KEY ENERGY SERVICES INC
Form 10-K
March 02, 2017
Table of Contents
Index to Financial Statements

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-08038
KEY ENERGY SERVICES, INC.
(Exact name of registrant as specified in its charter)

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

1301 McKinney Street
Suite 1800
Houston, Texas 77010
(Address of principal executive offices, including Zip Code)
(713) 651-4300
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Title of Class
None
Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No þ
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Table of Contents
Index to Financial Statements

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer þ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock of the registrant held by non-affiliates as of June 30, 2016, based on the $0.23 per share closing price for the registrant’s common stock on such date, was $32.2 million (for purposes of calculating these amounts, only directors, officers and beneficial owners of 10% or more of the outstanding common stock of the registrant have been deemed affiliates).

As of February 15, 2017, the number of outstanding shares of common stock of the registrant was 20,096,462.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents
Index to Financial Statements

KEY ENERGY SERVICES, INC.
ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2016
INDEX

		Page Number
	PART I	
ITEM 1.	Business	4
ITEM 1A.	Risk Factors	11
ITEM 1B.	Unresolved Staff Comments	20
ITEM 2.	Properties	21
ITEM 3.	Legal Proceedings	21
ITEM 4.	Mine Safety Disclosures	22
	PART II	
ITEM 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
ITEM 6.	Selected Financial Data	25
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	46
ITEM 8.	Financial Statements and Supplementary Data	47
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	103
ITEM 9A.	Controls and Procedures	103
ITEM 9B.	Other Information	103
	PART III	
ITEM 10.	Directors, Executive Officers and Corporate Governance	104
ITEM 11.	Executive Compensation	112
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	142
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	145
ITEM 14.	Principal Accounting Fees and Services	147
	PART IV	
ITEM 15.	Exhibits, Financial Statement Schedules	149
ITEM 16.	Form 10-K Summary	150

Table of Contents
Index to Financial Statements

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to statements of historical fact, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature or that relate to future events and conditions are, or may be deemed to be, forward-looking statements. These “forward-looking statements” are based on our current expectations, estimates and projections about Key Energy Services, Inc. and its wholly owned and controlled subsidiaries, our industry and management’s beliefs and assumptions concerning future events and financial trends affecting our financial condition and results of operations. In some cases, you can identify these statements by terminology such as “may,” “will,” “should,” “predicts,” “expects,” “believes,” “anticipates,” “projects,” “potent “continue” or the negative of such terms and other comparable terminology. These statements are only predictions and are subject to substantial risks and uncertainties and are not guarantees of performance. Future actions, events and conditions and future results of operations may differ materially from those expressed in these statements. In evaluating those statements, you should carefully consider the risks outlined in “Item 1A. Risk Factors.”

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

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

- conditions in the oil and natural gas industry, especially oil and natural gas prices and capital expenditures by oil and natural gas companies;
- volatility in oil and natural gas prices;
- our ability to implement price increases or maintain pricing on our core services;
- risks that we may not be able to reduce, and could even experience increases in, the costs of labor, fuel, equipment and supplies employed in our businesses;
- industry capacity;
- asset impairments or other charges;
- the periodic low demand for our services and resulting operating losses and negative cash flows;
- our highly competitive industry as well as operating risks, which are primarily self-insured, and the possibility that our insurance may not be adequate to cover all of our losses or liabilities;
- significant costs and potential liabilities resulting from compliance with applicable laws, including those resulting from environmental, health and safety laws and regulations, specifically those relating to hydraulic fracturing, as well as climate change legislation or initiatives;
- our historically high employee turnover rate and our ability to replace or add workers, including executive officers and skilled workers;
- our ability to incur debt or long-term lease obligations;
- our ability to implement technological developments and enhancements;
- severe weather impacts on our business;
- our ability to successfully identify, make and integrate acquisitions and our ability to finance future growth of our operations or future acquisitions;
- our ability to achieve the benefits expected from disposition transactions;
- the loss of one or more of our larger customers;
- our ability to generate sufficient cash flow to meet debt service obligations;
- the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt, including our ability to comply with covenants under our debt agreements;
- an increase in our debt service obligations due to variable rate indebtedness;
-

- our inability to achieve our financial, capital expenditure and operational projections, including quarterly and annual projections of revenue and/or operating income and our inaccurate assessment of future activity levels, customer demand, and pricing stability which may not materialize (whether for Key as a whole or for geographic regions and/or business segments individually);
- risks affecting our international operations, including risks affecting our ability to execute our plans to withdraw from international markets outside North America;
- our ability to respond to changing or declining market conditions, including our ability to reduce the costs of labor, fuel, equipment and supplies employed and used in our businesses;
- our ability to maintain sufficient liquidity;
- adverse impact of litigation; and
- other factors affecting our business described in "Item 1A. Risk Factors."

