tank barges delivered in 2005. The cash utilized for investing activities during 2005 was partially offset by approximately $4.3 million of net cash inflows from the sales of the *Energy 9801* and the *Energy 9501*, two retired single-hulled tank barges, and the *Yabucoa Service* and the *North Service*, 3,000 and 2,200 horsepower tugs, respectively.

In May 2005, we announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, new generation 370 class MPSVs. The total project cost to acquire and convert the two vessels is currently expected to be at least $65.0 million in the aggregate. While we are not yet contractually committed to a shipyard for the costs associated with this conversion program, approximately $11.9 million has been incurred to-date for the purchase of owner-furnished equipment, prior to construction period interest. The remaining conversion costs are expected to be incurred during 2006 and 2007. We plan to fund the project from current cash on-hand and projected cash flow from operations. We anticipate delivery of the converted vessels during 2007. The *M/V W.K. McWilliams, Jr.*, which we acquired in November 2001 and renamed the *Energy Service 9001*, and the *M/V Benno C. Schmidt*, the sister vessel to the *Energy Service 9001* that we acquired in May 2005, are the two coastwise tankers that will be converted under the MPSV conversion program.

In September 2005, we announced new vessel construction programs for each of our two business segments. These will be our fourth OSV newbuild program and second tug and tank barge newbuild program. In February 2006, we announced an expansion of our fourth OSV newbuild program. Based on internal estimates, the incremental cost of these two programs is expected to be approximately $395.0 million in the aggregate, prior to the allocation of construction period interest. Our fourth OSV newbuild program includes the recently announced four purpose-built 240EDF class OSVs at an estimated cost of approximately $80 million, in the aggregate. We are now contractually committed to a Gulf Coast shipyard for two of the four 240EDF class OSVs and a West Coast shipyard for the two remaining vessels. The latter contract includes options for two additional vessels. This OSV newbuild program is expected to create up to an additional 37,000 deadweight tons of vessel capacity at an estimated cost of approximately $290.0 million. The 240EDF class OSVs are expected to be delivered by mid-2008, with the first vessel due in late 2007. The precise number of remaining vessels to be constructed under our fourth OSV newbuild program, their specifications and expected delivery dates will be finalized as certain milestones are completed, including the negotiation of shipyard contracts. We also plan to build several new double-hulled tank barges with an aggregate 400,000 barrels of additional barrel-carrying capacity and, unlike our first tank barge newbuild program, we may construct the related ocean-going tugs to be used as power units for the new barges. The estimated incremental cost of the new ocean-going tugs and ocean-going tank barges is expected to be approximately $105.0 million, in the aggregate. We are now contractually committed with one domestic shipyard to build three 60,000-barrel barges under the second tug and tank barge newbuild program, of which

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approximately $3.7 million, prior to construction period interest, was incurred during 2005. All of the new vessels to be constructed under the second tug and tank barge newbuild program are expected to be delivered from mid-2007 through mid-2008. Construction costs related to the fourth OSV newbuild program and the second tug and tank barge newbuild program will be funded, in part, with a portion of the proceeds from our recent common stock offering and concurrent senior note offering and projected cash flow from operations.

For those vessels for which we are not contractually committed to a shipyard, projected timing and pricing are subject to change due to delays and cost overruns inherent in any large construction project, including shortages of equipment, lack of shipyard availability, unforeseen engineering problems, work stoppages, weather interference, unanticipated cost increases, inability to obtain necessary certifications and approvals and shortages of materials or skilled labor.

Cash flows from investing activities in 2004 were approximately $61.4 million, primarily for the construction of new double-hulled tank barges, the acquisition of two tugs that were retrofitted and renamed the *Freedom Service* and *Liberty Service* and one fast supply vessel, the *HOS Hotshot*, along with discretionary vessel and non-vessel capital expenditures. During 2003, cash invested was approximately $99.8 million, for the construction of new vessels, acquisitions of six OSVs and a double-hulled tank barge, and miscellaneous capital expenditures. These 2003 expenditures were offset by $1.7 million in cash proceeds from the sale of one tank barge.

In 2006, investing activities are anticipated to include costs to complete the retrofit costs of the second two higher horsepower tugs, the conversion of the two MPSVs, the acquisition, retrofit or conversion of additional vessels, in addition to construction costs related to our recently announced OSV and tug and tank barge newbuild programs and other capital expenditures, including discretionary vessel modifications and corporate projects. See Contractual Obligations for a brief overview of anticipated vessel construction commitments in 2006.

Financing Activities. Net cash provided by financing activities was $262.2 million for 2005, which is primarily the result of an underwritten public offering of 6.1 million shares of our common stock at a price to the public of $35.35 per share resulting in net proceeds of approximately $205.4 million during October 2005. We also received approximately $73.1 million in net proceeds in connection with the concurrent private placement of an additional $75.0 million in aggregate principal amount of our 6.125% senior notes due 2014, or additional notes, under our indenture dated as of November 23, 2004. The additional notes were priced at 99.25% of principal amount to yield 6.41% and have substantially the same terms as the existing senior notes issued in November 2004, except that the issuance of the additional notes was not registered under the Securities Act. An exchange offer is currently in process to exchange the unregistered additional notes for registered notes. Net cash provided by financing activities during 2005 was also offset by the redemption of the $15.5 million non-tendered 10.625% senior notes in January 2005.

Financing activities during 2004 generated $81.4 million and consisted of cash inflows generated by the November 2004 issuance of 6.125% senior notes and the initial public offering of our common stock, which was completed in March 2004. These cash inflows were offset by the repurchase of 91% of our outstanding 10.625% senior notes and the repayment

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of amounts then outstanding on our revolving credit facility in March 2004. Cash provided by financing activities in 2003 consisted of the private placement of approximately 1.9 million shares of our common stock, raising net cash proceeds of approximately $23.3 million that were used in part, together with borrowings under our revolving credit facility of $40 million, to fund certain vessel purchases.

Contractual Obligations

The following table sets forth our aggregate contractual obligations as of December 31, 2005 (in thousands).

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	Thereafter
Senior notes(1)	$ 300,000	$	$	$	$ 300,000
Interest payments(2)	165,375	18,375	55,125	55,125	36,750
Operating leases(3)	41,450	3,701	7,868	3,021	26,860
Vessel construction commitments(4)	43,701	39,781	3,920		
Total	$ 550,526	$ 61,857	$ 66,913	$ 58,146	$ 363,610

(1) Our 6.125% senior notes mature on December 1, 2014 and include $551 of original issue discount.

(2) Interest payments relate to our 6.125% senior notes due December 1, 2014 with semi-annual interest payments of $9.2 million payable June 1 and December 1.

(3) Included in operating leases are commitments for vessel rentals, a port facility, office space, office equipment and vehicles. See Properties for additional information regarding our leased office space and other facilities.

(4) 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.

We have a $100.0 million revolving credit facility due February 2009 with a borrowing base of $60.0 million. As of December 31, 2005, we had no outstanding balance and $60.0 million of borrowing capacity immediately available under the facility. We plan to negotiate a new revolving credit facility with our current bank group, and possibly add new lenders, in early 2006. Our goal will be to provide for, among other things, a longer maturity, increased borrowing capacity, lower interest rates and an updated covenant package commensurate with our improved credit standing.

As of December 31, 2005, we had outstanding debt of $299.4 million, net of original issue discount, under our 6.125% senior unsecured notes, or senior notes. The effective interest rate on the senior notes is 6.39%. Semi-annual cash interest payments of $9.2 million are payable each June 1 and December 1. The senior notes do not require any payments of principal prior to their stated maturity on December 1, 2014, but pursuant to the indenture under which the senior notes are issued, we would be 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 6 of our audited consolidated financial statements included herein.

As of December 31, 2005, we were committed under vessel construction contracts with one domestic shipyard for a total of three 60,000-barrel double-hulled tank barges under our second tug and tank barge newbuild program. Approximately $3.7 million has been incurred under such newbuild program during 2005 before construction period interest. For the year ended December 31, 2005, we incurred $65.8 million, excluding capitalized interest, for our first tank barge newbuild program, which was comprised of the construction of five new double-hulled tank barges and the purchase and retrofit of four higher horsepower, ocean-

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going tugs. This program is expected to cost, prior to construction period interest, approximately $121.0 million in the aggregate, of which approximately $116.4 million was incurred and paid from October 2003 through December 2005. We expect to incur the remaining balance of $4.6 million in the first quarter of 2006. All five double-hulled tank barges under our first tug and tank barge newbuild program were delivered in 2005. The two remaining 6,100 horsepower tugs under that program are being retrofitted and are expected to be placed in service during the late first quarter of 2006.

In 2006, we expect to drydock a total of eleven OSVs, five tugs, and six tank barges for recertification and/or discretionary vessel enhancements, which together with non-vessel capital expenditures related primarily to information technology initiatives, is estimated to cost approximately $24.0 million, which includes approximately $13.5 million for deferred drydocking charges. For the year ended December 31, 2005, we expended approximately $10.8 million for our vessel capital maintenance program, of which $6.8 million was accounted for as deferred drydocking charges and $4.0 million for other vessel capital improvements. During 2005, we also expended approximately $2.6 million for miscellaneous non-vessel related additions to property, plant and equipment and information technology initiatives.

