

KEY ENERGY SERVICES INC  
Form 10-Q  
August 09, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2018

or

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

Commission file number: 001-08038

KEY ENERGY SERVICES, INC.  
(Exact name of registrant as specified in its charter)

Delaware 04-2648081  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1301 McKinney Street, Suite 1800, Houston, Texas 77010  
(Address of principal executive offices) (Zip Code)

(713) 651-4300  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of August 3, 2018, the number of outstanding shares of common stock of the registrant was 20,244,545.

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 QUARTERLY REPORT ON FORM 10-Q  
 For the Quarter Ended June 30, 2018

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature or that relate to future events and conditions are, or may be deemed to be, forward-looking statements. These forward-looking statements are based on our current expectations, estimates and projections and management’s beliefs and assumptions concerning future events and financial trends affecting our financial condition and results of operations. In some cases, you can identify these statements by terminology such as “may,” “will,” “should,” “predicts,” “expects,” “believes,” “anticipates,” “projects,” “potential” or “continue” or the negative or other comparable terminology. These statements are only predictions and are subject to substantial risks and uncertainties and are not guarantees of performance. Future actions, events and conditions and future results of operations may differ materially from those expressed in these statements. In evaluating those statements, you should carefully consider the information above as well as the risks outlined in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, Part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the three months ended March 31, 2018 and in the other reports we file with the Securities and Exchange Commission.

We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this report except as required by law. All of our written and oral forward-looking statements are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements.

Important factors that may affect our expectations, estimates or projections include, but are not limited to, the following:

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conditions in the oil and natural gas industry, especially oil and natural gas prices and capital expenditures by oil and natural gas companies;

• volatility in oil and natural gas prices;

• our ability to implement price increases or maintain pricing on our core services;

• risks that we may not be able to reduce, and could even experience increases in, the costs of labor, fuel, equipment and supplies employed in our businesses;

• industry capacity;

• asset impairments or other charges;

• the periodic low demand for our services and resulting operating losses and negative cash flows;

• our highly competitive industry as well as operating risks, which are primarily self-insured, and the possibility that our insurance may not be adequate to cover all of our losses or liabilities;

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significant costs and potential liabilities resulting from compliance with applicable laws, including those resulting from environmental, health and safety laws and regulations, specifically those relating to hydraulic fracturing, as well as climate change legislation or initiatives;

our historically high employee turnover rate and our ability to replace or add workers, including executive officers and skilled workers;

our ability to incur debt or long-term lease obligations;

our ability to implement technological developments and enhancements;

severe weather impacts on our business, including from hurricane activity;

our ability to successfully identify, make and integrate acquisitions and our ability to finance future growth of our operations or future acquisitions;

our ability to achieve the benefits expected from disposition transactions;

the loss of one or more of our larger customers;

our ability to generate sufficient cash flow to meet debt service obligations;

the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt, including our ability to comply with covenants under our debt agreements;

an increase in our debt service obligations due to variable rate indebtedness;

our inability to achieve our financial, capital expenditure and operational projections, including quarterly and annual projections of revenue and/or operating income and our inaccurate assessment of future activity levels, customer demand, and pricing stability which may not materialize (whether for Key as a whole or for geographic regions and/or business segments individually);

our ability to respond to changing or declining market conditions, including our ability to reduce the costs of labor, fuel, equipment and supplies employed and used in our businesses;

our ability to maintain sufficient liquidity;

adverse impact of litigation; and

other factors affecting our business described in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, in Part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the three-month period ended March 31, 2018 and in the other reports we file with the Securities and Exchange Commission.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Key Energy Services, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share amounts)

	June 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,262	\$ 73,065
Restricted cash	—	4,000
Accounts receivable, net of allowance for doubtful accounts of \$954 and \$875, respectively	93,339	69,319
Inventories	19,188	20,942
Other current assets	15,382	19,477
Total current assets	180,171	186,803
Property and equipment	424,393	413,127
Accumulated depreciation	(124,981 )	(85,813 )
Property and equipment, net	299,412	327,314
Intangible assets, net	433	462
Other non-current assets	9,487	14,542
<b>TOTAL ASSETS</b>	<b>\$ 489,503</b>	<b>\$ 529,121</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 15,611	\$ 13,697
Current portion of long-term debt	2,500	2,500
Other current liabilities	85,899	87,579
Total current liabilities	104,010	103,776
Long-term debt	242,091	243,103
Workers' compensation, vehicular and health insurance liabilities	25,241	25,393
Other non-current liabilities	28,431	28,166
Commitments and contingencies		
Equity:		
Preferred stock, \$0.01 par value; 10,000,000 authorized and one share issued and outstanding	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized, 20,244,545 and 20,217,641 outstanding	202	202
Additional paid-in capital	262,219	259,314
Retained deficit	(172,691 )	(130,833 )
Total equity	89,730	128,683
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 489,503</b>	<b>\$ 529,121</b>

See the accompanying notes which are an integral part of these condensed consolidated financial statements.

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Key Energy Services, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Operations  
 (in thousands, except per share data)  
 (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES	\$144,405	\$107,780	\$269,721	\$209,232
COSTS AND EXPENSES:				
Direct operating expenses	109,747	63,560	207,958	150,866
Depreciation and amortization expense				