Table of Contents
Index to Financial Statements

PART I

ITEM 1. BUSINESS

General Description of Business

Key Energy Services, Inc., a Delaware corporation, is the largest onshore, rig-based well servicing contractor based on the number of rigs owned. References to “Key,” the “Company,” “we,” “us” or “our” in this report refer to Key Energy Services, Inc., its wholly owned subsidiaries and its controlled subsidiaries. We were organized in April 1977 in Maryland and commenced operations in July 1978 under the name National Environmental Group, Inc. In December 1992, we became Key Energy Group, Inc. and we changed our name to Key Energy Services, Inc. in December 1998. In connection with our reorganization described below, we reincorporated as a Delaware corporation on December 15, 2016.

We provide a full range of well services to major oil companies, foreign national oil companies and independent oil and natural gas production companies. Our services include rig-based and coiled tubing-based well maintenance and workover services, well completion and recompletion services, fluid management services, fishing and rental services, and other ancillary oilfield services. Additionally, certain rigs are capable of specialty drilling applications. We operate in most major oil and natural gas producing regions of the continental United States, and we have operations in Russia. In addition, we have a technology development and control systems business based in Canada. An important component of the Company’s growth strategy is to make acquisitions that will strengthen its core services or presence in selected markets, and the Company also makes strategic divestitures from time to time. To that end, during the fourth quarter of 2016, we sold operations in Mexico and we are currently attempting to sell our operations in Russia. The Company expects to explore opportunities and engage in discussions regarding these opportunities, which could include mergers, consolidations or acquisitions or further dispositions or other transactions, although there can be no assurance that any such activities will be consummated.

Emergence from Voluntary Reorganization

On October 24, 2016, Key and certain of our domestic subsidiaries (collectively, the “Debtors”) filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) pursuant to a prepackaged plan of reorganization (the “Plan”). The Plan was confirmed by the Bankruptcy Court on December 6, 2016, and the Company emerged from the bankruptcy proceedings on December 15, 2016 (the “Effective Date”). In this Annual Report on Form 10-K, we may refer to the Company prior to the Effective Date as the “Predecessor Company,” and on and after the Effective Date as the “Successor Company.”

On the Effective Date, the Company:

- Reincorporated the Successor Company in the state of Delaware and adopted an amended and restated certificate of incorporation and bylaws;
- Appointed new members to the Successor Company’s board of directors to replace directors of the Predecessor Company;
- Issued to the Predecessor Company’s former stockholders, in exchange for the cancellation and discharge of the Predecessor Company’s common stock:
  - 815,887 shares of the Successor Company’s common stock;
  - 919,004 warrants to expire on December 15, 2020 (the “4-Year Warrants”), and 919,004 warrants to expire on December 15, 2021 (the “5-Year Warrants”), each exercisable for one share of the Successor Company’s common stock;
- Issued to former holders of the Predecessor Company’s 6.75% senior notes, in exchange for the cancellation and discharge of such notes, 7,500,000 shares of the Successor Company’s common stock;
- Issued 11,769,014 shares of the Successor Company’s common stock to certain participants in rights offerings conducted pursuant to the Plan;
- Issued to Soter Capital, LLC (“Soter”) the sole share of the Successor Company’s Series A Preferred Stock, which confers certain rights to elect directors (but has no economic rights);

- Entered into a new $80 million senior secured asset-based revolving credit facility (the “ABL Facility”) and a $250 million senior secured term loan facility (the “Term Loan Facility”) upon termination of the Predecessor Company’s asset-based revolving credit facility and term loan facility;
- Entered into a registration rights agreement (the “Registration Rights Agreement”) with certain stockholders of the Successor Company;
- Adopted a new management incentive plan (the “2016 Incentive Plan”) for officers, directors and employees of the Successor Company and its subsidiaries; and
- Entered into a corporate advisory services agreement (the “CASA”) between the Successor Company and Platinum Equity Advisors, LLC (“Platinum”) pursuant to which Platinum will provide certain business advisory services to the Company.