Inflation

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

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board, or FASB, issued FASB Statement No. 123 (revised 2004), Share-Based Payment, or SFAS 123R, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation, or SFAS 123. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, or APB 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Accordingly, the adoption of SFAS 123R s fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial condition. The impact of adoption of SFAS 123R is expected to result in additional compensation expense of approximately $2.9 million, net of tax, for the 2006 fiscal year. In addition, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 8 to our audited consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current GAAP literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options, the amount of operating cash flows recognized for such excess tax deductions was approximately $1.7 million for the year ended December 31, 2005. On April 14, 2005, the Commission, announced amended compliance

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dates for SFAS 123R. The Commission previously required companies to adopt this standard no later than July 1, 2005, but the new rule allows companies to implement SFAS 123R at the beginning of their next fiscal year, that begins after June 15, 2005. We will not be required to report under SFAS 123R until the quarter ending March 31, 2006 and do not currently intend to adopt this standard for reporting prior to such time. See Note 8 of these audited consolidated financial statements for further discussion of our Incentive Compensation Plan.

Forward-Looking Statements

We make forward-looking statements in this Annual Report on Form 10-K, including certain information set forth in the sections entitled Business and Properties and 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 cautionary statements we make in this Annual Report on Form 10-K.

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 vessels in our markets;
- the effects of competition;
- our ability to complete vessels under construction or refurbishment without significant delays or cost overruns;
- our ability to integrate acquisitions successfully;
- our ability to obtain or maintain adequate levels of insurance;
- 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;

changes in foreign currency exchange rates;

adverse domestic or foreign tax consequences;

uncollectible foreign accounts receivable or longer collection periods on such accounts;

financial stability of our customers;

retention of skilled employees and our management;

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- laws governing the health and safety of our employees working offshore;
- catastrophic marine disasters;
- adverse weather and sea conditions;
- oil and hazardous substance spills;
- war and terrorism;
- acts of God;
- our ability to finance our operations on acceptable terms and access the debt and equity markets to fund our capital requirements, which may 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 Annual Report on Form 10-K may not occur.

Item 7A ***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.

Changes in interest rates may result in changes in the fair market value of our financial instruments, interest income and interest expense. Our financial instruments that are exposed to interest rate risk are cash equivalents and long-term borrowings. Due to the short duration and conservative nature of our cash equivalent investment portfolio, we do not expect any material loss with respect to our investments. The book value for cash equivalents is considered to be representative of its fair value.

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 currently outstanding senior notes accrue interest at the rate of 6.125% per annum and mature on December 1, 2014 and the effective interest rate on such notes is 6.39%. Our revolving credit facility has a variable interest rate and, therefore, is not subject to interest rate risk.

Our operations are primarily conducted between U.S. ports, including along the coast of Puerto Rico, and historically we have not been exposed to foreign currency fluctuation. However, as we expand our operations to international markets, we may become exposed to certain risks typically associated with foreign currency fluctuation. We currently have time charters for four of our OSVs for service offshore Trinidad. Although such contracts are denominated and will be paid in U.S. Dollars, value added tax, or VAT, payments are paid in Trinidad & Tobago dollars which creates an exchange risk related to currency fluctuations. In

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addition, we are currently operating under fixed time charters with one of our other OSVs and our fast supply vessel for service offshore Mexico. Although we are paid in U.S. Dollars, there is an exchange risk to foreign currency fluctuations related to the payment terms of such time charters. To date, we have not hedged against any foreign currency rate fluctuations associated with foreign currency VAT payments or other foreign currency denominated transactions arising in the normal course of business. We continually monitor the currency exchange risks associated with conducting international operations. To date, gains or losses associated with such fluctuations have not been material.

Item 8 ***Financial Statements and Supplementary Data***

The financial statements and information required by this Item appear on pages F-1 through F-21 of this Annual Report on Form 10-K.

Item 9 ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosures***

None

Item 9A ***Controls and Procedures***

Disclosure Controls And Procedures

Management s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13(a)-15(e). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with U.S. generally accepted accounting principles; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with authorizations of the Company s management and board of directors; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies of procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2005, utilizing the criteria set forth in the report entitled Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon such assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Hornbeck Offshore Services, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Hornbeck Offshore Services, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hornbeck Offshore Service Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Hornbeck Offshore Services, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Hornbeck Offshore Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria**.**

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hornbeck Offshore Services, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005 of Hornbeck Offshore Services, Inc. and our report dated January 27, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

New Orleans, LA

January 27, 2006

Item 9B ***Other Information***

None.

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PART III

Item 10 ***Directors and Executive Officers of the Registrant***

The information required under this item is incorporated by reference herein from the Company s definitive 2006 proxy statement anticipated to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005.

Item 11 ***Executive Compensation***

The information required under this item is incorporated by reference herein from the Company s definitive 2006 proxy statement anticipated to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005.

Item 12 ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required under this item is incorporated by reference herein from the Company s definitive 2006 proxy statement anticipated to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005.

Item 13 ***Certain Relationships and Related Transactions***

The information required under this item is incorporated by reference herein from the Company s definitive 2006 proxy statement anticipated to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005.

Item 14 ***Principal Accounting Fees and Services***

The information required under this item is incorporated by reference herein from the Company s definitive 2006 proxy statement anticipated to be filed with the Securities and Exchange Commission within 120 days after December 31, 2005.

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PART IV

Item 15 ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) The following items are filed as part of this report:

1. *Financial Statements*. The financial statements and information required by Item 8 appear on pages F-1 through F-21 of this report. The Index to Consolidated Financial Statements appears on page F-1.

2. *Financial Statement Schedules*. All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

3. *Exhibits*.

Exhibit Number	Description of Exhibit
3.1	Second Restated Certificate of Incorporation of the Company, as amended through May 5, 2005 (incorporated by reference to Exhibit 3.1 to the Company s Form 10-Q for the period ended March 31, 2005).
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 (incorporated by reference to Exhibit 3.3 to the Company s Form 10-Q for the quarter ended June 30, 2004).
4.1	Exchange and Registration Rights Agreement, dated as of October 4, 2005, among Goldman, Sachs & Co., Bear, Stearns & Co., Inc., Jefferies & Company, Inc., Hornbeck Offshore Services, Inc. and the guarantors party thereto (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated October 4, 2005).
4.1	Indenture dated as of November 23, 2004 between the Company, the guarantors named therein and Wells Fargo Bank, National Association (as Trustee), including table of contents and cross-reference sheet (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated November 18, 2004).
4.2	Exchange and Registration Rights Agreement, dated as of November 23, 2004, among Goldman, Sachs & Co., Bear, Stearns & Co., Inc., Jefferies & Company, Inc., Hornbeck Offshore Services, Inc. and the guarantors party thereto (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K dated November 18, 2004).
4.3	Specimen 6.125% Series B Senior Note due 2014 (incorporated by reference to Exhibit 4.5 to the Company s Amendment No. 1 to Registration Statement on Form S-4 dated February 7, 2005, Registration No. 333-121557).

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Exhibit Number	Description of Exhibit
4.4	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).
4.5	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).
4.6	Second Amendment to Rights Agreement dated as of September 3, 2004 by and between the Company and Mellon Investor Services, LLC as Rights Agent (incorporated by reference to Exhibit 4.3 to the Company s Form 8-A/A file September 3, 2004, Registration No. 333-108943).
4.7	Stockholders Agreement dated as of October 27, 2000 between the Company, Todd M. Hornbeck, Troy A. Hornbeck, Cari Investment Company and SCF-IV, L.P. (incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.1	Amended and Restated Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q for the period ended September 30, 2003).
10.2	Senior Employment Agreement dated effective January 1, 2001 by and between Todd M. Hornbeck and the Company (incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
10.3	Employment Agreement dated effective January 1, 2001 by and between Carl Annessa and the Company (incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
10.4	Employment Agreement dated effective January 1, 2001 by and between James O. Harp, Jr. and the Company (incorporated by reference to Exhibit 10.5 to the Company s Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
10.5	Amendment to Senior Employment Agreement dated effective February 17, 2003 by and between Todd M. Hornbeck and the Company (incorporated by reference to Exhibit 10.15 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.6	Amendment to Employment Agreement dated effective February 17, 2003 by and between Carl G. Annessa and the Company (incorporated by reference to Exhibit 10.16 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).

