PARKER DRILLING CO /DE/
Form 10-Q
August 02, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)
x 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
For the transition period from to
Commission File Number 1-7573
PARKER DRILLING COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 73-0618660 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 5 Greenway Plaza, Suite 100, Houston, Texas | 77046 |
| (Address of principal executive offices) | (Zip code) |

(281) 406-2000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ | 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 x
As of July 30, 2018 there were 9,317,754 common shares outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 114,459 | $ 141,549 |
| Accounts and notes receivable, net of allowance for bad debts of $7,549 at June 30, 2018 and $7,564 at December 31, 2017 | 122,673 | 122,511 |
| Rig materials and supplies | 31,921 | 31,415 |
| Other current assets | 23,640 | 22,361 |
| Total current assets | 292,693 | 317,836 |
| Property, plant and equipment, net of accumulated depreciation of $1,340,963 at June 30, 2018 and $1,343,105 at December 31, 2017 | 602,069 | 625,771 |
| Goodwill (Note 2) | 6,708 | 6,708 |
| Intangible assets, net (Note 2) | 5,974 | 7,128 |
| Deferred income taxes | 2,161 | 1,284 |
| Other noncurrent assets | 27,614 | 31,552 |
| Total assets | $ 937,219 | $ 990,279 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 102,797 | $ 99,246 |
| Accrued income taxes | 3,457 | 4,430 |
| Total current liabilities | 106,254 | 103,676 |
| Long-term debt, net of unamortized debt issuance costs of $6,160 at June 30, 2018 and $7,029 at December 31, 2017 (Note 3) | 578,840 | 577,971 |
| Other long-term liabilities | 10,335 | 12,433 |
| Long-term deferred tax liability | 60 | 78 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |
| Preferred stock, $1.00 par value, 1,942,000 shares authorized, 7.25% Series A Mandatory Convertible, 500,000 shares issued and outstanding | 500 | 500 |
| | 1,387 | 1,378 |

| | | |
|---|---|---|
| Common Stock, \$0.16 $^{2}/_{3}$ par value, authorized 18,666,667 shares, issued and outstanding, 9,319,722 shares (9,262,382 shares in 2017) [(1)] | | |
| Capital in excess of par value [(1)] | 766,328 | 766,508 |
| Accumulated deficit | (520,426 ) | (468,753 ) |
| Accumulated other comprehensive income (loss) | (6,059 ) | (3,512 ) |
| Total stockholders' equity | 241,730 | 296,121 |
| Total liabilities and stockholders' equity | $ 937,219 | $ 990,279 |

(1) See Note 7 - Stockholders' Equity for details regarding the 1-for-15 reverse stock split.

See accompanying notes to the unaudited consolidated condensed financial statements.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Data)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | $118,603 | $109,607 | $228,278 | $207,878 |
| Expenses: | | | | |
| Operating expenses | 91,634 | 89,641 | 183,168 | 175,455 |
| Depreciation and amortization | 27,136 | 30,982 | 55,685 | 63,184 |
| | 118,770 | 120,623 | 238,853 | 238,639 |
| Total operating gross margin (loss) | (167) | (11,016) | (10,575) | (30,761) |
| General and administrative expense | (8,288) | (6,503) | (14,489) | (13,543) |
| Gain (loss) on disposition of assets, net | (478) | (113) | (135) | (465) |
| Total operating income (loss) | (8,933) | (17,632) | (25,199) | (44,769) |
| Other income (expense): | | | | |
| Interest expense | (11,197) | (11,095) | (22,437) | (21,965) |
| Interest income | 30 | 22 | 53 | 32 |
| Other | (1,191) | 560 | (900) | 1,090 |
| Total other income (expense) | (12,358) | (10,513) | (23,284) | (20,843) |
| Income (loss) before income taxes | (21,291) | (28,145) | (48,483) | (65,612) |
| Income tax expense (benefit) | 1,586 | 1,743 | 3,190 | 4,085 |
| Net income (loss) | (22,877) | (29,888) | (51,673) | (69,697) |
| Less: Convertible preferred stock dividend | 907 | 1,239 | 1,813 | 1,239 |
| Net income (loss) available to common stockholders | $(23,784) | $(31,127) | $(53,486) | $(70,936) |
| Basic earnings (loss) per common share: [1] | $(2.56) | $(3.39) | $(5.77) | $(7.94) |
| Diluted earnings (loss) per common share: [1] | $(2.56) | $(3.39) | $(5.77) | $(7.94) |
| Number of common shares used in computing earnings per share: | | | | |
| Basic [1] | 9,292,224 | 9,188,888 | 9,271,759 | 8,933,945 |
| Diluted [1] | 9,292,224 | 9,188,888 | 9,271,759 | 8,933,945 |

(1) See Note 7 - Stockholders' Equity for details regarding the 1-for-15 reverse stock split.

See accompanying notes to the unaudited consolidated condensed financial statements.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Comprehensive income (loss): | | | | |
| Net income (loss) | $(22,877) | $(29,888) | $(51,673) | $(69,697) |
| Other comprehensive income (loss), net of tax: | | | | |
| Currency translation difference on related borrowings | (445) | 185 | (169) | 268 |
| Currency translation difference on foreign currency net investments | (1,802) | 686 | (2,378) | 1,449 |
| Total other comprehensive income (loss), net of tax: | (2,247) | 871 | (2,547) | 1,717 |
| Comprehensive income (loss) | $(25,124) | $(29,017) | $(54,220) | $(67,980) |

See accompanying notes to the unaudited consolidated condensed financial statements.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income (loss) | $(51,673) | $(69,697) |
| Adjustments to reconcile net income (loss): | | |
| Depreciation and amortization | 55,685 | 63,184 |
| (Gain) loss on disposition of assets, net | 135 | 465 |
| Deferred tax expense (benefit) | (896) | (934) |
| Expenses not requiring cash | 4,030 | 4,948 |
| Change in assets and liabilities: | | |
| Accounts and notes receivable | (392) | (6,853) |
| Other assets | 8,112 | (1,722) |
| Accounts payable and accrued liabilities | (6,026) | (8,235) |
| Accrued income taxes | (944) | 1,276 |
| Net cash provided by (used in) operating activities | 8,031 | (17,568) |
| | | |
| Cash flows from investing activities: | | |
| Capital expenditures | (32,549) | (26,559) |
| Proceeds from the sale of assets | 851 | 185 |
| Net cash provided by (used in) investing activities | (31,698) | (26,374) |
| | | |
| Cash flows from financing activities: | | |
| Payments of debt issuance costs | (1,440) | — |
| Convertible preferred stock dividend | (1,813) | (1,239) |
| Shares surrendered in lieu of tax | (170) | (612) |
| Proceeds from the issuance of common stock | — | 25,200 |
| Proceeds from the issuance of convertible preferred stock | — | 50,000 |
| Payment of equity issuance costs | — | (2,864) |
| Net cash provided by (used in) financing activities | (3,423) | 70,485 |
| | | |
| Net increase (decrease) in cash and cash equivalents | (27,090) | 26,543 |
| Cash and cash equivalents at beginning of period | 141,549 | 119,691 |
| Cash and cash equivalents at end of period | $114,459 | $146,234 |

| Supplemental cash flow information: | | |
| --- | --- | --- |
| Interest paid | $20,588 | $20,588 |
| Income taxes paid | $5,359 | $4,262 |

See accompanying notes to the unaudited consolidated condensed financial statements.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars and Shares in Thousands)
(Unaudited)

| | Shares [1] | Convertible Preferred Stock | Common Stock [1] | Treasury Stock | Capital in Excess of Par Value [1] | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balances, December 31, 2017 | 9,762 | $ 500 | $ 1,548 | $ (170 ) | $ 766,508 | $ (468,753 ) | $ (3,512 ) | $ 296,121 |
| Activity in employees' stock plans | 58 | — | 9 | — | (179 ) | — | — | (170 ) |
| Amortization of stock-based awards | — | — | — | — | 1,812 | — | — | 1,812 |
| Convertible preferred stock dividend | — | — | — | — | (1,813 ) | — | — | (1,813 ) |
| Comprehensive Income: | | | | | | | | |
| Net income (loss) | — | — | — | — | — | (51,673 ) | — | (51,673 ) |
| Other comprehensive income (loss) | — | — | — | — | — | — | (2,547 ) | (2,547 ) |
| Balances, June 30, 2018 | 9,820 | $ 500 | $ 1,557 | $ (170 ) | $ 766,328 | $ (520,426 ) | $ (6,059 ) | $ 241,730 |

(1) See Note 7 - Stockholders' Equity for details regarding the 1-for-15 reverse stock split.