Table of Contents
Index to Financial Statements

The foregoing is a summary of the substantive provisions of the Plan and related transactions and is not intended to be a complete description of, or a substitute for a full and complete reading of, the Plan and the other documents referred to above.

Service Offerings

Our reportable business segments are U.S. Rig Services, Fluid Management Services, Coiled Tubing Services, Fishing and Rental Services and International. We also have a “Functional Support” segment associated with overhead and other costs in support of our reportable segments. Our U.S. Rig Services, Fluid Management Services, Coiled Tubing Services and Fishing and Rental Services operate geographically within the United States. The International reportable segment includes our current and former operations in Mexico, Colombia, Ecuador, Russia, Bahrain and Oman. Our Canadian subsidiary is also reflected in our International reportable segment. During the second half of 2015, we ceased operations in Colombia, Ecuador and the Middle East. During the fourth quarter of 2016, we completed the sale of our business in Mexico, and we are currently in discussions to sell our business in Russia. We evaluate the performance of our segments based on gross margin measures. All inter-segment sales pricing is based on current market conditions. See “Note 24. Segment Information” in “Item 8. Financial Statements and Supplementary Data” for additional financial information about our reportable business segments and the various geographical areas where we operate.

U.S. Rig Services

Our U.S. Rig Services include the completion of newly drilled wells, workover and recompletion of existing oil and natural gas wells, well maintenance, and the plugging and abandonment of wells at the end of their useful lives. We also provide specialty drilling services to oil and natural gas producers with certain of our larger rigs that are capable of providing conventional and horizontal drilling services. Our rigs encompass various sizes and capabilities, allowing us to service all types of oil and gas wells. Many of our rigs are outfitted with our proprietary KeyView® technology, which captures and reports well site operating data and provides safety control systems. We believe that this technology allows our customers and our crews to better monitor well site operations, improves efficiency and safety, and adds value to the services that we offer.

The completion and recompletion services provided by our rigs prepare wells for production, whether newly drilled or recently extended through a workover operation. The completion process may involve selectively perforating the well casing to access production zones, stimulating and testing these zones, and installing tubular and downhole equipment. We typically provide a well service rig and may also provide other equipment to assist in the completion process. Completion services vary by well and our work may take a few days to several weeks to perform, depending on the nature of the completion.

The workover services that we provide are designed to enhance the production of existing wells and generally are more complex and time consuming than normal maintenance services. Workover services can include deepening or extending wellbores into new formations by drilling horizontal or lateral wellbores, sealing off depleted production zones and accessing previously bypassed production zones, converting former production wells into injection wells for enhanced recovery operations and conducting major subsurface repairs due to equipment failures. Workover services may last from a few days to several weeks, depending on the complexity of the workover.

Maintenance services provided with our rig fleet are generally required throughout the life cycle of an oil or natural gas well. Examples of these maintenance services include routine mechanical repairs to the pumps, tubing and other equipment, removing debris and formation material from wellbores, and pulling rods and other downhole equipment from wellbores to identify and resolve production problems. Maintenance services are generally less complicated than completion and workover related services and require less time to perform.

Our rig fleet is also used in the process of permanently shutting-in oil or natural gas wells that are at the end of their productive lives. These plugging and abandonment services generally require auxiliary equipment in addition to a well servicing rig. The demand for plugging and abandonment services is not significantly impacted by the demand for oil and natural gas because well operators are required by state regulations to plug wells that are no longer productive.

We believe that the largest competitors for our U.S. Rig Services include C & J Energy Services, Inc., Basic Energy Services, Inc., Superior Energy Services, Inc., Forbes Energy Services Ltd. and Pioneer Energy Services Corp. Numerous smaller companies also compete in our rig-based markets in the United States.

Fluid Management Services

We provide transportation and well-site storage services for various fluids utilized in connection with drilling, completions, workover and maintenance activities. We also provide disposal services for fluids produced subsequent to well completion. These fluids are removed from the well site and transported for disposal in saltwater disposal ("SWD") wells owned by us or a third party. Demand and pricing for these services generally correspond to demand for our well service rigs.