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Exhibit Number	Description of Exhibit
10.7	Amendment to Employment Agreement dated effective February 17, 2003 by and between James O. Harp, Jr. and the Company (incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.8	Second Amendment to Senior Employment Agreement dated effective March 10, 2005 by and between Todd M. Hornbeck and the Company (incorporated by reference to Exhibit 10.8, 10.9 and 10.10 to the Company s Form 10-K for the period ended December 31, 2004).
10.9	Second Amendment to Employment Agreement dated effective March 10, 2005 by and between Carl G. Annessa and the Company (incorporated by reference to Exhibit 10.8, 10.9 and 10.10 to the Company s Form 10-K for the period ended December 31, 2004).
10.10	Second Amendment to Employment Agreement dated effective March 10, 2005 by and between James O. Harp, Jr. and the Company (incorporated by reference to Exhibit 10.8, 10.9 and 10.10 to the Company s Form 10-K for the period ended December 31, 2004).
10.11	Amended and Restated Credit Agreement dated as of February 13, 2004 among Hornbeck Offshore Services, Inc. and Hibernia National Bank, as agent, and Hibernia National Bank, Fortis Capital Corp., Southwest Bank of Texas, N.A., DVB Bank Aktiengesellscheft and Wells Fargo Bank, N.A., as lenders (incorporated by reference to Exhibit 10.5 to the Company s Form 10-K for the period ended December 31, 2003).
10.12	Form of Indemnification Agreement for directors, officers and key employees (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement of Form S-1 filed July 22, 2002, Registration No. 333-96833).
10.13	Form of First Amendment to Indemnification Agreement for Directors, Officers and Key Employees (incorporated by reference to Exhibit 10.6 to the Company s Form 10-Q for the period ended September 30, 2003).
10.14	Asset Purchase Agreement dated as of June 20, 2003 by and among HOS-IV, LLC, Candy Marine Investment Corporation, Candy Fleet Corporation and Kenneth I. Nelkin, and joined for limited purposes by Hornbeck Offshore Services, Inc. (incorporated by reference to Exhibit 2.1 of the Company s Current Report on Form 8-K filed July 7, 2003).
*10.15	Director & Advisory Director Compensation Policy, effective February 14, 2006.
10.16	Form of Executive Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.16 to the Company s Form 10-K for the period ended December 31, 2004).
10.17	Form of Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.17 to the Company s Form 10-K for the period ended December 31, 2004).
10.18	Form of Employee Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.18 to the Company s Form 10-K for the period ended December 31, 2004).

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Exhibit Number	Description of Exhibit
10.19	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).
10.20	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).
10.21	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).
10.22	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).
10.23	Letter Agreement dated September 24, 2001 between the Company, Todd M. Hornbeck, Troy A. Hornbeck, Cari Investment Company and SCF-IV, L.P. (incorporated by reference to Exhibit 4.7 to the Company s Registration Statement on Form S-1 filed September 19, 2003, Registration No. 333-108943).
*10.24	Form of Executive Restricted Stock Agreement.
*10.25	Form of Director Restricted Stock Agreement.
*10.26	Form of Employee Restricted Stock Agreement.
*23.1	Consent of Ernst & Young, LLP.
*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.
99.1	Amended and Restated Credit Agreement Confirmation dated December 29, 2004 (incorporated by reference to Exhibit 99.4 to the Company s Amendment No. 1 to Registration Statement on Form S-4 dated February 7, 2005, Registration No. 333-121557).

* Filed herewith.
Compensatory plan or arrangement under which executive officers or directors of the Company may participate.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Hornbeck Offshore Services, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Hornbeck Offshore Services, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hornbeck Offshore Service Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Hornbeck Offshore Services, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Hornbeck Offshore Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hornbeck Offshore Services, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005 of Hornbeck Offshore Services, Inc. and our report dated January 27, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

New Orleans, LA

January 27, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Hornbeck Offshore Services, Inc.

We have audited the accompanying consolidated balance sheets of Hornbeck Offshore Services, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hornbeck Offshore Services, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

ERNST & YOUNG LLP

New Orleans, Louisiana

January 27, 2006

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31,	
	2005	**2004**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 271,739	$ 54,301
Accounts receivable, net of allowance for doubtful accounts of $495 and $407, respectively	35,990	22,028
Prepaid insurance	1,355	530
Property taxes receivable	3,788	2,936
Other current assets	2,934	1,934
Total current assets	315,806	81,729
Property, plant and equipment, net	462,041	361,219
Goodwill, net	2,628	2,628
Deferred charges, net	15,904	14,863
Other assets	296	132
Total assets	$ 796,675	$ 460,571
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 15,709	$ 4,845
Accrued interest	1,653	2,391
Accrued payroll and benefits	6,893	3,991
Deferred revenue	24	1,723
Current portion of long-term debt, net of original issue discount of $0 and $97		15,449
Other accrued liabilities	1,056	774
Total current liabilities	25,335	29,173
Revolving credit facility		
Long-term debt, net of original issue discount of $551 and $0 respectively	299,449	225,000
Deferred tax liabilities, net	41,558	22,247
Other liabilities	838	1,247
Total liabilities	367,180	277,667
Stockholders equity:		
Preferred stock: $0.01 par value; 5,000 shares authorized; no shares issued and outstanding		
	271	208

Common stock: $0.01 par value; 100,000 shares authorized; 27,151 and 20,822 shares issued and outstanding, respectively		
Additional paid-in capital	372,303	163,264
Retained earnings	56,843	19,400
Accumulated other comprehensive income	78	32
Total stockholders equity	429,495	182,904
Total liabilities and stockholders equity	$ 796,675	$ 460,571

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2005	2004	2003
Revenues	$ 182,586	$ 132,261	$ 110,813
Costs and expenses:			
Operating expenses	66,910	58,520	46,805
Depreciation	19,954	17,408	14,393
Amortization	7,316	5,727	3,197
General and administrative expenses	20,327	14,759	10,731
	114,507	96,414	75,126
Operating income	68,079	35,847	35,687
Other income (expense):			
Loss on early extinguishment of debt	(1,698)	(22,443)	
Gain on sale of assets	1,893	65	712
Interest income	3,178	356	178
Interest expense	(12,558)	(17,698)	(18,523)
Other income, net	87	70	(6)
Other income (expense)	(9,098)	(39,650)	(17,639)
Income (loss) before income taxes	58,981	(3,803)	18,048
Income tax expense (benefit)	21,538	(1,320)	6,858
Net income (loss)	$ 37,443	$ (2,483)	$ 11,190
Basic earnings (loss) per common share	$ 1.67	$ (0.13)	$ 0.84
Diluted earnings (loss) per common share	$ 1.64	$ (0.13)	$ 0.82
Weighted average basic shares outstanding	22,369	19,330	13,397
Weighted average diluted shares outstanding	22,837	19,330	13,604

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total Stockholders
	Shares	Amount	Capital	Earnings	Income	Equity
Balance at January 1, 2003	12,122	$ 121	$ 61,062	$ 10,693	$	$ 71,876
Private placement of common stock	2,400	24	29,243			29,267
Other shares issued	6		46			46
Comprehensive income:						
Net income				11,190		11,190
Foreign currency translation					16	16
Total comprehensive income						11,206
Balance at December 31, 2003	14,528	$ 145	$ 90,351	$ 21,883	$ 16	$ 112,395
Initial public offering of common stock	6,126	61	71,743			71,804
Other shares issued	168	2	1,170			1,172
Comprehensive income:						
Net loss				(2,483)		(2,483)
Foreign currency translation					16	16
Total comprehensive income						(2,467)
Balance at December 31, 2004	20,822	$ 208	$ 163,264	$ 19,400	$ 32	$ 182,904
Public offering of common stock	6,100	61	205,058			205,119
Other shares issued	229	2	3,981			3,983
Comprehensive income:						
Net income				37,443		37,443
Foreign currency translation					46	46
Total comprehensive income						37,489
Balance at December 31, 2005	27,151	$ 271	$ 372,303	$ 56,843	$ 78	$ 429,495

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 37,443	$ (2,483)	$ 11,190
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	19,954	17,408	14,393
Amortization	7,316	5,727	3,197
Provision for bad debts	88	(47)	56
Deferred tax expense (benefit)	21,538	(1,320)	6,858
Gain on sale of assets	(1,893)	(65)	(712)
Equity in income from investment	(143)	(87)	(17)
Loss on early extinguishment of debt	1,698	22,443	
Amortization of financing costs	758	1,532	1,531
Changes in operating assets and liabilities:			
Accounts receivable	(13,999)	(5,437)	(2,297)
Prepaid insurance and other current assets	(2,771)	(5,740)	(1,635)
Deferred drydocking charges	(6,827)	(8,530)	(6,100)
Accounts payable	12,216	1,130	(1,627)
Accrued liabilities and other liabilities	2,865	503	610
Deferred revenue	(1,699)	1,723	
Accrued interest	(738)	(5,352)	52
Net cash provided by operating activities	75,806	21,405	25,499
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions and retrofit of tugs and tank barges	(15,795)	(6,500)	(7,400)
Acquisitions and retrofit of OSVs	(30,555)	(3,500)	(48,000)
Construction of tugs and tank barges	(58,573)	(39,191)	(34,438)
Construction of OSVs and conversion of MPSVs	(13,484)	(2,433)	(3,609)
Net proceeds from the sale of vessels	4,347		1,650
Vessel capital expenditures	(3,979)	(8,786)	(5,060)
Non-vessel capital expenditures	(2,578)	(968)	(1,309)
Net cash used in investing activities	(120,617)	(61,378)	(98,166)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of senior notes	74,438	225,000	
Repayment of senior notes	(15,546)	(159,454)	
Redemption premium on retirement of debt	(1,436)		
Payments for bond refinancing costs		(21,006)	
Net proceeds from (payments on) borrowings under revolving credit facility		(40,000)	40,000
Proceeds from borrowings under other debt agreements			1,656
Payments on borrowings under other debt agreements			(1,488)
Deferred financing costs	(2,286)	3,842	(159)
Gross proceeds from public offerings of common stock	215,635	79,643	
Payments for public offering costs	(10,516)	(7,839)	
Net cash proceeds from other shares issued	1,913	1,172	23,313