See accompanying notes to the unaudited consolidated condensed financial statements.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Note 1 - Summary of Significant Accounting Policies
The Consolidated Condensed Financial Statements as of June 30, 2018 and for the three and six months ended June 30, 2018 and 2017 are unaudited. In the opinion of Parker Drilling Company (Parker Drilling or the Company), these consolidated condensed financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for their fair presentation for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The consolidated condensed financial statements presented herein should be read in connection with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.
Nature of Operations — Our business is comprised of two business lines: (1) Drilling Services and (2) Rental Tools Services. We report our Drilling Services business as two reportable segments: (1) U.S. (Lower 48) Drilling and (2) International & Alaska Drilling. We report our Rental Tools Services business as two reportable segments: (1) U.S. Rental Tools and (2) International Rental Tools. For more details see Note 10 - Reportable Segments.
Consolidation — The consolidated condensed financial statements include the accounts of the Company and subsidiaries in which we exercise control or have a controlling financial interest, including entities, if any, in which the Company is allocated a majority of the entity’s losses or returns, regardless of ownership percentage. If a subsidiary of Parker Drilling has a 50 percent interest in an entity but Parker Drilling’s interest in the subsidiary or the entity does not meet the consolidation criteria described above, then that interest is accounted for under the equity method.
Reclassifications — Certain reclassifications have been made to prior period amounts to conform to the current period presentation. These reclassifications did not materially affect our consolidated financial results.
Use of Estimates — The preparation of our consolidated condensed financial statements in accordance with accounting policies generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect our reported amounts of assets and liabilities, our disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements, and our revenues and expenses during the periods reported. Estimates are typically used when accounting for certain significant items such as legal or contractual liability accruals, mobilization and deferred mobilization, self-insured medical/dental plans, income taxes and valuation allowance, and other items requiring the use of estimates. Estimates are based on a number of variables which may include third party valuations, historical experience, where applicable, and assumptions that we believe are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ from management estimates.
Purchase Price Allocation — We allocate the purchase price of an acquired business to its identifiable assets and liabilities in accordance with the acquisition method based on estimated fair values at the transaction date. Transaction and integration costs associated with an acquisition are expensed as incurred. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. We use all available information to estimate fair values, including quoted market prices, the carrying value of acquired assets, and widely accepted valuation techniques such as discounted cash flows. We typically engage third-party appraisal firms to assist in fair value determination of inventories, identifiable intangible assets, and any other significant assets or liabilities. Judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.
Goodwill — We perform our annual goodwill impairment review during the fourth quarter, as of October 1, and more frequently if negative conditions or other triggering events arise. The quantitative impairment test we perform for goodwill utilizes certain assumptions, including forecasted revenues and costs assumptions. See Note 2 - Goodwill and Intangible Assets for further discussion.
Intangible Assets — Our intangible assets are related to trade names, customer relationships, and developed technology, which were acquired through acquisition and are classified as definite lived intangibles, that are generally amortized over a weighted average period of approximately three to six years. We assess the recoverability of the unamortized

balance of our intangible assets when indicators of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. Should the review indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of the intangible assets would be recognized as an impairment loss. See Note 2 - Goodwill and Intangible Assets for further discussion.
Impairment — We evaluate the carrying amounts of long-lived assets for potential impairment when events occur or circumstances change that indicate the carrying values of such assets may not be recoverable. We evaluate recoverability by determining the undiscounted estimated future net cash flows for the respective asset groups identified. If the sum of the estimated

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undiscounted cash flows is less than the carrying value of the asset group, we measure the impairment as the amount by which the assets' carrying value exceeds the fair value of such assets. Management considers a number of factors such as estimated future cash flows from the assets, appraisals and current market value analysis in determining fair value. Assets are written down to fair value if the final estimate of current fair value is below the net carrying value. The assumptions used in the impairment evaluation are inherently uncertain and require management judgment.
Income Taxes — Income taxes are accounted for under the asset and liability method and have been provided for based upon tax laws and rates in effect in the countries in which operations are conducted and income or losses are generated. There is little or no expected relationship between the provision for or benefit from income taxes and income or loss before income taxes as the countries in which we operate have taxation regimes that vary not only with respect to nominal rate, but also in terms of the availability of deductions, credits, and other benefits. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled and the effect of changes in tax rates is recognized in income in the period in which the change is enacted. Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In order to determine the amount of deferred tax assets or liabilities, as well as the valuation allowances, we must make estimates and assumptions regarding future taxable income, where rigs will be deployed and other matters. Changes in these estimates and assumptions, including changes in tax laws and other changes impacting our ability to recognize the underlying deferred tax assets, could require us to adjust the valuation allowances.
The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized and changes in recognition or measurement are reflected in the period in which the change in judgment occurs.
Earnings (Loss) Per Share (EPS) — Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. The effects of dilutive securities, stock options, unvested restricted stock, assumed conversion of convertible stock and convertible debt are included in the diluted EPS calculation, when applicable.
Concentrations of Credit Risk — Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables with a variety of national and international oil and natural gas companies. We generally do not require collateral on our trade receivables. We depend on a limited number of significant customers. Our largest customer, Exxon Neftegas Limited ("ENL"), constituted approximately 26.3 percent of our consolidated revenues for the six months ended June 30, 2018. Excluding reimbursable revenues of $22.6 million, ENL constituted approximately 18.6 percent of our total consolidated revenues for the six months ended June 30, 2018.
We had deposits in domestic banks in excess of federally insured limits of approximately $65.6 million and $97.6 million, as of June 30, 2018 and December 31, 2017, respectively. In addition, we had uninsured deposits in foreign banks of $50.4 million and $45.6 million as of June 30, 2018 and December 31, 2017, respectively.
Legal and Investigative Matters — We accrue estimates of the probable and estimable costs for the resolution of certain legal and investigative matters. We do not accrue any amounts for other matters for which the liability is not probable and reasonably estimable. Generally, the estimate of probable costs related to these matters is developed in consultation with our legal advisors. The estimates take into consideration factors such as the complexity of the issues, litigation risks and settlement costs. If the actual settlement costs, final judgments, or fines, after appeals, differ from our estimates, our future financial results may be adversely affected.
Reverse stock split — On July 27, 2018, the Company's 1-for-15 reverse stock split of its common stock became effective. All share and per share data have been retroactively restated for all periods presented. The reverse stock split did not affect the par value of the common stock. Shareholders who otherwise would have been entitled to receive a

fractional share of common stock as a result of the reverse stock split will receive cash in lieu of such fractional share. The Company's 7.25% Series A Mandatory Convertible Preferred Stock ("Convertible Preferred Stock") was not subject to the reverse stock split, as proportionate adjustments were made to the minimum and maximum conversion rates of the Convertible Preferred Stock.

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Note 2 - Goodwill and Intangible Assets

We account for business combinations using the acquisition method of accounting. Under this method, assets and liabilities, including any remaining noncontrolling interests, are recognized at fair value at the date of acquisition. The excess of the purchase price over the fair value of assets acquired, net of liabilities assumed, plus the value of any noncontrolling interests, is recognized as goodwill. We perform our annual goodwill impairment review during the fourth quarter, as of October 1, and more frequently if negative conditions or other triggering events arise. Should current market conditions worsen or persist for an extended period of time, an impairment of the carrying value of our goodwill could occur.

All of the Company’s goodwill and intangible assets are allocated to the International Rental Tools segment.

Goodwill

The change in the carrying amount of goodwill for the period ended June 30, 2018 is as follows:

| Dollars in thousands | Goodwill |
|---|---|
| Balance at December 31, 2017 | $ 6,708 |
| Additions | — |
| Balance at June 30, 2018 | $ 6,708 |

Of the total amount of goodwill recognized, zero is expected to be deductible for income tax purposes.

Intangible Assets

Intangible Assets consist of the following:

| | | Balance at June 30, 2018 | | | |
|---|---|---|---|---|---|
| Dollars in thousands | Estimated Useful Life (Years) | Gross Carrying Amount | Write-off Due to Disposal | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | | | |
| Developed technology | 6 | $11,630 | $ — | $ (6,300) | $ 5,330 |
| Trade names | 5 | 4,940 | (332) | (3,964) | 644 |
| Total amortized intangible assets | | $16,570 | $ (332) | $ (10,264) | $ 5,974 |

Amortization expense was $1.2 million and $1.5 million for the six months ended June 30, 2018 and 2017, respectively.

Our remaining intangibles amortization expense for the next five years is presented below:

| Dollars in thousands | Expected future intangible amortization expense |
|---|---|
| 2018 | $ 1,153 |
| 2019 | $ 2,306 |
| 2020 | $ 2,030 |
| 2021 | $ 485 |
| Beyond 2021 | $ — |

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Note 3 - Long-term Debt

The following table illustrates the Company's current debt portfolio as of June 30, 2018 and December 31, 2017:

| Dollars in thousands | June 30, 2018 | December 31, 2017 |
|---|---|---|
| 6.75% Senior Notes, due July 2022 | $360,000 | $ 360,000 |
| 7.50% Senior Notes, due August 2020 | 225,000 | 225,000 |
| Total principal | 585,000 | 585,000 |
| Less: unamortized debt issuance costs | (6,160 ) | (7,029 ) |
| Total long-term debt | $578,840 | $ 577,971 |

6.75% Senior Notes, due July 2022

On January 22, 2014, we issued $360.0 million aggregate principal amount of 6.75% Senior Notes due July 2022 ("6.75% Notes") pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. The 6.75% Notes are general unsecured obligations of the Company and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 6.75% Notes are jointly and severally guaranteed by all of our subsidiaries that guarantee indebtedness under the Second Amended and Restated Senior Secured Credit Agreement, as amended from time-to-time ("2015 Secured Credit Agreement") and our 7.50% Senior Notes, due 2020 ("7.50% Notes", and collectively with the 6.75% Notes, the "Senior Notes"). Interest on the 6.75% Notes is payable on January 15 and July 15 of each year, beginning July 15, 2014. Debt issuance costs related to the 6.75% Notes of approximately $7.6 million ($4.2 million net of amortization as of June 30, 2018) are being amortized over the term of the notes using the effective interest rate method.

We may redeem all or a part of the 6.75% Notes upon appropriate notice, at redemption prices decreasing each year after January 15, 2018 to par beginning January 15, 2020. As of June 30, 2018, the redemption price is 103.375 percent and we have not made any redemptions to date. If we experience certain changes in control, we must offer to repurchase the 6.75% Notes at 101.0 percent of the aggregate principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

The Indenture limits our ability and the ability of certain subsidiaries to: (i) sell assets, (ii) pay dividends or make other distributions on capital stock or redeem or repurchase capital stock or subordinated indebtedness, (iii) make investments, (iv) incur or guarantee additional indebtedness, (v) create or incur liens, (vi) enter into sale and leaseback transactions, (vii) incur dividend or other payment restrictions affecting subsidiaries, (viii) merge or consolidate with other entities, (ix) enter into transactions with affiliates, and (x) engage in certain business activities. Additionally, the Indenture contains certain restrictive covenants designating certain events as Events of Default. These covenants are subject to a number of important exceptions and qualifications.