We believe that the largest competitors for our domestic fluid management services include Basic Energy Services, Inc., Superior Energy Services, Inc., C & J Energy Services, Inc., Nuverra Environmental Solutions, Forbes Energy Services Ltd., and

Table of Contents
Index to Financial Statements

Stallion Oilfield Services Ltd. Numerous smaller companies also compete in the fluid management services market in the United States.

Coiled Tubing Services

Coiled Tubing Services involve the use of a continuous metal pipe spooled onto a large reel which is then deployed into oil and natural gas wells to perform various applications, such as wellbore clean-outs, nitrogen jet lifts, through-tubing fishing, and formation stimulations utilizing acid and chemical treatments. Coiled tubing, particularly larger diameter coil units, is also used for a number of horizontal well applications such as milling temporary isolation plugs that separate frac zones and various other pre- and post-hydraulic fracturing well preparation services.

Our primary competitors in the Coiled Tubing Services market include Schlumberger Ltd., Baker Hughes Incorporated, Halliburton Company, Superior Energy Services, Inc. and C & J Energy Services, Inc. Numerous smaller companies also compete in our coiled tubing services markets in the United States. Demand for these services generally correspond to demand for well completion services.

Fishing and Rental Services

We offer a full line of fishing services and rental equipment designed for use in providing onshore drilling and workover services. Fishing services involve recovering lost or stuck equipment in the wellbore utilizing a broad array of “fishing tools.” Our rental tool inventory consists of drill pipe, tubulars, handling tools (including our patented Hydra-Walk® pipe-handling units and services), pressure-control equipment, pumps, power swivels, reversing units and foam air units.   Our rental inventory also includes frac stack equipment used to support hydraulic fracturing operations and the associated flowback of frac fluids, proppants, oil and natural gas. We also provide well testing services.

Demand for our Fishing and Rental Services is also closely related to capital spending by oil and natural gas producers.

Our primary competitors for our Fishing and Rental Services include Baker Oil Tools (owned by Baker Hughes Incorporated), Weatherford International Ltd., Basic Energy Services, Inc., Smith Services (owned by Schlumberger), Superior Energy Services, Inc., Quail Tools (owned by Parker Drilling Company) and Knight Oil Tools. Numerous smaller companies also compete in our fishing and rental services markets in the United States.

International Segment

Our International segment includes operations in Russia, which we are attempting to sell. On October 16, 2016, we completed the sale of our business in Mexico, and during the second half of 2015, we ceased operations in Colombia, Ecuador and the Middle East. Our services in these international markets consist or consisted of rig-based services such as the maintenance, workover, and recompletion of existing oil wells, completion of newly-drilled wells, and plugging and abandonment of wells at the end of their useful lives. We also have a technology development and control systems business based in Canada, which is focused on the development of hardware and software related to oilfield service equipment controls, data acquisition and digital information flow.

Functional Support Segment

Our Functional Support segment includes unallocated overhead costs associated with sales, safety and administrative support for each of our reporting segments.

Equipment Overview

We categorize our rigs and equipment as active, warm stacked or cold stacked. We consider an active rig or piece of equipment to be a unit that is working, deployed, available for work or idle. A warm stacked rig or piece of equipment is a unit that is down for repair or needs repair. A cold stacked rig or piece of equipment is a unit that would require such significant investment to redeploy that we may salvage for parts, sell the unit or scrap the unit. The definitions of active, warm stacked or cold stacked are used for the majority of our equipment.

Table of Contents
Index to Financial Statements

Rigs

As mentioned above, our fleet is diverse and allows us to work on all types of wells, ranging from very shallow wells to long horizontal laterals. Higher derrick capacity rigs will be utilized to service the deeper wells and longer laterals as they require a higher pull weight. The lower derrick capacity rigs will be used on shallow, less complex wells. In most cases, these rigs can be reassigned to other regions should market conditions warrant the transfer of equipment. The following table summarizes our rigs based on derrick lifting capacity measured in pounds as of December 31, 2016:

	Derrick Capacity (Lbs)		
	≤ 225,000	> 225,000	Total
Active	125	186	311
Warm stacked	142	103	245
Cold stacked	233	89	322
Total	500	378	878