Net cash provided by financing activities	262,202	81,358	63,322
Effects of exchange rate changes on cash	47	16	16
Net increase (decrease) in cash and cash equivalents	217,438	41,402	(9,329)
Cash and cash equivalents at beginning of period	54,301	12,899	22,228
Cash and cash equivalents at end of period	$ 271,739	$ 54,301	$ 12,899
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:			
Interest paid	$ 17,888	$ 24,023	$ 19,718
NONCASH FINANCING ACTIVITIES:			
Issuance of common stock to partially fund the purchase of offshore supply vessels	$	$	$ 6,000

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Nature of Operations

Hornbeck Offshore Services, Inc. (or the Company) was incorporated in the state of Delaware in 1997. The Company, through its subsidiaries, operates offshore supply vessels (OSVs) to provide support and specialty services to the offshore oil and gas exploration and production industry, primarily in the U.S. Gulf of Mexico and select international markets. The Company, through its subsidiaries, also operates ocean-going tugs and tank barges that provide transportation of petroleum products, primarily in the northeastern United States and Puerto Rico. All significant intercompany accounts and transactions have been eliminated.

The Company owns a 49% interest in Hornbeck Offshore Trinidad & Tobago Limited (HOTT-Ltd). HOTT-Ltd is a vessel crewing and management services company established to support the Company s Trinidad & Tobago-based operations. The 49% interest owned by the Company is being recorded using the equity method. The Company s equity in income from investments is not material.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company charters its OSVs and certain of its tank barges to clients under time charters based on a daily rate of hire and recognizes revenue as earned on a daily basis during the contract period of the specific vessel.

The Company also contracts its tank barges to clients under contracts of affreightment, under which revenue is recognized based on the number of days incurred for the voyage as a percentage of total estimated days applied to total estimated revenues. Voyage related costs are expensed as incurred. Substantially all voyages under these contracts are less than 10 days in length.

Deferred revenue represents payments received from customers in advance of vessels commencing time charters.

Accounts Receivable

Accounts receivable consists of trade receivables net of reserves, amounts to be rebilled to customers and interest receivables.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments in money market funds, deposits and investments available for current use with an initial maturity of three months or less.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization of equipment and leasehold improvements are computed using the straight-line method based

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

on the estimated useful lives of the related assets. Major modifications and improvements, which extend the useful life of the vessel, are capitalized and amortized over the remaining useful life of the vessel. Gains and losses from retirements or other dispositions are recognized as incurred.

The estimated useful lives by classification are as follows:

Tugs	14-25 years
Tank barges	3-25 years
Offshore supply vessels	25 years
Non-vessel related property, plant and equipment	3-10 years

All of the Company s single-hulled tank barges have estimated useful lives based on their classification under the Oil Pollution Act of 1990 and three of such barges were retired from service at December 31, 2004. The Company s double-hulled tank barges have an estimated useful life of 25 years.

Deferred Charges

The Company s vessels are required by regulation to be recertified after certain periods of time. The Company defers the drydocking expenditures incurred due to regulatory marine inspections and amortizes the costs on a straight-line basis over the period to be benefited from such improvements (generally 30 or 60 months). Financing charges are amortized over the term of the related debt.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The provision for income taxes includes provisions for federal, state and foreign income taxes.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Credit Risk

Customers are primarily major and independent, domestic and international, oil and oil service companies. The Company s customers are granted credit on a short-term basis and

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

related credit risks are considered minimal. The Company usually does not require collateral. The Company provides an estimate for uncollectible accounts based primarily on management s judgment. Management uses historical losses, current economic conditions and individual evaluations of each customer to make adjustments to the allowance for doubtful accounts. The Company s historical losses have not been significant. However, because amounts due from individual customers can be significant, future adjustments to the allowance can be material if one or more individual customer s balances are deemed uncollectible.

The following table represents the allowance for doubtful accounts (in thousands):

	December 31,		
	2005	2004	2003
Balance, beginning of year	$ 407	$ 454	$ 469
Changes to provision	88	(47)	56
Write off of uncollectible accounts			(71)
Balance, end of year	$ 495	$ 407	$ 454

Property taxes receivable represents assessed property taxes on the Company s vessels by local municipalities that are refunded upon the filing of state tax returns.

Goodwill

Goodwill reflects the excess of cost over the estimated fair value of the net assets acquired. Fair value is determined based on discounted cash flow or appraised values, as appropriate. The Company has performed goodwill impairment reviews by reporting unit based on a fair value concept as required by Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , using a multiple of earnings before interest, depreciation, taxes and amortization (EBITDA) and earnings. Such fair value calculations have not resulted in the impairment of goodwill.

Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As provided for under SFAS 123, the Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. For all periods presented, the Company has used the intrinsic value method, in which compensation cost for stock options, if any, is measured as the excess of the estimated fair value market price of the Company s stock at the date of grant over the amount an employee must pay to acquire the stock. Refer to Recent Accounting Pronouncements below.

Impairment of Long-Lived Assets

When events or circumstances indicate that the carrying amount of long-lived assets to be held and used or intangible assets might not be recoverable, the expected future

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

undiscounted cash flows from the assets are estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Fair value is determined based on discounted cash flow or appraised values, as appropriate. The Company did not record any impairment losses related to its long-lived assets during 2005, 2004 or 2003.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board, or FASB, issued FASB Statement No. 123 (revised 2004), Share-Based Payment, or SFAS 123R, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation, or SFAS 123. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, or APB 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Accordingly, the adoption of SFAS 123R s fair value method will have a significant impact on the Company s results of operations, although it will have no impact on its overall financial condition. The impact of adoption of SFAS 123R is expected to be approximately $2.9 million, net of tax, for the 2006 fiscal year. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 8 to the Company s audited consolidated financial statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current GAAP literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options and purchase rights, the amount of operating cash flows recognized for such excess tax deductions was approximately $1.7 million in 2005. On April 14, 2005, the Securities and Exchange Commission, or Commission, announced amended compliance dates for SFAS 123R. The Commission previously required companies to adopt this standard no later than July 1, 2005, but the new rule allows companies to implement SFAS 123R at the beginning of their next fiscal year, that begins after June 15, 2005. The Company will not be required to report under SFAS 123R until the quarter ending March 31, 2006 and does not currently intend to adopt this standard for reporting prior to such time. See Note 8 of these audited consolidated financial statements for further discussion of the Company s Incentive Compensation Plan.

3. Earnings Per Share and Reverse Stock Split

Basic earnings (loss) per common share was calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted

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earnings (loss) per common share was calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year 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 table below reconciles the company s earnings (loss) per share (in thousands, except for per share data):

	Year Ended December 31,		
	2005	2004	2003
Net income (loss)	$ 37,443	$ (2,483)	$ 11,190
Weighted average number of shares of common stock outstanding	22,369	19,330	13,397
Add: Net effect of dilutive stock options (1)	468		207
Adjusted weighted average number of shares of common stock outstanding	22,837	19,330	13,604
Earnings (loss) per common share:			
Basic	$ 1.67	$ (0.13)	$ 0.84
Diluted	$ 1.64	$ (0.13)	$ 0.82

(1) At December 31, 2005 and 2004, stock options representing rights to acquire 42 and 273 shares, respectively, of common stock were excluded from the calculation of diluted earnings per share because the effect was antidilutive. Stock options are antidilutive when the exercise price of the options is greater than the average market price of the common stock for the period or when the results from operations are a net loss.

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 approximately 36.3 million to 14.5 million. 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.

4. Defined Contribution Plan

The Company offers a 401(k) plan to all full time employees. Employees must be at least twenty-one years of age and have completed three months of service to be eligible for participation. Participants may elect to defer up to 60% of their compensation, subject to certain statutorily established limits. The Company may elect to make annual matching and/or profit sharing contributions to the plan. During the years ended December 31, 2005, 2004 and 2003, the Company made contributions of approximately $0.6 million, $0.5 million and $0.1 million, respectively.