7.50% Senior Notes, due August 2020

On July 30, 2013, we issued $225.0 million aggregate principal amount of the 7.50% Notes pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. The 7.50% Notes are general unsecured obligations of the Company and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 7.50% Notes are jointly and severally guaranteed by all of our subsidiaries that guarantee indebtedness under the 2015 Secured Credit Agreement and the 6.75% Notes. Interest on the 7.50% Notes is payable on February 1 and August 1 of each year, beginning February 1, 2014. Debt issuance costs related to the 7.50% Notes of approximately $5.6 million ($2.0 million, net of amortization as of June 30, 2018) are being amortized over the term of the notes using the effective interest rate method.

We may redeem all or a part of the 7.50% Notes upon appropriate notice, at redemption prices decreasing each year after August 1, 2016 to par beginning August 1, 2018. As of June 30, 2018, the redemption price is 101.875 percent and we have not made any redemptions to date. If we experience certain changes in control, we must offer to repurchase the 7.50% Notes at 101.0 percent of the aggregate principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

The Indenture limits our ability and the ability of certain subsidiaries to: (i) sell assets, (ii) pay dividends or make other distributions on capital stock or redeem or repurchase capital stock or subordinated indebtedness, (iii) make investments, (iv) incur or guarantee additional indebtedness, (v) create or incur liens, (vi) enter into sale and leaseback transactions, (vii) incur dividend or other payment restrictions affecting subsidiaries, (viii) merge or consolidate with other entities, (ix) enter into transactions with affiliates, and (x) engage in certain business activities. Additionally, the Indenture contains certain restrictive covenants designating certain events as Events of Default. These covenants are subject to a number of important exceptions and qualifications.

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2015 Secured Credit Agreement

On January 26, 2015 we entered into the 2015 Secured Credit Agreement. The 2015 Secured Credit Agreement was originally comprised of a $200.0 million revolving credit facility (“Revolver”), which was reduced to $80.0 million in February 2018. The 2015 Secured Credit Agreement formerly included financial maintenance covenants, including a Leverage Ratio, Consolidated Interest Coverage Ratio, Senior Secured Leverage Ratio, and Asset Coverage Ratio, many of which were suspended beginning in September 2015.

On February 14, 2018, we executed the Fifth Amendment to the 2015 Secured Credit Agreement (the “Fifth Amendment”) which modified the credit facility to an Asset-Based Lending structure and reduced the size of the Revolver from $100.0 million to $80.0 million. The Fifth Amendment eliminated the financial maintenance covenants previously in effect and replaced them with a liquidity covenant of $30.0 million and a monthly borrowing base calculation based on eligible rental equipment and eligible domestic accounts receivable. The liquidity covenant requires the Company to maintain a minimum of $30.0 million of liquidity (defined as availability under the borrowing base and cash on hand), of which $15.0 million is restricted, resulting in a maximum availability at any one time of the lesser of (a) an amount equal to our borrowing base minus $15.0 million, or (b) $65.0 million. Our ability to borrow under the 2015 Secured Credit Agreement is determined by reference to our borrowing base. The Fifth Amendment also allows for refinancing our existing Senior Notes with either secured or unsecured debt, adds the ability for the Company to designate certain of its subsidiaries as “Designated Borrowers” and removes our availability to make certain restricted payments. The debt issuance costs incurred relating to the Fifth Amendment were $1.4 million. The remaining debt issuance costs including all amendments as of June 30, 2018 were $1.7 million which are being amortized through January 2020 on a straight line basis.

On July 12, 2018, we executed the Sixth Amendment to the 2015 Secured Credit Agreement (the “Sixth Amendment”) which permits the Company to make Restricted Payments (as defined in the 2015 Secured Credit Agreement) in the form of certain Equity Interests (as defined in the 2015 Secured Credit Agreement).

Our obligations under the 2015 Secured Credit Agreement are guaranteed by substantially all of our direct and indirect domestic subsidiaries, other than immaterial subsidiaries and subsidiaries generating revenues primarily outside the United States, each of which has executed guaranty agreements, and are secured by first priority liens on our accounts receivable, specified rigs including barge rigs in the GOM and land rigs in Alaska, certain U.S.-based rental equipment of the Company and its subsidiary guarantors and the equity interests of certain of the Company’s subsidiaries. In addition to the liquidity covenant and borrowing base requirements, the 2015 Secured Credit Agreement contains customary affirmative and negative covenants, such as limitations on indebtedness and liens, and restrictions on entry into certain affiliate transactions and payments (including certain payments of dividends). As of June 30, 2018, we were in compliance with all covenants contained in the 2015 Secured Credit Agreement.

Our Revolver is available for general corporate purposes and to support letters of credit. Interest on Revolver loans accrues at either:

- Base Rate plus an Applicable Rate or
- LIBOR plus an Applicable Rate.

Revolving loans are available subject to a monthly borrowing base calculation. As of June 30, 2018 the borrowing base under the $80.0 million Revolver was $73.4 million, which was further reduced by $15.0 million of restricted liquidity and $5.9 million in supporting letters of credit outstanding, resulting in availability under the revolver of $52.5 million. There were no amounts drawn on the Revolver as of June 30, 2018.

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Note 4 - Fair Value of Financial Instruments
Certain of our assets and liabilities are required to be measured at fair value on a recurring basis. For purposes of recording fair value adjustments for certain financial and non-financial assets and liabilities, and determining fair value disclosures, we estimate fair value at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability.
The fair value measurement and disclosure requirements of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 820, Fair Value Measurement and Disclosures requires inputs that we categorize using a three-level hierarchy, from highest to lowest level of observable inputs, as follows:

- Level 1 — Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 — Direct or indirect observable inputs, including quoted prices or other market data, for similar assets or liabilities in active markets or identical assets or liabilities in less active markets; and
- Level 3 — Unobservable inputs that require significant judgment for which there is little or no market data.

When multiple input levels are required for a valuation, we categorize the entire fair value measurement according to the lowest level of input that is significant to the entire measurement even though we may also have utilized significant inputs that are more readily observable. The amounts reported in our consolidated condensed balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value.
Fair value of our debt instruments is determined using Level 2 inputs. Fair values and related carrying values of our debt instruments were as follows for the periods indicated:

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Dollars in thousands | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt | | | | |
| 6.75% Notes | $360,000 | $264,150 | $360,000 | $296,100 |
| 7.50% Notes | 225,000 | 183,938 | 225,000 | 206,438 |
| Total | $585,000 | $448,088 | $585,000 | $502,538 |

Market conditions could cause an instrument to be reclassified from Level 1 to Level 2, or Level 2 to Level 3. There were no transfers between levels of the fair value hierarchy or any changes in the valuation techniques used during the six months ended June 30, 2018.
Note 5 - Income Taxes
We apply the accounting guidance related to accounting for uncertainty in income taxes. This guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. At June 30, 2018, we had a liability for unrecognized tax benefits of $5.9 million, primarily related to foreign operations, (all of which, if recognized, would favorably impact our effective tax rate.). At December 31, 2017, we had a liability for unrecognized tax benefits of $5.4 million, all of which would favorably impact our effective tax rate upon recognition. In addition, we recognize interest and penalties that could be applied to uncertain tax positions in periodic income tax expense. As of June 30, 2018 and December 31, 2017, we had approximately $2.2 million and $2.1 million, respectively, of accrued interest and penalties related to uncertain tax positions.
Income tax expense was $1.6 million and $1.7 million for the three months ended June 30, 2018 and 2017, respectively. Despite the pre-tax loss for the second quarter of 2018, we recognized income tax expense due to the jurisdictional mix of income and loss during the quarter, along with our continued inability to recognize the benefits associated with certain losses as a result of valuation allowances.

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Note 6 - Commitments and Contingencies

We are a party to various lawsuits and claims arising out of the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount or range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ significantly from our estimates. In the opinion of management and based on liability accruals provided, our ultimate exposure with respect to these pending lawsuits and claims is not expected to have a material adverse effect on our consolidated condensed balance sheets or statements of cash flows, although they could have a material adverse effect on our consolidated condensed statements of operations for a particular reporting period.

Note 7 - Stockholders' Equity

In February 2017, we issued 800,000 shares (on a post-split basis) of common stock, par value $0.16 $^{2}/_{3}$ per share, at the public offering price of $2.10 per share, and 500,000 shares of the Convertible Preferred Stock, par value $1.00 per share, with a liquidation preference of $100 per share, for total net proceeds of $72.3 million, after underwriting discount and offering expenses.

The dividends on our Convertible Preferred Stock are payable on a cumulative basis when, as and if declared by our board of directors, or an authorized committee of our board of directors, at an annual rate of 7.25 percent of the liquidation preference of $100 per share. We may pay declared dividends in cash or, subject to certain limitations, in shares of our common stock, or in any combination of cash and shares of our common stock on March 31, June 30, September 30 and December 31 of each year, commencing on June 30, 2017 and ending on, and including, March 31, 2020.

Unless converted earlier, each share of our Convertible Preferred Stock will automatically convert into between 2.7605 and 3.1746 shares (on a post-split basis) of our common stock (respectively, the “minimum conversion rate” and “maximum conversion rate”), subject to anti-dilution adjustments. The number of shares of our common stock issuable on conversion will be determined based on the volume weighted-average price, of our common stock over the 20 consecutive trading day period beginning on, and including, the 23rd scheduled trading day immediately preceding March 31, 2020. Except in limited circumstances, at any time prior to March 31, 2020, a holder may convert Convertible Preferred Stock into shares of our common stock at the minimum conversion rate of 2.7605 shares (on a post-split basis) of common stock per share of Convertible Preferred Stock, subject to anti-dilution adjustments.

On May 10, 2018, the Company declared a cash dividend of $1.8125 per share of our Convertible Preferred Stock for the period beginning on March 31, 2018 and ending on June 29, 2018, which was paid on July 2, 2018 to holders of record of the Convertible Preferred Stock as of June 15, 2018.