Coiled Tubing

Coiled tubing uses a spooled continuous metal pipe that is injected downhole in oil and gas wells in order to convey tools, log, stimulate, clean-out and perform other intervention functions. Typically, larger diameter coiled tubing is able to service longer lateral horizontal wells. The table below summarizes our Coiled Tubing Services fleet by pipe diameter as of December 31, 2016:

	Pipe Diameter			
	< 2”	≥ 2” < 2.375”	≥ 2.375”	Total
Active	5	6	5	16
Warm stacked	5	3	4	12
Cold stacked	10	9	4	23
Total	20	18	13	51

Fluid Management Services

We have an extensive and diverse fleet of oilfield transportation service vehicles. We broadly define an oilfield transportation service vehicle as any heavy-duty, revenue-generating vehicle weighing over one ton. Our transportation fleet includes vacuum trucks, winch trucks, hot oilers and other vehicles, including kill trucks and various hauling and transport trucks. The table below summarizes our Fluid Management Services fleet as of December 31, 2016:

	Active	Warm Stacked	Cold Stacked	Total
Truck Type				
Vacuum Trucks	316	141	135	592
Winch Trucks	104	23	19	146
Hot Oil Trucks	30	29	3	62
Kill Trucks	50	23	13	86
Other	25	5	8	38
Total	525	221	178	924

Table of Contents
Index to Financial Statements

Disposal Wells

As part of our Fluid Management Services, we provide disposal services for fluids produced subsequent to well completion. These fluids are removed from the well site and transported for disposal in SWD wells. The table below summarizes our SWD facilities, and brine and freshwater stations by state as of December 31, 2016:

Location	Owned	Leased(1)	Total
Arkansas	1	—	1
Louisiana	2	—	2
New Mexico	1	9	10
Texas	27	28	55
Total	31	37	68

(1) Includes SWD facilities as “leased” if we own the wellbore for the SWD but lease the land. In other cases, we lease both the wellbore and the land. Lease terms vary among different sites, but with respect to some of the SWD facilities for which we lease the land and own the wellbore, the land owner has an option under the land lease to retain the wellbore at the termination of the lease.

Other Business Data

Raw Materials

We purchase a wide variety of raw materials, parts and components that are made by other manufacturers and suppliers for our use. We are not dependent on any single source of supply for those parts, supplies or materials.

Customers

Our customers include major oil companies, foreign national oil companies, and independent oil and natural gas production companies. During the period ended from January 1, 2016 through December 15, 2016, Chevron Texaco Exploration and Production and OXY USA Inc. accounted for approximately 14% and 13% of our consolidated revenue, respectively. During the years ended December 31, 2015 and 2014, Chevron Texaco Exploration and Production accounted for approximately 15% of our consolidated revenue. No other customer accounted for more than 10% of our consolidated revenue during the periods ended from January 1, 2016 through December 15, 2016, December 16, 2016 through December 31, 2016 or in the years ended December 31, 2015 or 2014.

Receivables outstanding for OXY USA Inc. were approximately 11% of our total accounts receivable as of December 31, 2016. No other customers accounted for more than 10% of our total accounts receivable as of December 31, 2016 and 2015.

Competition and Other External Factors

The markets in which we operate are highly competitive. Competition is influenced by such factors as product and service quality and availability, responsiveness, experience, technology, equipment quality, reputation for safety and price. We believe that an important competitive factor in establishing and maintaining long-term customer relationships is having an experienced, skilled and well-trained work force. We devote substantial resources toward employee safety and training programs. In addition, we believe that our proprietary KeyView® system provides important safety enhancements. We believe many of our larger customers place increased emphasis on the safety, performance and quality of the crews, equipment and services provided by their contractors. Although we believe customers consider all of these factors, price is often the primary factor in determining which service provider is awarded the work. However, in numerous instances, we secure and maintain work for large customers for which efficiency, safety, technology, size of fleet and availability of other services are of equal importance to price.