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5. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in thousands):

	December 31,	
	2005	2004
Tugs	$ 37,911	$ 30,036
Tank barges	133,402	40,663
Offshore supply vessels	317,860	287,222
Construction in progress	29,921	53,232
Non-vessel related property, plant and equipment	14,752	6,170
Less: Accumulated depreciation	(71,805)	(56,104)
	$ 462,041	$ 361,219

6. Long-Term Debt

Senior Notes

On July 24, 2001, the Company issued $175.0 million in aggregate principal amount of 10.625% senior notes, or old senior notes. The old senior notes were due to mature on August 1, 2008 and required semi-annual interest payments at an annual rate of 10.625% on February 1 and August 1 of each year until maturity. The effective interest rate on the old senior notes was 11.18%. No principal payments were due until maturity. On November 3, 2004, the Company commenced a cash tender offer for all of the old senior notes. Old senior notes totaling approximately $159.5 million, or 91% of the notes outstanding, were validly tendered during the designated tender period and repurchased during 2004. The remaining $15.5 million of old senior notes were redeemed on January 14, 2005. A loss on early extinguishment of debt for the old senior notes of approximately $22.4 million and $1.7 million was recorded during the fourth quarter 2004 and the first quarter of 2005, respectively. These losses include the tender offer costs, the write-off of unamortized financing costs and original issue discount, and a bond redemption premium.

On November 23, 2004, the Company issued in a private placement $225.0 million in aggregate principal amount of 6.125% senior notes, or new senior notes, governed by an indenture, or the 2004 indenture. The new senior notes were subsequently exchanged on March 7, 2005 for senior notes with substantially similar terms, except that the issuance of the senior notes issued in the exchange offer was registered under the Securities Act of 1933, or Securities Act. The net proceeds to the Company from the private placement were approximately $219.0 million, net of transaction costs. The Company used $198.0 million of the proceeds to repurchase or redeem all of the old senior notes. The $198.0 million comprised the total consideration paid for the old senior notes, including related tender offer costs, consent fees, and bond redemption premium required to be paid to holders of the old senior notes. The residual proceeds were used for the acquisition, construction and retrofit of vessels. The effective interest rate on the new senior notes is 6.38%.

On October 4, 2005, the Company issued in a private placement an additional $75.0 million in aggregate principal amount of 6.125% senior notes, or additional notes, governed

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by the 2004 indenture. The additional notes were priced at 99.25% of principal amount to yield 6.41%. The net proceeds to the Company from this private placement were approximately $73.1 million, net of estimated transaction costs. The Company intends to use the proceeds from the sale of the additional notes, as well as the proceeds from its concurrent public offering of common stock, to partially fund the construction of new OSVs, ocean-going tugs and ocean-going, double-hulled tank barges and the retrofit or conversion of certain existing vessels, including MPSVs. In addition, the combined proceeds may be used in connection with possible future acquisitions and additional new vessel construction programs, as well as for general corporate purposes. Pending these uses, the Company repaid debt under its revolving credit facility, which may be reborrowed.

In December 2005, the Company filed a registration statement to facilitate an offer to exchange the additional notes that were initially sold pursuant to the October 2005 private placement, for 6.125% senior notes with substantially the same terms, except that the issuance of the senior notes issued in the exchange offer will be registered under the Securities Act. Both series of senior notes were issued under and are entitled to the benefits of the same 2004 indenture. The exchange offer is expected to be completed in late March 2006.

The new senior notes and additional notes (or, collectively, the senior notes) mature on December 1, 2014 and require semi-annual interest payments on June 1 and December 1 of each year until maturity. No principal payments are due until maturity. The senior notes are senior unsecured 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 that may be incurred by the Company in the future. The senior notes are guaranteed by certain of the Company s subsidiaries. The guarantees are full and unconditional, joint and several, and all of the Company s non-guarantor subsidiaries are minor as defined in Commission regulations. Hornbeck Offshore Services, Inc., as the parent company issuer of the senior notes, has no independent assets or operations other than its ownership interest in its subsidiaries and affiliates. There are no significant restrictions on the Company s ability or the ability of any guarantor to obtain funds from its subsidiaries by such means as a dividend or loan, except for certain restrictions contained in the Company s revolving credit facility restricting the payment of dividends by the Company s two principal 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.

Revolving Credit Facility

Effective February 13, 2004, the Company amended and restated its senior secured revolving credit facility to increase its size to $100.0 million and extend its maturity to February 13, 2009. The borrowing base under the facility is currently $60.0 million. Pursuant to the indenture governing the senior notes, unless the Company meets a specified

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consolidated interest coverage ratio test, the level of permitted borrowings under this facility is limited to the greater of $75 million or 20% of the Company s consolidated net tangible assets determined as of the end of the Company s most recently completed fiscal quarter for which internal financial statements are available. 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 one-half of one percent on the revolving credit facility, based on the leverage ratio defined by the agreement. As of December 31, 2005, the Company had no balance outstanding under the revolving credit facility and had $60.0 million of additional credit immediately available under such facility. As of such date, seven OSVs and four ocean-going tugs and associated personalty, collateralized the revolving credit facility.

The revolving credit facility and 2004 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 the construction or conversion of vessels in the approximate amount of $3.9 million, $3.0 million and $2.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

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

	December 31,	
	2005	2004
10.625% senior notes due 2008, net of original issue discount of $97	$	$ 15,449
6.125% senior notes due 2014, net of original issue discount of $551 and $0	299,449	225,000
	299,449	240,449
Less current maturities		15,449
	$ 299,449	$ 225,000

Annual maturities of debt during each year ending December 31, are as follows (in thousands):

2006	$
2007	
2008	
2009	
2010	
Thereafter	299,449
	$ 299,449

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7. Stockholders Equity

Preferred Stock

The Company s certificate of incorporation authorizes 5.0 million shares of preferred stock. The Board of Directors has the authority to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the Company s stockholders.

Stockholder Rights Plan

On June 18, 2003, the Company s Board of Directors implemented a stockholder rights plan, as amended on March 5, 2004 and September 3, 2004, declaring a dividend of one right for each outstanding share of common stock to stockholders of record on June 18, 2003. One right will also attach to each share of common stock issued after June 28, 2003. The rights become exercisable, and transferable apart from the Company s common stock, 10 business days following a public announcement that a person or group has acquired beneficial ownership of, or has commenced a tender or exchange offer for, 10% or more of the Company s common stock.

The rights have anti-takeover effects, causing substantial dilution to a person or group who attempts to acquire the Company without the approval of the Board of Directors. As a result, the overall effect of the rights may be to render more difficult or discourage any attempt to acquire the Company even if such acquisition may be favorable to the interests of the Company s stockholders. Because the Board of Directors can redeem the rights or approve certain offers, the rights should not interfere with any merger or other business combination approved by the Company s Board of Directors.

Private Placement of Common Stock

In May 2003, the Company commenced a private placement of its common stock to accredited investors to raise gross proceeds of approximately $30 million, including $6 million of common stock, or 0.5 million shares, issued to the seller as partial consideration for the June 26, 2003 acquisition of five deepwater OSVs. The private placement was completed in July 2003 with 1.9 million shares distributed for gross cash proceeds of approximately $24 million. Costs incurred for the private placement were

approximately $0.7 million and were recorded as a reduction of additional paid-in capital.

Public Offerings of Common Stock

On March 31, 2004, the Company completed an initial public offering of 6 million shares of its common stock at $13.00 per share, for total gross proceeds of approximately $78 million. On April 28, 2004, the Company issued an additional 0.1 million 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

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approximately $1.6 million. The Company used the net proceeds of the offerings of approximately $73 million to repay the $40 million balance then-outstanding under its revolving credit facility on March 31, 2004 and, from March 31, 2004 to December 31, 2004, used approximately $33 million of the net proceeds to fund expenditures related to its tank barge new build program, the acquisition and retrofit of two ocean-going tugs, the acquisition of one fast supply vessel, and for general corporate purposes. The Company s shares of common stock trade on the New York Stock Exchange under the symbol HOS .

On October 6, 2005, the Company completed an underwritten public offering (the Offering) of 6.1 million shares of its common stock at $35.35 per share, for total gross proceeds of $215.6 million. Underwriting discounts, commissions and offering expenses of approximately $0.6 million incurred to date were recorded as a reduction of additional paid-in capital. The Offering was pursuant to the effective shelf registration statement previously filed with the Commission and included an additional 2 million shares sold by a selling stockholder. The Company used a portion of the net proceeds of the Offering to repay the $21 million balance then-outstanding under its revolving credit facility. The Company intends to use the remaining proceeds from the Offering to partially fund the construction of new OSVs, ocean-going tugs and ocean-going, double-hulled tank barges and the retrofit or conversion of certain existing vessels, including MPSVs. In addition, the proceeds may be used in connection with possible future acquisitions and additional new vessel construction programs, as well as for general corporate purposes.