On July 12, 2018, the Board of Directors of the Company declared a dividend of one right (“Right”) for each outstanding share of common stock to common stockholders of record at the close of business on July 27, 2018 (the “Rights Plan”). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share (a “Fractional Share”) of Series A Junior Participating Preferred Stock, par value $1.00 per share, at a purchase price of $52.50 per Fractional Share, subject to adjustment. Initially, the Rights will be attached to all outstanding shares of common stock. The Rights will be separate from the common stock and a “Distribution Date” will occur, with certain exceptions, upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons (an “Acquiring Person”) has acquired, or obtained the right to acquire, beneficial ownership of 10% or more of the outstanding shares of common stock, or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person’s becoming an Acquiring Person. The Rights are not exercisable until the Distribution Date and will expire at the close of business on July 12, 2019, unless earlier redeemed or exchanged by the Company. If the rights become exercisable, each holder other than the Acquiring Person (and certain related parties) will be entitled to acquire shares of common stock at a 50% discount or the Company may exchange each right held by such holders for two shares of common stock.

On July 27, 2018, the Company’s 1-for-15 reverse stock split of its common stock became effective. All share and per share data have been retroactively restated for all periods presented. The reverse stock split did not affect the par value of the common stock. Shareholders who otherwise would have been entitled to receive a fractional share of common stock as a result of the reverse stock split will receive cash in lieu of such fractional share. The Company’s Convertible Preferred Stock was not subject to the reverse stock split as proportionate adjustments were made to the minimum and maximum conversion rates of the Convertible Preferred Stock.

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Note 8 - Earnings (Loss) Per Share ("EPS")

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. The effects of dilutive securities, stock options, unvested restricted stock, convertible debt and equity are included in the diluted EPS calculation, when applicable. See Note 7 - Stockholders' Equity for details regarding the 1-for-15 reverse stock split.

The following table represents the computation of earnings per share for the three and six months ended June 30, 2018 and 2017, respectively:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Dollars in thousands, except per share amounts | 2018 | 2017 | 2018 | 2017 |
| Basic EPS | | | | |
| Numerator | | | | |
| Net Income (Loss) Available to Common Stockholders | $(23,784) | $(31,127) | $(53,486) | $(70,936) |
| Denominator | | | | |
| Weighted average shares outstanding | 9,292,224 | 9,188,888 | 9,271,759 | 8,933,945 |
| Number of shares used for basic EPS computation | 9,292,224 | 9,188,888 | 9,271,759 | 8,933,945 |
| Basic earnings (loss) per common share | $(2.56) | $(3.39) | $(5.77) | $(7.94) |
| Diluted EPS | | | | |
| Numerator | | | | |
| Net Income (Loss) Available to Common Stockholders | $(23,784) | $(31,127) | $(53,486) | $(70,936) |
| Denominator | | | | |
| Number of shares used for basic EPS computation | 9,292,224 | 9,188,888 | 9,271,759 | 8,933,945 |
| Restricted stock units [(1)] | — | — | — | — |
| Convertible preferred stock [(2)] | — | — | — | — |
| Number of shares used for diluted EPS computation | 9,292,224 | 9,188,888 | 9,271,759 | 8,933,945 |
| Diluted earnings (loss) per common share | $(2.56) | $(3.39) | $(5.77) | $(7.94) |

(1) For the three and six months ended June 30, 2018 and 2017, respectively, all common shares potentially issuable in connection with outstanding restricted stock unit awards have been excluded from the calculation of diluted EPS as the Company incurred losses during the periods, therefore, inclusion of such potential common shares would be anti-dilutive.

(2) Weighted average common shares issuable upon the assumed conversion of our Convertible Preferred Stock totaling 1,587,300 shares (on a post-split basis) were excluded from the computation of diluted EPS as such shares would be anti-dilutive.

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Note 9 - Revenue from Contracts with Customers

We adopted the Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) effective January 1, 2018 using the modified retrospective implementation method. Accordingly, we have applied the five-step method outlined in Topic 606 for determining when and how revenue is recognized to all contracts that were not completed as of the date of adoption. Revenues for reporting periods beginning as of January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported under the previous revenue recognition guidance. For contracts that were modified before the effective date, we have considered the modification guidance within the new standard and determined that the revenue recognized and contract balances recorded prior to adoption for such contracts were not impacted. While Topic 606 requires additional disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, its adoption has not had a material impact on the measurement or recognition of our revenues. As part of the adoption no adjustments were needed to the consolidated balance sheets, statements of operations and statements of cash flows.

Our business is comprised of two business lines: (1) Drilling Services and (2) Rental Tools Services. See Note 10 - Reportable Segments for further details on these business lines and revenue disaggregation amounts.

Our drilling and rental tools services provided under each contract is a single performance obligation satisfied over time and comprised of a series of distinct time increments, or service periods. Total revenue is determined for each individual contract by estimating both fixed and variable consideration expected to be earned over the contract term. Fixed consideration generally relates to activities that are not distinct within the context of our contracts and is recognized on a straight-line basis over the contract term. Variable consideration generally relates to distinct service periods during the contract term and are recognized in the period when the services are performed. Our contract terms generally range from 2 to 60 months.

The amount estimated for variable consideration may be constrained (reduced) and is only recognized as revenue to the extent that it is probable that a significant reversal of previously recognized revenue will not occur during the contract term. When determining if variable consideration should be constrained, management considers whether there are factors outside the Company's control that could result in a significant reversal of revenue as well as the likelihood and magnitude of a potential reversal of revenue. These estimates are re-assessed each reporting period as required. Accounts receivable are recognized when the right to consideration becomes unconditional based upon contractual billing schedules. Payment terms on invoiced amounts are typically 30 days.

Drilling Services Business

Dayrate Revenues - Our drilling services contracts generally provide for payment on a dayrate basis, with higher rates for periods when the drilling unit is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis.

Such dayrate consideration is allocated to the distinct hourly increment to which it relates within the contract term, and therefore, recognized in line with the contractual rate billed for the services provided for any given hour.

Mobilization Revenues - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the mobilization of our rigs.

These activities are not considered to be distinct within the context of the contract and therefore, the associated revenues are allocated to the overall performance obligation and recognized ratably over the initial term of the related drilling contract. We record a contract liability for mobilization fees received, which is amortized ratably to revenue as services are rendered over the initial term of the related drilling contract. The amortized amount is adjusted accordingly if the term of the initial contract is extended.

Capital Modification Revenues - We may, from time to time, receive fees from our customers for capital improvements to our rigs to meet contractual requirements (on either a fixed lump-sum or variable dayrate basis). Such revenues are allocated to the overall performance obligation and recognized ratably over the initial term of the related drilling contract as these activities are not considered to be distinct within the context of our contracts. We record a contract liability for such fees and recognize them ratably as revenue over the initial term of the related

drilling contract.
Demobilization Revenues - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the demobilization of our rigs.



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Due to the inherent uncertainty regarding the realization, we have elected to not recognize demobilization revenues till the uncertainty is resolved. Therefore, demobilization revenues are recognized once the related performance obligations have been completed.

Reimbursable revenues - We generally receive reimbursements from our customers for the purchase of supplies, equipment, personnel services and other services provided at their request in accordance with a drilling contract or other agreement.

Such reimbursable revenues are variable and subject to uncertainty, as the amounts received and timing thereof is highly dependent on factors outside of our control. Accordingly, reimbursable revenues are not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs are incurred on behalf of a customer. We are generally considered a principal in such transactions and record the associated revenues at the gross amount billed to the customer in our consolidated condensed statements of operations. Such amounts are recognized once the services have been performed. Such amounts totaled $12.8 million and $15.2 million for the three months ended June 30, 2018 and 2017, respectively, and $27.0 million and $30.5 million for the six months ended June 30, 2018 and 2017, respectively.

Rental Tools Services Business

Dayrate Revenues - Our rental tools services contracts generally provide for payment on a dayrate basis depending on the rate for the tool defined in the contract.

Such dayrate consideration is allocated to the distinct hourly increment it relates to within the contract term, and therefore, recognized in line with the contractual rate billed for the services provided for any given hour.

Contract costs

The following is a description of the different costs that we may incur for our contracts:

Mobilization costs - These costs include certain direct and incremental costs incurred for mobilization of contracted rigs. These costs relate directly to a contract, enhance resources of the Company that will be used in satisfying its performance obligations in the future and are expected to be recovered. These costs are capitalized when incurred as a current or noncurrent asset (depending on the length of the initial contract term), and are amortized over the initial term of the related drilling contract.

Demobilization costs - These costs are incurred for the demobilization of rigs at contract completion and are recognized as incurred during the demobilization process.

Capital Modification costs - These costs are incurred for rig modifications or upgrades required for a contract, which are considered to be capital improvements, are capitalized as property, plant and equipment and depreciated over the estimated useful life of the improvement.

Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers:

| Dollars in thousands | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Contract assets - current [1] | $1,675 | $ 973 |
| Contract assets - noncurrent [1] | — | — |
| Total contract assets | $1,675 | $ 973 |
| | | |
| Contract liabilities - current [2] | $(904) | $ (641) |
| Contract liabilities - noncurrent [2] | (315) | (380) |
| Total contract liabilities | $(1,219) | $ (1,021) |

(1) Contract assets - current and contract assets - noncurrent are included in other current assets and other noncurrent assets respectively, in our consolidated condensed balance sheet as of June 30, 2018 and December 31, 2017.

(2) Contract liabilities - current and contract liabilities - noncurrent are included in accounts payable and accrued liabilities and other long-term liabilities respectively, in our consolidated condensed balance sheet as of June 30, 2018 and December 31, 2017.

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Contract assets relate to mobilization costs. During the six months ended June 30, 2018, the amount of amortization of such costs was $2.1 million and there was no impairment loss in relation to capitalized costs.
Contract liabilities relate to mobilization revenues and capital modification revenues, where, cash has been received but performance obligations have not been fulfilled. These liabilities are reduced and revenue is recognized as performance obligations are fulfilled.
Contract assets and contract liabilities are netted together at the contract level and presented on a net basis as current or noncurrent contract asset or contract liability.
Significant changes to contract assets and contract liabilities balances during the six months ended June 30, 2018 are shown below:

| Dollars in thousands | Contract Assets | Contract Liabilities |
|---|---|---|
| Balance at December 31, 2017 | $ 973 | $ (1,021 ) |
| Decrease due to recognition of revenue or amortization of cost that was included in the beginning contract balance | (281 ) | 910 |
| Decrease due to recognition of revenue or amortization of cost for current period | (770 ) | — |
| Increase to deferred revenue or mobilization costs during current period | 1,753 | (1,108 ) |
| Balance at June 30, 2018 | $ 1,675 | $ (1,219 ) |

Transaction price allocated to the remaining performance obligations
The following table includes revenues expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

| | Balance at June 30, 2018 | | | | |
|---|---|---|---|---|---|
| Dollars in thousands | Remaining 2018 | 2019 | 2020 | Beyond 2020 | Total |
| Deferred revenue | $1,403 | $515 | $239 | $581 | $2,738 |

The revenues included above consist of mobilization and capital modification revenues for both wholly and partially unsatisfied performance obligations, which have been estimated for purposes of allocating across the entire corresponding performance obligations. The amounts are derived from the specific terms within contracts that contain such provisions, and the expected timing for recognition of such revenue is based on the estimated start date and duration of each respective contract based on information known at June 30, 2018. The actual timing of recognition of such amounts may vary due to factors outside of our control. We have applied the disclosure practical expedient in ASC 606-10-50-14A(b) and have not included estimated variable consideration related to wholly unsatisfied performance obligations or to distinct future time increments within our contracts.

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## Note 10 - Reportable Segments

Our business is comprised of two business lines: (1) Drilling Services and (2) Rental Tools Services. We report our Drilling Services business as two reportable segments: (1) U.S. (Lower 48) Drilling and (2) International & Alaska Drilling. We report our Rental Tools Services business as two reportable segments: (1) U.S. Rental Tools and (2) International Rental Tools.

Within the four reportable segments, we have aggregated our Arctic, Eastern Hemisphere and Latin America business units under International & Alaska Drilling, one business unit under U.S. (Lower 48) Drilling, one business unit under U.S. Rental Tools and one business unit under International Rental Tools, for a total of six business units. The Company has aggregated each of its business units in one of the four reporting segments based on the guidelines of the FASB ASC Topic No. 280, Segment Reporting. We eliminate inter-segment revenues and expenses. We disclose revenues under the four reportable segments based on the similarity of the use and markets for the groups of products and services within each segment.

### Drilling Services Business

In our Drilling Services business, we drill oil, natural gas and geothermal wells for customers in both the U.S. and international markets. We provide this service with both Company-owned rigs and customer-owned rigs. We refer to the provision of drilling services with customer-owned rigs as our operations and management ("O&M") service in which operators own their own drilling rigs but choose Parker Drilling to operate and manage the rigs for them. The nature and scope of activities involved in drilling an oil and natural gas well is similar whether it is drilled with a Company-owned rig (as part of a traditional drilling contract) or a customer-owned rig (as part of an O&M contract). In addition, we provide project-related services, such as engineering, procurement, project management, commissioning of customer-owned drilling rig projects, operations execution, and quality and safety management. We have extensive experience and expertise in drilling geologically challenging wells and in managing the logistical and technological challenges of operating in remote, harsh and ecologically sensitive areas.

### U.S. (Lower 48) Drilling

Our U.S. (Lower 48) Drilling segment provides drilling services with our Gulf of Mexico ("GOM") barge drilling rig fleet, and markets our U.S. (Lower 48)-based O&M services. Our GOM barge drilling fleet operates barge rigs that drill for oil and natural gas in shallow waters in and along the inland waterways and coasts of Louisiana, Alabama and Texas. The majority of these wells are drilled in shallow water depths ranging from 6 to 12 feet. Our rigs are suitable for a variety of drilling programs, from inland coastal waters requiring shallow draft barges, to open water drilling on both state and federal water projects requiring more robust capabilities. The barge drilling industry in the GOM is characterized by cyclical activity where utilization and dayrates are typically driven by oil and natural gas prices and our customers' access to project financing. Contract terms typically consist of well-to-well or multi-well programs, most commonly ranging from 20 to 180 days.

### International & Alaska Drilling

Our International & Alaska Drilling segment provides drilling services, using both Company-owned rigs and O&M contracts, and project-related services. The drilling markets in which this segment operates have one or more of the following characteristics:

- customers typically are major, independent, or national oil and natural gas companies or integrated service providers;
- drilling programs in remote locations with little infrastructure, requiring a large inventory of spare parts and other ancillary equipment and self-supported service capabilities;
- complex wells and/or harsh environments (such as high pressures, deep depths, hazardous or geologically challenging conditions and sensitive environments) requiring specialized equipment and considerable experience to drill; and
- O&M contracts that generally cover periods of one year or more.

During the quarter ended June 30, 2018, we had rigs operating in Alaska, Kazakhstan, the Kurdistan Region of Iraq, Guatemala, and on Sakhalin Island, Russia. In addition, we had O&M and ongoing project-related services for customer-owned rigs in Kuwait, Canada, Indonesia, Mexico and on Sakhalin Island, Russia.

### Rental Tools Services Business

In our Rental Tools Services business, we provide premium rental equipment and services to exploration & production companies, drilling contractors and service companies on land and offshore in the U.S. and select international markets. Tools we provide include standard and heavy-weight drill pipe, all of which are available with standard or high-torque connections, tubing, drill collars, pressure control equipment, including blowout preventers and more. We also provide well construction services,

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which include tubular running services and downhole tool rentals, well intervention services, which include whipstock, fishing and related services, and inspection and machine shop support. Rental tools are used during drilling and/or workover programs and are requested by the customer as needed, requiring us to keep a broad inventory of rental tools in stock. Rental tools are usually rented on a daily or monthly basis.

U.S. Rental Tools

Our U.S. Rental Tools segment maintains an inventory of rental tools for deepwater, drilling, completion, workover, and production applications at facilities in Louisiana, Texas, Wyoming, North Dakota and West Virginia. We also provide well construction and well intervention services. Our largest single market for rental tools is U.S. land drilling, a cyclical market driven primarily by oil and natural gas prices and our customers' access to project financing. A portion of our U.S. rental tools business is supplying tubular goods and other equipment to offshore GOM customers.

International Rental Tools

Our International Rental Tools segment maintains an inventory of rental tools and provides well construction, well intervention, and surface and tubular services to our customers in the Middle East, Latin America, United Kingdom, Europe, and Asia-Pacific regions.

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The following table represents the results of operations by reportable segment:

| Dollars in thousands | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Revenues: [1] | | | | |
| Drilling Services: | | | | |
| U.S. (Lower 48) Drilling | $3,283 | $5,042 | $4,637 | $6,257 |
| International & Alaska Drilling | 53,302 | 60,669 | 109,398 | 123,881 |
| Total Drilling Services | 56,585 | 65,711 | 114,035 | 130,138 |
| Rental Tools Services: | | | | |
| U.S. Rental Tools | 42,083 | 29,704 | 76,831 | 49,936 |
| International Rental Tools | 19,935 | 14,192 | 37,412 | 27,804 |
| Total Rental Tools Services | 62,018 | 43,896 | 114,243 | 77,740 |
| Total revenues | 118,603 | 109,607 | 228,278 | 207,878 |
| Operating gross margin: [2] | | | | |
| Drilling Services: | | | | |
| U.S. (Lower 48) Drilling | (3,751) | (4,528) | (9,041) | (11,761) |
| International & Alaska Drilling | (3,827) | (2,788) | (9,157) | (4,555) |
| Total Drilling Services | (7,578) | (7,316) | (18,198) | (16,316) |
| Rental Tools Services: | | | | |
| U.S. Rental Tools | 11,302 | 2,988 | 15,530 | (798) |
| International Rental Tools | (3,891) | (6,688) | (7,907) | (13,647) |
| Total Rental Tools Services | 7,411 | (3,700) | 7,623 | (14,445) |
| Total operating gross margin | (167) | (11,016) | (10,575) | (30,761) |
| General and administrative expense | (8,288) | (6,503) | (14,489) | (13,543) |
| Gain (loss) on disposition of assets, net | (478) | (113) | (135) | (465) |
| Total operating income (loss) | (8,933) | (17,632) | (25,199) | (44,769) |
| Interest expense | (11,197) | (11,095) | (22,437) | (21,965) |
| Interest income | 30 | 22 | 53 | 32 |
| Other income (loss) | (1,191) | 560 | (900) | 1,090 |
| Income (loss) before income taxes | $(21,291) | $(28,145) | $(48,483) | $(65,612) |

(1) For the six months ended June 30, 2018, our largest customer, ENL, constituted approximately 26.3 percent of our total consolidated revenues and approximately 54.9 percent of our International & Alaska Drilling segment revenues. Excluding reimbursable revenues of $22.6 million, ENL constituted approximately 18.6 percent of our total consolidated revenues and approximately 45.4 percent of our International & Alaska Drilling segment revenues.

For the six months ended June 30, 2017, our largest customer, ENL, constituted approximately 34.0 percent of our total consolidated revenues and approximately 57.0 percent of our International & Alaska Drilling segment revenues. Excluding reimbursable revenues of $27.0 million, ENL constituted approximately 24.6 percent of our total consolidated revenues and approximately 46.7 percent of our International & Alaska Drilling segment revenues. Our second largest customer, BP, constituted 10.5 percent, of our total consolidated revenues and approximately 17.6 percent of our International & Alaska Drilling segment revenues.

(2) Operating gross margin is calculated as revenues less direct operating expenses, including depreciation and amortization expense.