8. Stock-Based Compensation

Incentive Compensation Plan

SFAS No. 123 Accounting for Stock-Based Compensation established financial accounting and reporting standards for stock-based compensation plans. The Company s incentive compensation plan includes all arrangements by which employees and directors receive shares of stock or other equity instruments of the Company, or the Company incurs liabilities to employees or directors in amounts based on the price of the stock. SFAS 123 defines a fair-value-based method of accounting for stock-based compensation. However, SFAS 123 also allows an entity to continue to measure stock-based compensation cost using the intrinsic value method of APB Opinion No. 25, Accounting for Stock Issued to Employees. Entities electing to retain the accounting prescribed in APB 25 must make pro forma disclosures of net income assuming dilution as if the fair-value-based method of accounting defined in SFAS 123 had been applied. The Company retained the provisions of APB 25 for expense recognition purposes. Under APB 25, where the exercise price of the Company s stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company will be required to report under SFAS 123R effective the quarter ending March 31, 2006, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

The Company established an incentive compensation plan, which provides the Company with the ability to grant options, restricted stock and other awards for a maximum of 3.5 million

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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. During 2005, 2004 and 2003, options for approximately 221,000, 168,000 and 6,000 shares, respectively, were exercised. All options granted expire five to ten years after the date of grant, have an exercise price equal to or greater than the estimated market price of the Company s stock at the date of grant and vest over a two- to four-year period.

The following summarizes the option activity in the plan during 2005, 2004 and 2003 (in thousands, except for per share data):

	2005		2004		2003	
	Number of Options Outstanding	Average Price Per Share	Number of Options Outstanding	Average Price Per Share	Number of Options Outstanding	Average Price Per Share
Outstanding, beginning of year	1,118	$ 9.73	925	$ 7.45	773	$ 6.40
Granted	374	24.92	380	13.88	209	11.30
Exercised	(221)	9.40	(168)	6.55	(6)	6.63
Cancelled	(22)	15.88	(19)	9.96	(51)	7.15
Outstanding, end of year	1,249	$ 16.75	1,118	$ 9.73	925	$ 7.45
Exercisable, end of year	573		572		455	
Weighted-average fair value of options granted during the year		$ 12.73		$ 4.60		$ 3.55

The following is a summary of outstanding stock options at December 31, 2005 (in thousands, except for years and per share data):

Options Outstanding			Options Exercisable	
Shares	Weighted Average Remaining	Weighted Average Exercise	Shares	Weighted Average Exercise

		Contractual Life (Years)	Price		Price
Range of exercise prices:					
$ 4.63 to $ 6.63	354	5.26	$ 6.37	342	$ 6.36
$11.20 to $13.83	516	7.79	12.91	222	12.46
$15.80 to $23.10	322	9.14	22.89	3	16.87
$27.09 to $36.63	56	9.74	30.93	8	28.32
Total	1,248	7.51	14.45	575	9.09

Employee Stock Purchase Plan

On May 3, 2005, the Company established the Hornbeck Offshore Services, Inc. 2005 Employee Stock Purchase Plan, or ESPP, which was adopted by the Company s Board of Directors and approved by the Company s stockholders. Under the ESPP, the Company is

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authorized to issue up to 0.7 million shares of common stock to eligible employees of the Company and its designated subsidiaries. Employees have the opportunity to purchase shares of the Company s common stock at periodic intervals through accumulated payroll deductions that will be applied at semi-annual intervals to purchase shares of common stock at a discount from the market price as defined by the ESPP. The ESPP is designed to satisfy the requirements of Section 423 of the Internal Revenue Code of 1986, as amended, and thereby allows participating employees to defer recognition of taxes when purchasing the shares of common stock at a 15% discount under the ESPP. On May 6, 2005, the Company filed a Registration Statement on Form S-8 to register the issuance of shares of common stock under the ESPP. Approximately 12% of eligible employees have participated in the ESPP during the first purchase period, July 1, 2005 through December 31, 2005. Under the Plan, the Company sold approximately 7,000 shares for the year ended December 31, 2005.

If compensation cost for the Company s two stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans consistent with the method under SFAS 123, the Company s net income (loss) for the years ended December 31, 2005, 2004 and 2003 would have been as indicated below (in thousands, except per share data):

	Year Ended December 31,		
	2005	2004	2003
Net income (loss):			
As reported	$ 37,443	$ (2,483)	$ 11,190
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(1,373)	(671)	(281)
Pro forma	$ 36,070	$ (3,154)	$ 10,909
Basic earnings (loss) per common share:			
As reported	$ 1.67	$ (0.13)	$ 0.84
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(0.06)	(0.03)	(0.02)
Pro forma	$ 1.61	$ (0.16)	$ 0.82
Diluted earnings (loss) per common share:			
As reported	$ 1.64	$ (0.13)	$ 0.82
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(0.06)	(0.03)	(0.02)
Pro forma	$ 1.58	$ (0.16)	$ 0.80

The fair value of the options granted under the Company s stock option plan during each of the three years ended December 31, 2005, 2004 and 2003, was estimated using the Black-Scholes pricing model using the minimum value method whereby an average expected volatility of 39.1% was used for the year ended December 31, 2005. Volatility was not considered for the years ended December 31, 2004 and 2003, respectively. The Company

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used an average interest rate of 4.27%, 4.05% and 3.84% for the years ended December 31, 2005, 2004 and 2003, respectively. The Company valued its grants at a seven to ten year expected life through the periods ended September 30, 2005, December 31, 2004 and December 31, 2003. Analysis of the Company s two years of exercise history indicates an expected term of approximately four years, which was applied to the Black-Scholes pricing model for all grants during fourth quarter 2005. The Black-Scholes pricing model also assumes no expected dividends for each year.

The fair value of the employees purchase rights granted under the Employee Stock Purchase Plan was estimated using the Black-Scholes model with the following assumptions for the year ended December 31, 2005: an expected life of 6 months; no expected dividends; expected volatility of 41.9%; and a risk-free interest rate of 3.4%. The weighted-average fair value of those purchase rights granted in 2005 was $7.51.

9. Income Taxes

The net long-term deferred tax liabilities in the accompanying consolidated balance sheets include the following components (in thousands):

	December 31,	
	2005	2004
Deferred tax liabilities:		
Fixed assets	$ 71,690	$ 53,606
Deferred charges and other liabilities	3,465	3,451
Total deferred tax liabilities	75,155	57,057
Deferred tax assets:		
Net operating loss carryforwards	(33,466)	(34,708)
Allowance for doubtful accounts	(180)	(148)
Other	(46)	(49)
Total deferred tax assets	(33,692)	(34,905)
Valuation allowance	95	95
Total deferred tax liabilities, net	$ 41,558	$ 22,247

The components of the income tax expense (benefit) follow (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Current tax expense	$	$	$
Deferred tax expense (benefit)	21,538	(1,320)	6,858
Total	$ 21,538	$ (1,320)	$ 6,858

At December 31, 2005, the Company had federal tax net operating loss carryforwards of approximately $92 million. The carryforward benefit from the federal tax net operating loss carryforwards begins to expire in 2020. The Company has a state tax net operating loss carryforward of approximately $1.5 million related to one state tax jurisdiction. This

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carryforward can only be utilized if the Company generates taxable income in the appropriate tax jurisdiction. A valuation allowance of approximately $0.1 million has been established to fully offset the deferred tax asset related to the state tax jurisdiction.

The following table reconciles the difference between the Company s income tax provision calculated at the federal statutory rate and the actual income tax provision (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Statutory rate	$ 20,644	$ (1,331)	$ 6,317
State taxes	767	(49)	235
Non-deductible expense	50	57	47
Foreign taxes and other	77	3	259
	$ 21,538	$ (1,320)	$ 6,858

10. Commitments and Contingencies

Vessel Construction

As of December 31, 2005, the Company was committed under vessel construction contracts with a domestic shipyard for the retrofit of two 6,100 horsepower tugs under its first tug and tank barge newbuild program. The Company expects the total project costs of the first tug and tank barge newbuild program to be approximately $121.0 million in the aggregate. The remaining tug retrofit costs of approximately $4.6 million are expected to be incurred in the first quarter of 2006.

On May 5, 2005, the Company announced a conversion program to retrofit two coastwise sulfur tankers into U.S.-flagged, new generation 370-foot multi-purpose supply vessels, or MPSVs. The total project cost to acquire and convert the two vessels, prior to construction period interest, is estimated to be at least $65.0 million in the aggregate, of which approximately $13.1 million was incurred during 2005. The Company is currently evaluating prospective domestic shipyards and has not yet contractually committed to a shipyard for the additional costs associated with this conversion program. The Company anticipates delivery of the converted vessels during 2007.

On September 26, 2005 and February 23, 2006, the Company announced new vessel construction programs for its two business segments. Based on internal estimates, the project costs, prior to construction period interest, for the second tug and tank barge newbuild program and the fourth OSV newbuild program are expected to be $105.0 million and $290.0 million, respectively. The Company is contractually committed to a domestic shipyard for the construction of three 60,000-barrel double-hulled tank barges. The Company is also contractually committed to one domestic shipyard for the construction of two 240 EDF class OSVs and with another domestic shipyard for the construction of two additional 240 EDF class OSVs. All three 60,000-barrel tank barges and four of the 240EDF class OSVs under the fourth OSV newbuild program are expected to be delivered by mid-2008, with the first vessel due in late 2007.