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The following table shows the Company’s revenues by geographic region:

| Dollars in Thousands | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Revenues by geographic region: | | | | |
| United States | $52,655 | $45,387 | $96,651 | $77,961 |
| Russia | 28,771 | 36,578 | 60,062 | 71,025 |
| EMEA & Asia | 22,260 | 13,537 | 42,304 | 28,637 |
| Latin America | 4,104 | 2,753 | 7,617 | 5,620 |
| Other CIS | 3,506 | 5,753 | 7,056 | 12,061 |
| Other | 7,307 | 5,599 | 14,588 | 12,574 |
| Total revenues | $118,603 | $109,607 | $228,278 | $207,878 |

Note 11 - Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU requires (a) an entity to separate the lease components from the non-lease components in a contract where the lease component will be accounted for under ASU 2016-02 and the non-lease component will be accounted for under ASU 2014-09, (b) recognition of lease assets and lease liabilities by lessees and derecognition of the leased asset and recognition of a net investment in the lease by the lessor and (c) additional disclosure requirements for both lessees and lessors. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, although early adoption is permitted. Under the updated accounting standard, we have determined that our drilling contracts contain a lease component. In January 2018, the FASB issued a Proposed Accounting Standard Update to provide targeted improvements to Update 2016-02, which (1) provides for a new transition method whereby entities may elect to adopt the Update using a prospective with cumulative catch-up approach and (2) provides lessors with a practical expedient to not separate non-lease components from the related lease components, by class of underlying asset. On March 28, 2018, the FASB held a meeting to approve certain additional amendments to Update 2016-02, including a revision to the practical expedient that would allow a lessor to account for the combined lease and non-lease components under Topic 606 when the non-lease component is the predominant element of the combined component. Depending on the criteria included in the final Update, this practical expedient may be available to us. We will adopt ASU 2016-02 on January 1, 2019. Our adoption, and the ultimate effect on our consolidated condensed financial statements, will be based on an evaluation of the contract-specific facts and circumstances, and such effect could introduce variability to the timing of our revenue recognition relative to current accounting standards. We are evaluating the requirements to determine the effect such requirements may have on our consolidated balance sheets, statements of operations, statements of cash flows and on the disclosures contained in our notes to the consolidated financial statements upon the adoption of ASU 2016-02. Depending on the results of the evaluation our ultimate conclusions may vary.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in ASC 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Effective January 1, 2018, we adopted ASU 2014-09 using the modified retrospective approach and it did not have a material impact on our consolidated balance sheets, statement of operations, and statements of cash flows. See Note 9 - Revenue from Contracts with Customers for further details.

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Note 12 - Parent, Guarantor, Non-Guarantor Unaudited Consolidating Condensed Financial Statements

Set forth on the following pages are the consolidating condensed financial statements of Parker Drilling. The Company’s 2015 Secured Credit Agreement and Senior Notes are fully and unconditionally guaranteed by substantially all of our direct and indirect domestic subsidiaries, other than immaterial subsidiaries and subsidiaries generating revenues primarily outside the United States, subject to the following customary release provisions:

- in connection with any sale or other disposition of all or substantially all of the assets of that guarantor (including by way of merger or consolidation) to a person that is not (either before or after giving effect to such transaction) a subsidiary of the Company;
- in connection with any sale of such amount of capital stock as would result in such guarantor no longer being a subsidiary to a person that is not (either before or after giving effect to such transaction) a subsidiary of the Company;
- if the Company designates any restricted subsidiary that is a guarantor as an unrestricted subsidiary;
- if the guarantee by a guarantor of all other indebtedness of the Company or any other guarantor is released, terminated or discharged, except by, or as a result of, payment under such guarantee; or
- upon legal defeasance or covenant defeasance (satisfaction and discharge of the indenture).

There are currently no restrictions on the ability of the restricted subsidiaries to transfer funds to Parker Drilling in the form of cash dividends, loans or advances. Parker Drilling is a holding company with no operations, other than through its subsidiaries. Separate financial statements for each guarantor company are not provided as the Company complies with the exception to Rule 3-10(f) of Regulation S-X. All guarantor subsidiaries are owned 100 percent by the parent company.

We are providing unaudited consolidating condensed financial information of the parent, Parker Drilling, the guarantor subsidiaries, and the non-guarantor subsidiaries as of June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and 2017, respectively. The consolidating condensed financial statements present investments in both consolidated and unconsolidated subsidiaries using the equity method of accounting.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED BALANCE SHEET
(Dollars in Thousands)
(Unaudited)

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $46,762 | $16,223 | $ 51,474 | $— | $ 114,459 |
| Accounts and notes receivable, net | — | 38,845 | 83,828 | — | 122,673 |
| Rig materials and supplies | — | (1,972) | 33,494 | 399 | 31,921 |
| Other current assets | — | 8,651 | 14,989 | — | 23,640 |
| Total current assets | 46,762 | 61,747 | 183,785 | 399 | 292,693 |
| Property, plant and equipment, net | (19) | 422,144 | 179,727 | 217 | 602,069 |
| Goodwill | — | 6,708 | — | — | 6,708 |
| Intangible assets, net | — | 5,974 | — | — | 5,974 |
| Investment in subsidiaries and intercompany advances | 2,923,231 | 2,993,050 | 4,100,944 | (10,017,225) | — |
| Other noncurrent assets | (253,593) | 231,233 | 532,946 | (480,811) | 29,775 |
| Total assets | $2,716,381 | $3,720,856 | $ 4,997,402 | $(10,497,420) | $ 937,219 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $(73,337) | $206,807 | $ 586,803 | $(617,476) | $ 102,797 |
| Accrued income taxes | 83,693 | (62,838) | (17,398) | — | 3,457 |
| Total current liabilities | 10,356 | 143,969 | 569,405 | (617,476) | 106,254 |
| Long-term debt, net | 578,840 | — | — | — | 578,840 |
| Other long-term liabilities | 2,867 | 3,367 | 4,102 | (1) | 10,335 |
| Long-term deferred tax liability | — | — | 60 | — | 60 |
| Intercompany payables | 1,879,491 | 1,471,636 | 2,571,268 | (5,922,395) | — |
| Total liabilities | 2,471,554 | 1,618,972 | 3,144,835 | (6,539,872) | 695,489 |
| Total stockholders' equity | 244,827 | 2,101,884 | 1,852,567 | (3,957,548) | 241,730 |
| Total liabilities and stockholders' equity | $2,716,381 | $3,720,856 | $ 4,997,402 | $(10,497,420) | $ 937,219 |

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED BALANCE SHEET
(Dollars in Thousands)
(Unaudited)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $75,342 | $20,655 | $ 45,552 | $— | $ 141,549 |
| Accounts and notes receivable, net | — | 32,338 | 90,173 | — | 122,511 |
| Rig materials and supplies | — | (3,025) | 34,440 | — | 31,415 |
| Other current assets | — | 6,362 | 15,999 | — | 22,361 |
| Total current assets | 75,342 | 56,330 | 186,164 | — | 317,836 |
| Property, plant and equipment, net | (19) | 428,556 | 197,234 | — | 625,771 |
| Goodwill | — | 6,708 | — | — | 6,708 |
| Intangible assets, net | — | 7,128 | — | — | 7,128 |
| Investment in subsidiaries and intercompany advances | 2,955,050 | 2,971,456 | 3,955,553 | (9,882,059) | — |
| Other noncurrent assets | (261,232) | 237,755 | 537,124 | (480,811) | 32,836 |
| Total assets | $2,769,141 | $3,707,933 | $ 4,876,075 | $(10,362,870) | $ 990,279 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $(51,060) | $179,247 | $ 588,536 | $(617,477) | $ 99,246 |
| Accrued income taxes | 76,883 | (56,870) | (15,583) | — | 4,430 |
| Total current liabilities | 25,823 | 122,377 | 572,953 | (617,477) | 103,676 |
| Long-term debt, net | 577,971 | — | — | — | 577,971 |
| Other long-term liabilities | 2,867 | 5,741 | 3,825 | — | 12,433 |
| Long-term deferred tax liability | (1) | — | 79 | — | 78 |
| Intercompany payables | 1,865,810 | 1,465,744 | 2,430,340 | (5,761,894) | — |
| Total liabilities | 2,472,470 | 1,593,862 | 3,007,197 | (6,379,371) | 694,158 |
| Total stockholders' equity | 296,671 | 2,114,071 | 1,868,878 | (3,983,499) | 296,121 |
| Total liabilities and stockholders' equity | $2,769,141 | $3,707,933 | $ 4,876,075 | $(10,362,870) | $ 990,279 |

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

| | Three months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Revenues | $— | $ 50,996 | $ 82,641 | $ (15,034) | $ 118,603 |
| Operating expenses | — | 26,375 | 80,293 | (15,034) | 91,634 |
| Depreciation and amortization | — | 19,488 | 7,648 | — | 27,136 |
| Total operating gross margin (loss) | — | 5,133 | (5,300) | — | (167) |
| General and administrative expense [1] | (156) | (8,005) | (127) | — | (8,288) |
| Gain (loss) on disposition of assets, net | — | (63) | (415) | — | (478) |
| Total operating income (loss) | (156) | (2,935) | (5,842) | — | (8,933) |
| Other income (expense): | | | | | |
| Interest expense | (11,913) | (51) | (2,100) | 2,867 | (11,197) |
| Interest income | 139 | 180 | 2,578 | (2,867) | 30 |
| Other | — | 14 | (1,205) | — | (1,191) |
| Equity in net earnings of subsidiaries | (11,079) | — | — | 11,079 | — |
| Total other income (expense) | (22,853) | 143 | (727) | 11,079 | (12,358) |
| Income (loss) before income taxes | (23,009) | (2,792) | (6,569) | 11,079 | (21,291) |
| Income tax expense (benefit) | (132) | 277 | 1,441 | — | 1,586 |
| Net income (loss) | (22,877) | (3,069) | (8,010) | 11,079 | (22,877) |
| Less: Convertible preferred stock dividend | 907 | — | — | — | 907 |
| Net income (loss) available to common stockholders | $ (23,784) | $ (3,069) | $ (8,010) | $ 11,079 | $ (23,784) |

(1) General and administrative expenses for field operations are included in operating expenses.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

| | Three months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Revenues | $— | $41,490 | $ 85,028 | $ (16,911 ) | $ 109,607 |
| Operating expenses | — | 25,327 | 81,225 | (16,911 ) | 89,641 |
| Depreciation and amortization | — | 20,270 | 10,712 | — | 30,982 |
| Total operating gross margin (loss) | — | (4,107 ) | (6,909 ) | — | (11,016 ) |
| General and administrative expense [1] | (69 ) | (6,303 ) | (131 ) | — | (6,503 ) |
| Gain (loss) on disposition of assets, net | — | (26 ) | (87 ) | — | (113 ) |
| Total operating income (loss) | (69 ) | (10,436 ) | (7,127 ) | — | (17,632 ) |
| Other income (expense): | | | | | |
| Interest expense | (11,809 ) | (41 ) | (2,070 ) | 2,825 | (11,095 ) |
| Interest income | 184 | 179 | 2,484 | (2,825 ) | 22 |
| Other | — | 15 | 545 | — | 560 |
| Equity in net earnings of subsidiaries | (15,823 ) | — | — | 15,823 | — |
| Total other income (expense) | (27,448 ) | 153 | 959 | 15,823 | (10,513 ) |
| Income (loss) before income taxes | (27,517 ) | (10,283 ) | (6,168 ) | 15,823 | (28,145 ) |
| Income tax expense (benefit) | 2,371 | (1,585 ) | 957 | — | 1,743 |
| Net income (loss) | (29,888 ) | (8,698 ) | (7,125 ) | 15,823 | (29,888 ) |
| Less: Convertible preferred stock dividend | 1,239 | — | — | — | 1,239 |
| Net income (loss) available to common stockholders | $(31,127) | $(8,698 ) | $ (7,125 ) | $ 15,823 | $ (31,127 ) |

(1) General and administrative expenses for field operations are included in operating expenses.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

| | Six Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Revenues | $— | $93,587 | $ 164,264 | $ (29,573 ) | $ 228,278 |
| Operating expenses | — | 52,192 | 160,549 | (29,573 ) | 183,168 |
| Depreciation and amortization | — | 39,484 | 16,201 | — | 55,685 |
| Total operating gross margin (loss) | — | 1,911 | (12,486 ) | — | (10,575 ) |
| General and administrative expense [1] | (245 ) | (13,988 ) | (256 ) | — | (14,489 ) |
| Gain (loss) on disposition of assets, net | — | (53 ) | (82 ) | — | (135 ) |
| Total operating income (loss) | (245 ) | (12,130 ) | (12,824 ) | — | (25,199 ) |
| Other income (expense): | | | | | |
| Interest expense | (24,141 ) | 172 | (4,156 ) | 5,688 | (22,437 ) |
| Interest income | 321 | 361 | 5,059 | (5,688 ) | 53 |
| Other | — | 16 | (916 ) | — | (900 ) |
| Equity in net earnings of subsidiaries | (27,451 ) | — | — | 27,451 | — |
| Total other income (expense) | (51,271 ) | 549 | (13 ) | 27,451 | (23,284 ) |
| Income (loss) before income taxes | (51,516 ) | (11,581 ) | (12,837 ) | 27,451 | (48,483 ) |
| Income tax expense (benefit) | 157 | 607 | 2,426 | — | 3,190 |
| Net income (loss) | (51,673 ) | (12,188 ) | (15,263 ) | 27,451 | (51,673 ) |
| Less: Convertible preferred stock dividend | 1,813 | — | — | — | 1,813 |
| Net income (loss) available to common stockholders | $(53,486) | $(12,188) | $ (15,263 ) | $ 27,451 | $ (53,486 ) |

(1) General and administrative expenses for field operations are included in operating expenses.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

| | Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Revenues | $— | $69,383 | $ 173,265 | $ (34,770 ) | $ 207,878 |
| Operating expenses | — | 46,277 | 163,948 | (34,770 ) | 175,455 |
| Depreciation and amortization | — | 41,458 | 21,726 | — | 63,184 |
| Total operating gross margin (loss) | — | (18,352 ) | (12,409 ) | — | (30,761 ) |
| General and administrative expense [1] | (147 ) | (13,173 ) | (223 ) | — | (13,543 ) |
| Gain (loss) on disposition of assets, net | — | (242 ) | (223 ) | — | (465 ) |
| Total operating income (loss) | (147 ) | (31,767 ) | (12,855 ) | — | (44,769 ) |
| Other income (expense): | | | | | |
| Interest expense | (23,478 ) | (85 ) | (4,013 ) | 5,611 | (21,965 ) |
| Interest income | 332 | 357 | 4,954 | (5,611 ) | 32 |
| Other | — | 47 | 1,043 | — | 1,090 |
| Equity in net earnings of subsidiaries | (37,602 ) | — | — | 37,602 | — |
| Total other income (expense) | (60,748 ) | 319 | 1,984 | 37,602 | (20,843 ) |
| Income (loss) before income taxes | (60,895 ) | (31,448 ) | (10,871 ) | 37,602 | (65,612 ) |
| Income tax expense (benefit) | 8,801 | (7,161 ) | 2,445 | — | 4,085 |
| Net income (loss) | (69,696 ) | (24,287 ) | (13,316 ) | 37,602 | (69,697 ) |
| Less: Convertible preferred stock dividend | 1,239 | — | — | — | 1,239 |
| Net income (loss) available to common stockholders | $(70,935 ) | $(24,287 ) | $ (13,316 ) | $ 37,602 | $ (70,936 ) |

(1) General and administrative expenses for field operations are included in operating expenses.

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

| | Three months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Comprehensive income (loss): | | | | | |
| Net income (loss) | $ (22,877) | $ (3,069) | $ (8,010) | $ 11,079 | $ (22,877) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Currency translation difference on related borrowings | — | — | (445) | — | (445) |
| Currency translation difference on foreign currency net investments | — | — | (1,802) | — | (1,802) |
| Total other comprehensive income (loss), net of tax: | — | — | (2,247) | — | (2,247) |
| Comprehensive income (loss) | $ (22,877) | $ (3,069) | $ (10,257) | $ 11,079 | $ (25,124) |

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

| | Three months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Comprehensive income (loss): | | | | | |
| Net income (loss) | $ (29,888) | $ (8,698) | $ (7,125) | $ 15,823 | $ (29,888) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Currency translation difference on related borrowings | — | — | 185 | — | 185 |
| Currency translation difference on foreign currency net investments | — | — | 686 | — | 686 |
| Total other comprehensive income (loss), net of tax: | — | — | 871 | — | 871 |
| Comprehensive income (loss) | $ (29,888) | $ (8,698) | $ (6,254) | $ 15,823 | $ (29,017) |

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

| | Six Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Comprehensive income (loss): | | | | | |
| Net income (loss) | $(51,673) | $(12,188) | $ (15,263) | $ 27,451 | $ (51,673) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Currency translation difference on related borrowings | — | — | (169) | — | (169) |
| Currency translation difference on foreign currency net investments | — | — | (2,378) | — | (2,378) |
| Total other comprehensive income (loss), net of tax: | — | — | (2,547) | — | (2,547) |
| Comprehensive income (loss) | $(51,673) | $(12,188) | $ (17,810) | $ 27,451 | $ (54,220) |

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

| | Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Comprehensive income (loss): | | | | | |
| Net income (loss) | $(69,696) | $(24,287) | $ (13,316) | $ 37,602 | $ (69,697) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Currency translation difference on related borrowings | — | — | 268 | — | 268 |
| Currency translation difference on foreign currency net investments | — | — | 1,449 | — | 1,449 |
| Total other comprehensive income (loss), net of tax: | — | — | 1,717 | — | 1,717 |
| Comprehensive income (loss) | $(69,696) | $(24,287) | $ (11,599) | $ 37,602 | $ (67,980) |

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

| | Six Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $(51,673) | $(12,188) | $ (15,263) | $ 27,451 | $ (51,673) |
| Adjustments to reconcile net income (loss): | | | | | |
| Depreciation and amortization | — | 39,484 | 16,201 | — | 55,685 |
| (Gain) loss on disposition of assets, net | — | 53 | 82 | — | 135 |
| Deferred tax expense (benefit) | (6,782) | 6,354 | (468) | — | (896) |
| Expenses not requiring cash | 2,681 | 561 | (8,472) | 9,260 | 4,030 |
| Change in assets and liabilities: | | | | | |
| Accounts and notes receivable | — | (6,507) | 6,115 | — | (392) |
| Other assets | 32,403 | (22,769) | (136,289) | 134,767 | 8,112 |
| Accounts payable and accrued liabilities | (8,596) | 25,823 | 148,225 | (171,478) | (6,026) |
| Accrued income taxes | 6,810 | (5,968) | (1,786) | — | (944) |
| Net cash provided by (used in) operating activities | (25,157) | 24,843 | 8,345 | — | 8,031 |
| | | | | | |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (29,342) | (3,207) | — | (32,549) |
| Proceeds from the sale of assets | — | 67 | 784 | — | 851 |
| Net cash provided by (used in) investing activities | — | (29,275) | (2,423) | — | (31,698) |
| | | | | | |
| Cash flows from financing activities: | | | | | |
| Payments of debt issuance costs | (1,440) | — | — | — | (1,440) |
| Convertible preferred stock dividend | (1,813) | — | — | — | (1,813) |
| Shares surrendered in lieu of tax | (170) | — | — | — | (170) |
| Net cash provided by (used in) financing activities | (3,423) | — | — | — | (3,423) |
| | | | | | |
| Net increase (decrease) in cash and cash equivalents | (28,580) | (4,432) | 5,922 | — | (27,090) |
| Cash and cash equivalents at beginning of period | 75,342 | 20,655 | 45,552 | — | 141,549 |
| Cash and cash equivalents at end of period | $46,762 | $16,223 | $ 51,474 | $ — | $ 114,459 |