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Operating Leases

The Company is obligated under certain operating leases for marine vessels, office space, shore-based facilities and vehicles. The Company is currently committed to lease a tug for a term of three years, originating November 20, 2005. The Covington facility lease, which commenced on September 1, 2003, provides for an initial term of five years with two five-year renewal options. The Brooklyn facility lease is currently scheduled to expire on March 31, 2007. A shore based facility lease commenced on December 20, 2005 and provides for an initial term of eight years with four additional five-year periods upon the terms and conditions contained in the lease agreement.

Future minimum payments under noncancelable leases for years subsequent to 2005 follow (in thousands):

Year Ended December 31,	
2006	$ 3,701
2007	3,637
2008	3,253
2009	978
2010 and thereafter	29,881
	$ 41,450

In addition, the Company leases marine vessels used in its operations under month-to-month operating lease agreements. Total rent expense related to leases was approximately $1.2 million; $1.7 million and $1.0 million during the years ended December 31, 2005, 2004 and 2003, respectively.

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.

The Company insures against losses relating to its vessels, pollution and third party liabilities, including claims by employees under Section 27 of the Merchant Marine Act of 1920, or the Jones Act. Third party liabilities and pollution claims that relate to vessel operations are covered by the Company s entry in a mutual protection and indemnity association, or P&I Club. Commencing in March 2005, the terms of entry for the Company s offshore supply vessel, or OSV, segment contained an annual aggregate deductible (AAD) for which the Company remains responsible, while the P&I Club is responsible for all applicable amounts that exceed the AAD, after payment by the Company of an additional individual claim deductible. The terms of entry for the Company s tug and tank barge segment does not contain an AAD. The Company provides reserves for those portions of the AAD and any individual claim deductibles for which the Company remains responsible by using an estimation process that considers Company-specific and industry data, as well as

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

management s experience, assumptions and consultation with outside counsel. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise its estimates. Such revisions in estimates of the potential liability could materially impact the Company s results of operations, financial position or cash flows. As of December 31, 2005, the Company s claims costs incurred under its OSV P&I Club policy had not exceeded the AAD.

11. Deferred Charges

Deferred charges include the following (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Deferred financing costs, net of accumulated amortization of $1,075, $7,487 and $2,702, respectively	$ 6,928	$ 5,616	$ 5,019
Deferred drydocking costs, net of accumulated amortization of $10,654, $6,557 and $5,330, respectively	8,651	8,978	6,175
Deferred other	325	269	1,122
Total	$ 15,904	$ 14,863	$ 12,316

12. Related Party Transactions

During 2004 and 2003, the Company was committed under vessel construction contracts to construct OSVs and double-hulled tank barges with a shipyard affiliated with an individual who was, at the time of the execution of the shipyard contracts, a member of the Company s Board of Directors. The Company incurred approximately $16.3 million and $25.2 million, respectively, of construction costs related to such vessels.

13. Major Customers

In the years ended December 31, 2005, 2004 and 2003, revenues from one of the Company s customers served by its tug and tank barge segment was approximately 17%, 22% and 23%, respectively.

14. Segment Information

The Company provides marine transportation services through two business segments. The Company operates new generation offshore supply vessels in the U.S. Gulf of Mexico, Trinidad and Mexico through its offshore supply vessel segment. The offshore supply vessels 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 in Puerto Rico. The ocean-going tugs and tank barges provide coastwise transportation of refined and bunker grade petroleum products from one port to another. The following shows reportable segment information for the years ended

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005, 2004 and 2003, reconciled to consolidated totals and prepared on the same basis as the Company s consolidated financial statements (in thousands).

	Year Ended December 31,		
	2005	**2004**	**2003**
Operating Revenues:			
Offshore supply vessels			
Domestic	$ 88,772	$ 59,886	$ 50,044
Foreign(1)	28,663	15,407	12,358
	117,435	75,293	62,402
Tugs and tank barges			
Domestic	57,379	50,465	43,206
Foreign(1)	7,772	6,503	5,205
	65,151	56,968	48,411
Total	$ 182,586	$ 132,261	$ 110,813
Operating Expenses:			
Offshore supply vessels	$ 35,936	$ 29,724	$ 22,786
Tugs and tank barges	30,974	28,796	24,019
Total	$ 66,910	$ 58,520	$ 46,805
Depreciation and Amortization:			
Offshore supply vessels	$ 15,197	$ 12,876	$ 9,381
Tugs and tank barges	12,073	10,259	8,209
Total	$ 27,270	$ 23,135	$ 17,590
General and Administrative Expenses:			
Offshore supply vessels	$ 9,299	$ 6,342	$ 4,952
Tugs and tank barges	11,028	8,417	5,779
Total	$ 20,327	$ 14,759	$ 10,731
Operating Income:			
Offshore supply vessels	$ 57,003	$ 26,351	$ 25,283
Tugs and tank barges	11,076	9,496	10,404

Total	$ 68,079	$ 35,847	$ 35,687
Capital Expenditures:			
Offshore supply vessels	$ 46,232	$ 10,568	$ 92,054
Tugs and tank barges	76,154	49,842	12,453
Corporate	2,578	968	1,309
Total	$ 124,964	$ 61,378	$ 105,816
Identifiable Assets:			
Offshore supply vessels	$ 599,514	$ 328,857	$ 276,567
Tugs and tank barges	182,766	119,980	68,589
Corporate	14,395	11,734	20,086
Total	$ 796,675	$ 460,571	$ 365,242
Long-Lived Assets:			
Offshore supply vessels			
Domestic	$ 231,445	$ 202,382	$ 221,332
Foreign (1)	62,141	54,978	36,744
	293,586	257,360	258,076
Tugs and tank barges			
Domestic	158,404	95,301	46,444
Foreign (1) (2)	5,841	5,875	10,470
	164,245	101,176	56,914
Corporate	4,210	2,683	1,725
Total	$ 462,041	$ 361,219	$ 316,715

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) The Company s vessels conduct operations in international areas. Vessels will routinely move to and from international and domestic operating areas. As these assets are highly mobile, the long-lived assets reflected above represent the assets that were present in international areas as of December 31, 2005, 2004 and 2003, respectively.
(2) Included are amounts applicable to the Puerto Rico tug and tank barge operations, even though Puerto Rico is considered a possession of the United States and the Jones Act applies to vessels operating in Puerto Rican waters.

15. Candy Fleet Offshore Supply Vessel Acquisitions

On June 26, 2003, the Company acquired five 220-foot new generation offshore supply vessels and their related business from Candy Marine Investment Corporation, an affiliate of Candy Fleet Corporation (collectively, Candy Fleet), for approximately $45 million, comprised of $39 million in cash and $6 million of common stock, for the purpose of diversifying its offshore supply vessel fleet and expanding its service offering. Candy Fleet is a privately held marine vessel operator in the Gulf of Mexico. The Company funded the cash portion of the purchase price with a combination of borrowings under the Company s revolving credit facility discussed in Note 6, and with part of the cash proceeds generated by the private placement of its common stock discussed in Note 7. The new vessel names are *HOS Explorer*, *HOS Express*, *HOS Pioneer*, *HOS Trader*, and *HOS Voyager*.

On August 6, 2003, the Company completed the acquisition of an additional 220-foot new generation offshore supply vessel from Candy Fleet. The closing of the transaction was effected after satisfying certain conditions precedent to closing, including, among other things, receipt during July 2003 of approximately $13.5 million in proceeds relating to a $30 million private placement of common stock and the satisfactory completion of a drydocking and survey of the vessel in early August. The purchase price of approximately $9 million was negotiated by the parties on an arms-length basis. The vessel was renamed the *HOS Mariner*. In connection with the acquisition, the Company was also granted options to purchase three conventional 180-foot offshore supply vessels from Candy Fleet for an aggregate exercise price of approximately $4.5 million. These options expired on August 6, 2004.

The purchase method was used to account for the acquisitions of the six new generation offshore supply vessels from Candy Fleet. There were no intangible assets or goodwill recorded as a result of the acquisitions. Included in the purchase price allocation was approximately $0.3 million of acquisition costs comprised of legal, consulting and accounting fees. As of December 31, 2003, the final purchase price was allocated to the acquired assets based on the estimated fair values as follows (in thousands):

Property, plant and equipment	$ 54,437
Inventory	183
Accrued liabilities	(275)
Purchase price	$ 54,345

The unaudited pro forma income statement data from the Candy Fleet acquisition would not have had a material impact on the Company s consolidated results of operations for the year ended December 31, 2003, if the acquisition had taken place at the beginning of such fiscal years.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Employment Agreements

The Company has employment agreements with certain members of its executive management team. These agreements include, among other things, contractually stated base level salaries and a structured bonus plan dependent upon the Company achieving certain targeted financial results. Prior to 2005, the agreements contained EBITDA and earnings per share targets. In March 2005, the Company and such members of its executive management team amended these agreements to include a discretionary component of the bonus plan in lieu of the earnings per share target. In the event such a member of the executive management team is terminated due to events as defined in such officer s agreement, the employee will continue to receive salary, bonus and other payments equal to the full amount payable under the agreement.

17. Supplemental Selected Quarterly Financial Data (Unaudited) (in thousands, except per share data):

The following table contains selected unaudited quarterly financial data from the consolidated statements of operations for each quarter of fiscal 2005 and 2004. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended			
	Mar 31	Jun 30	Sep 30	Dec 31
Fiscal Year 2005				
Revenues	$ 37,904	$ 41,083	$ 46,462	$ 57,137
Operating income	12,497	13,845	16,790	24,947
Net income(1)	5,238	7,723	9,398	15,083
Earnings per common share:				
Basic	$ 0.25	$ 0.37	$ 0.45	$ 0.56
Diluted	0.25	0.36	0.44	0.55
Fiscal Year 2004				
Revenues	$ 31,347	$ 30,288	$ 32,892	$ 37,784
Operating income	8,829	7,640	9,239	10,186
Net income (loss)(1)	2,338	1,930	3,303	(10,058)
Earnings (loss) per common share:				
Basic	$ 0.16	$ 0.09	$ 0.16	$ (0.48)
Diluted	0.15	0.09	0.15	(0.48)

The sum of the four quarters may not equal annual results due to rounding.

(1) Refer to Note 6 for information about the loss on early extinguishment of debt recorded in the first quarter ended March 31, 2005 and the fourth quarter ended December 31, 2004.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Covington, the State of Louisiana, on March 16, 2006.

HORNBECK OFFSHORE SERVICES, INC.

By: /s/ TODD M. HORNBECK

Todd M. Hornbeck

Chairman of the Board, President and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ TODD M. HORNBECK **(Todd M. Hornbeck)**	Chairman of the Board, President, Chief Executive Officer and Secretary (Principal Executive Officer)	March 16, 2006
/s/ JAMES O. HARP, JR. **(James O. Harp, Jr.)**	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2006
/s/ LARRY D. HORNBECK **(Larry D. Hornbeck)**	Director	March 16, 2006
/s/ BRUCE W. HUNT **(Bruce W. Hunt)**	Director	March 16, 2006
/s/ STEVEN W. KRABLIN **(Steven W. Krablin)**	Director	March 16, 2006
/s/ PATRICIA B. MELCHER **(Patricia B. Melcher)**	Director	March 16, 2006

/s/ Bernie W. Stewart	Director	March 16, 2006
(Bernie W. Stewart)		
/s/ David A. Trice	Director	March 16, 2006
(David A. Trice)		
/s/ Andrew L. Waite	Director	March 16, 2006
(Andrew L. Waite)		

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Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Second Restated Certificate of Incorporation of the Company, as amended through May 5, 2005 (incorporated by reference to Exhibit 3.1 to the Company s Form 10-Q for the period ended March 31, 2005).
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 (incorporated by reference to Exhibit 3.3 to the Company s Form 10-Q for the quarter ended June 30, 2004).
4.1	Exchange and Registration Rights Agreement, dated as of October 4, 2005, among Goldman, Sachs & Co., Bear, Stearns & Co., Inc., Jefferies & Company, Inc., Hornbeck Offshore Services, Inc. and the guarantors party thereto (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated October 4, 2005).
4.1	Indenture dated as of November 23, 2004 between the Company, the guarantors named therein and Wells Fargo Bank, National Association (as Trustee), including table of contents and cross-reference sheet (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated November 18, 2004).
4.2	Exchange and Registration Rights Agreement, dated as of November 23, 2004, among Goldman, Sachs & Co., Bear, Stearns & Co., Inc., Jefferies & Company, Inc., Hornbeck Offshore Services, Inc. and the guarantors party thereto (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K dated November 18, 2004).
4.3	Specimen 6.125% Series B Senior Note due 2014 (incorporated by reference to Exhibit 4.5 to the Company s Amendment No. 1 to Registration Statement on Form S-4 dated February 7, 2005, Registration No. 333-121557).
4.4	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).
4.5	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).

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Exhibit Number	Description of Exhibit
4.6	Second Amendment to Rights Agreement dated as of September 3, 2004 by and between the Company and Mellon Investor Services, LLC as Rights Agent (incorporated by reference to Exhibit 4.3 to the Company s Form 8-A/A file September 3, 2004, Registration No. 333-108943).
4.7	Stockholders Agreement dated as of October 27, 2000 between the Company, Todd M. Hornbeck, Troy A. Hornbeck, Cari Investment Company and SCF-IV, L.P. (incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.1	Amended and Restated Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q for the period ended September 30, 2003).
10.2	Senior Employment Agreement dated effective January 1, 2001 by and between Todd M. Hornbeck and the Company (incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
10.3	Employment Agreement dated effective January 1, 2001 by and between Carl Annessa and the Company (incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
10.4	Employment Agreement dated effective January 1, 2001 by and between James O. Harp, Jr. and the Company (incorporated by reference to Exhibit 10.5 to the Company s Registration Statement on Form S-4 dated September 21, 2001, Registration No. 333-69826).
10.5	Amendment to Senior Employment Agreement dated effective February 17, 2003 by and between Todd M. Hornbeck and the Company (incorporated by reference to Exhibit 10.15 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.6	Amendment to Employment Agreement dated effective February 17, 2003 by and between Carl G. Annessa and the Company (incorporated by reference to Exhibit 10.16 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.7	Amendment to Employment Agreement dated effective February 17, 2003 by and between James O. Harp, Jr. and the Company (incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form S-1 dated September 19, 2003, Registration No. 333-108943).
10.8	Second Amendment to Senior Employment Agreement dated effective March 10, 2005 by and between Todd M. Hornbeck and the Company (incorporated by reference to Exhibit 10.8, 10.9 and 10.0 to the Company s Form 10-K for the period ended December 31, 2004).

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Exhibit Number	Description of Exhibit
10.9	Second Amendment to Employment Agreement dated effective March 10, 2005 by and between Carl G. Annessa and the Company (incorporated by reference to Exhibit 10.8, 10.9 and 10.0 to the Company s Form 10-K for the period ended December 31, 2004).
10.10	Second Amendment to Employment Agreement dated effective March 10, 2005 by and between James O. Harp, Jr. and the Company (incorporated by reference to Exhibit 10.8, 10.9 and 10.0 to the Company s Form 10-K for the period ended December 31, 2004).
10.11	Amended and Restated Credit Agreement dated as of February 13, 2004 among Hornbeck Offshore Services, Inc. and Hibernia National Bank, as agent, and Hibernia National Bank, Fortis Capital Corp., Southwest Bank of Texas, N.A., DVB Bank Aktiengesellscheft and Wells Fargo Bank, N.A., as lenders (incorporated by reference to Exhibit 10.5 to the Company s Form 10-K for the period ended December 31, 2003).
10.12	Form of Indemnification Agreement for directors, officers and key employees (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement of Form S-1 filed July 22, 2002, Registration No. 333-96833).
10.13	Form of First Amendment to Indemnification Agreement for Directors, Officers and Key Employees (incorporated by reference to Exhibit 10.6 to the Company s Form 10-Q for the period ended September 30, 2003).
10.14	Asset Purchase Agreement dated as of June 20, 2003 by and among HOS-IV, LLC, Candy Marine Investment Corporation, Candy Fleet Corporation and Kenneth I. Nelkin, and joined for limited purposes by Hornbeck Offshore Services, Inc. (incorporated by reference to Exhibit 2.1 of the Company s Current Report on Form 8-K filed July 7, 2003).
*10.15	Director & Advisory Director Compensation Policy, effective February 14, 2006.
10.16	Form of Executive Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.16 to the Company s Form 10-K for the period ended December 31, 2004).
10.17	Form of Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.16 to the Company s Form 10-K for the period ended December 31, 2004).
10.18	Form of Employee Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.16 to the Company s Form 10-K for the period ended December 31, 2004).
10.19	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).
10.20	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).

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Exhibit Number	Description of Exhibit
10.21	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).
10.22	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).
10.23	Letter Agreement dated September 24, 2001 between the Company, Todd M. Hornbeck, Troy A. Hornbeck, Cari Investment Company and SCF-IV, L.P. (incorporated by reference to Exhibit 4.7 to the Company s Registration Statement on Form S-1 filed September 19, 2003, Registration No. 333-108943).
*10.24	Form of Executive Restricted Stock Agreement.
*10.25	Form of Director Restricted Stock Agreement.
*10.26	Form of Employee Restricted Stock Agreement.
*23.1	Consent of Ernst & Young, LLP.
*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.
99.1	Amended and Restated Credit Agreement Confirmation dated December 29, 2004 (incorporated by reference to Exhibit 99.4 to the Company s Amendment No. 1 to Registration Statement on Form S-4 dated February 7, 2005, Registration No. 333-121557).

* Filed herewith.
Compensatory plan or arrangement under which executive officers or directors of the Company may participate.