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PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

| | Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor | Non-Guarantor | Eliminations | Consolidated |
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $(69,696) | $(24,287) | $ (13,316) | $ 37,602 | $ (69,697) |
| Adjustments to reconcile net income (loss) | | | | | |
| Depreciation and amortization | — | 41,458 | 21,726 | — | 63,184 |
| (Gain) loss on disposition of assets, net | — | 242 | 223 | — | 465 |
| Deferred tax expense (benefit) | (10,359) | 8,943 | 482 | — | (934) |
| Expenses not requiring cash | 3,154 | 120 | 1,674 | — | 4,948 |
| Equity in net earnings of subsidiaries | 37,602 | — | — | (37,602) | — |
| Change in assets and liabilities: | | | | | |
| Accounts and notes receivable | — | (13,787) | 6,934 | — | (6,853) |
| Other assets | (50,315) | 32,013 | 16,580 | — | (1,722) |
| Accounts payable and accrued liabilities | (37,753) | 29,831 | (313) | — | (8,235) |
| Accrued income taxes | 71,942 | (54,000) | (16,666) | — | 1,276 |
| Net cash provided by (used in) operating activities | (55,425) | 20,533 | 17,324 | — | (17,568) |
| | | | | | |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (18,726) | (7,833) | — | (26,559) |
| Proceeds from the sale of assets | — | 25 | 160 | — | 185 |
| Net cash provided by (used in) investing activities | — | (18,701) | (7,673) | — | (26,374) |
| | | | | | |
| Cash flows from financing activities: | | | | | |
| Convertible preferred stock dividend | (1,239) | — | — | — | (1,239) |
| Shares surrendered in lieu of tax | (612) | — | — | — | (612) |
| Proceeds from the issuance of common stock | 25,200 | — | — | — | 25,200 |
| Proceeds from the issuance of convertible preferred stock | 50,000 | — | — | — | 50,000 |
| Payment of equity issuance costs | (2,864) | — | — | — | (2,864) |
| Intercompany advances, net | 8,946 | 361 | (9,307) | — | — |
| Net cash provided by (used in) financing activities | 79,431 | 361 | (9,307) | — | 70,485 |
| | | | | | |
| Net increase (decrease) in cash and cash equivalents | 24,006 | 2,193 | 344 | — | 26,543 |
| Cash and cash equivalents at beginning of period | 65,000 | 14,365 | 40,326 | — | 119,691 |
| Cash and cash equivalents at end of period | $89,006 | $16,558 | $ 40,670 | $ — | $ 146,234 |

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis should be read in conjunction with Item 1. Financial Statements of this quarterly report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2017. We use rounded numbers in the Management Discussion and Analysis section which may result in slight differences with results reported under Item 1. Financial Statements.

### Executive Summary

The oil and natural gas industry is highly cyclical. Activity levels are driven by traditional energy industry activity indicators, which include current and expected commodity prices, drilling rig counts, footage drilled, well counts, and our customers' spending levels allocated to exploratory and developmental drilling.

Historical market indicators are listed below:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | % Change | |
| Worldwide Rig Count [(1)] | | | | |
| U.S. (land and offshore) | 1,001 | 816 | 23 | % |
| International [(2)] | 969 | 948 | 2 | % |
| Commodity Prices [(3)] | | | | |
| Crude Oil (Brent) per bbl | $71.2 | $52.7 | 35 | % |
| Crude Oil (West Texas Intermediate) per bbl | $65.5 | $50.0 | 31 | % |
| Natural Gas (Henry Hub) per mcf | $2.8 | $3.1 | (10 | )% |

(1) Estimate of drilling activity measured by the average active rig count for the periods indicated - Source: Baker Hughes Rig Count.

(2) Excludes Canadian Rig Count.

(3) Average daily commodity prices for the periods indicated based on NYMEX front-month composite energy prices.

### Financial Results

Our revenues for the 2018 second quarter increased 8.2 percent to $118.6 million from $109.6 million for the 2017 second quarter. Operating gross margin increased $10.8 million to a $0.2 million loss for the three months ended June 30, 2018 compared with a loss of $11.0 million for the three months ended June 30, 2017. Operating gross margin increases were primarily driven by higher U.S. Rental Tools activity.

### Outlook

Based on discussion with operators in the region, we expect U.S. (Lower 48) Drilling revenues to increase in the third quarter due to improved utilization. For the International & Alaska Drilling segment, we expect revenues to continue to decline in the third quarter due to completion of work for one of our rigs in Alaska.

We expect U.S. Rental Tools revenues to increase at a slower pace compared with the second quarter, as a result of slower growth in the U.S. land rig markets, particularly in the Permian Basin, and the timing of certain projects in the deepwater Gulf. For the International Rental Tools segment, we expect revenues to be relatively flat compared with the second quarter, as gains in Latin America, Europe, and Saudi Arabia will be offset by lower sales in the United Arab Emirates.

### Recent Developments

On July 12, 2018, the Board of Directors of the Company declared a dividend of one right ("Right") for each outstanding share of common stock to common stockholders of record at the close of business on July 27, 2018 (the "Rights Plan"). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share (a "Fractional Share") of Series A Junior Participating Preferred Stock, par value $1.00 per share, at a purchase price of $52.50 per Fractional Share, subject to adjustment. Initially, the Rights will be attached to all outstanding shares of common stock. The Rights will be separate from the common stock and a "Distribution Date"

will occur, with certain exceptions, upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired,



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or obtained the right to acquire, beneficial ownership of 10% or more of the outstanding shares of common stock, or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person's becoming an Acquiring Person. The Rights are not exercisable until the Distribution Date and will expire at the close of business on July 12, 2019, unless earlier redeemed or exchanged by the Company. If the rights become exercisable, each holder other than the Acquiring Person (and certain related parties) will be entitled to acquire shares of common stock at a 50% discount or the Company may exchange each right held by such holders for two shares of common stock.

On July 27, 2018, the Company's 1-for-15 reverse stock split of its common stock became effective. All share and per share data have been retroactively restated for all periods presented. The reverse stock split did not affect the par value of the common stock. Shareholders who otherwise would have been entitled to receive a fractional share of common stock as a result of the reverse stock split will receive cash in lieu of such fractional share. The Company's Convertible Preferred Stock was not subject to the reverse stock split as proportionate adjustments were made to the minimum and maximum conversion rates of the Convertible Preferred Stock.

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Results of Operations

Our business is comprised of two business lines: (1) Drilling Services and (2) Rental Tools Services. We report our Drilling Services business as two reportable segments: (1) U.S. (Lower 48) Drilling and (2) International & Alaska Drilling. We report our Rental Tools Services business as two reportable segments: (1) U.S. Rental Tools and (2) International Rental Tools. We eliminate inter-segment revenues and expenses.

We analyze financial results for each of our reportable segments. The reportable segments presented are consistent with our reportable segments discussed in Note 10 - Reportable Segments to our consolidated condensed financial statements. We monitor our reporting segments based on several criteria, including operating gross margin and operating gross margin excluding depreciation and amortization. Operating gross margin excluding depreciation and amortization is computed as revenues less direct operating expenses, and excludes depreciation and amortization expense, where applicable. Operating gross margin percentages are computed as operating gross margin as a percent of revenues. The operating gross margin excluding depreciation and amortization amounts and percentages should not be used as a substitute for those amounts reported under accounting policies generally accepted in the United States ("U.S. GAAP"), but should be viewed in addition to the Company's reported results prepared in accordance with U.S. GAAP. Management believes this information provides valuable insight into the information management considers important in managing the business.

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Three months ended June 30, 2018 Compared with Three months ended June 30, 2017

Revenues increased $9.0 million, or 8.2 percent, to $118.6 million for the three months ended June 30, 2018 compared with revenues of $109.6 million for the three months ended June 30, 2017. Operating gross margin increased $10.8 million to a loss of $0.2 million for the three months ended June 30, 2018 compared with a loss of $11.0 million for the three months ended June 30, 2017.

The following table presents our operating results for the comparable periods by reportable segment:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| Dollars in Thousands | 2018 | | 2017 | |
| Revenues: | | | | |
| Drilling Services: | | | | |
| U.S. (Lower 48) Drilling | $3,283 | 3 % | $5,042 | 5 % |
| International & Alaska Drilling | 53,302 | 45 % | 60,669 | 55 % |
| Total Drilling Services | 56,585 | 48 % | 65,711 | 60 % |
| Rental Tools Services: | | | | |
| U.S. Rental Tools | 42,083 | 35 % | 29,704 | 27 % |
| International Rental Tools | 19,935 | 17 % | 14,192 | 13 % |
| Total Rental Tools Services | 62,018 | 52 % | 43,896 | 40 % |
| Total revenues | 118,603 | 100 % | 109,607 | 100 % |
| Operating gross margin (loss) excluding depreciation and amortization: | | | | |
| Drilling Services: | | | | |
| U.S. (Lower 48) Drilling | (1,403 ) | (43 )% | (1,025 ) | (20 )% |
| International & Alaska Drilling | 5,024 | 9 % | 9,265 | 15 % |
| Total Drilling Services | 3,621 | 6 % | 8,240 | 13 % |
| Rental Tools Services: | | | | |
| U.S. Rental Tools | 22,757 | 54 % | 13,731 | 46 % |
| International Rental Tools | 591 | 3 % | (2,005 ) | (14 )% |
| Total Rental Tools Services | 23,348 | 38 % | 11,726 | 27 % |
| Total operating gross margin (loss) excluding depreciation and amortization | 26,969 | 23 % | 19,966 | 18 % |
| Depreciation and amortization | (27,136 ) | | (30,982) | |
| Total operating gross margin (loss) | (167 ) | | (11,016) | |
| General and administrative expense | (8,288 ) | | (6,503 ) | |
| Gain (loss) on disposition of assets, net | (478 ) | | (113 ) | |
| Total operating income (loss) | $(8,933) | | | |