The demand for our services and price we receive fluctuates, primarily in relation to the price (or anticipated price) of oil and natural gas, which, in turn, is driven for the most part by the supply of, and demand for, oil and natural gas. Generally, as supply of those commodities decreases and demand increases, service and maintenance requirements increase as oil and natural gas producers attempt to maximize the productivity of their wells in a higher priced environment. However, in a lower oil and natural gas price environment, demand for service and maintenance

generally decreases as oil and natural gas producers decrease their activity. In particular, the demand for new or existing field drilling and completion work is driven by available investment capital for such work. Because these types of services can be easily “started” and “stopped,” and oil and natural gas producers generally tend to be less risk tolerant when commodity prices are low or volatile, we may experience a more rapid decline in demand for well maintenance services compared with demand for other types of oilfield services. Furthermore, in a low commodity

price environment, fewer well service rigs are needed for completions, as these activities are generally associated with drilling activity.

The level of our revenues, earnings and cash flows are substantially dependent upon, and affected by, the level of U.S. and international oil and natural gas exploration, development and production activity, as well as the equipment capacity in any particular region.

Seasonality

Our operations are impacted by seasonal factors. Historically, our business has been negatively impacted during the winter months due to inclement weather, fewer daylight hours and holidays. During the summer months, our operations may be impacted by tropical or other inclement weather systems. During periods of heavy snow, ice or rain, we may not be able to operate or move our equipment between locations, thereby reducing our ability to provide services and generate revenues. In addition, the majority of our equipment works only during daylight hours. In the winter months when days become shorter, this reduces the amount of time that our assets can work and therefore has a negative impact on total hours worked. Lastly, during the fourth quarter, we historically have experienced significant slowdown during the Thanksgiving and Christmas holiday seasons and demand sometimes slows during this period as our customers exhaust their annual spending budgets.

Patents, Trade Secrets, Trademarks and Copyrights

We own numerous patents, trademarks and proprietary technology that we believe provide us with a competitive advantage in the various markets in which we operate or intend to operate. We have devoted significant resources to developing technological improvements in our well service business and have sought patent protection both inside and outside the United States for products and methods that appear to have commercial significance. All the issued patents have varying remaining durations and begin expiring between 2017 and 2035. The most notable of our technologies include numerous patents surrounding our KeyView® system.

We own several trademarks that are important to our business both in the United States and in foreign countries. In general, depending upon the jurisdiction, trademarks are valid as long as they are in use, or their registrations are properly maintained and they have not been found to become generic. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use. While our patents and trademarks, in the aggregate, are of considerable importance to maintaining our competitive position, no single patent or trademark is considered to be of a critical or essential nature to our business.

We also rely on a combination of trade secret laws, copyright and contractual provisions to establish and protect proprietary rights in our products and services. We typically enter into confidentiality agreements with our employees, strategic partners and suppliers and limit access to the distribution of our proprietary information.

Employees

As of December 31, 2016, we employed approximately 3,000 persons in our U.S. operations and approximately 225 additional persons in Russia and Canada. Our domestic employees are not represented by a labor union and are not covered by collective bargaining agreements. As noted below in “Item 1A. Risk Factors,” we have historically experienced a high employee turnover rate. We have not experienced any significant work stoppages associated with labor disputes or grievances and consider our relations with our employees to be generally satisfactory.

Governmental Regulations

Our operations are subject to various federal, state and local laws and regulations pertaining to health, safety and the environment. We cannot predict the level of enforcement of existing laws or regulations or how such laws and regulations may be interpreted by enforcement agencies or court rulings in the future. We also cannot predict whether additional laws and regulations affecting our business will be adopted, or the effect such changes might have on us, our financial condition or our business. The following is a summary of the more significant existing environmental, health and safety laws and regulations to which our operations are subject and for which a lack of compliance may have a material adverse impact on our results of operations, financial position or cash flows. We believe that we are in material compliance with all such laws.

Environmental Regulations

Our operations routinely involve the storage, handling, transport and disposal of bulk waste materials, some of which contain oil, contaminants and other regulated substances. Various environmental laws and regulations require prevention, and where necessary, cleanup of spills and leaks of such materials, and some of our operations must obtain permits that limit the discharge of materials. Failure to comply with such environmental requirements or permits may result in fines and penalties, remediation orders and revocation of permits.

Hazardous Substances and Waste

The Comprehensive Environmental Response, Compensation, and Liability Act, as amended, referred to as "CERCLA" or the "Superfund" law, and comparable state laws, impose liability without regard to fault or the legality of the original conduct of certain defined persons, including current and prior owners or operators of a site where a release of hazardous substances occurred and entities that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, these "responsible persons" may be jointly and severally liable for the costs of cleaning up the hazardous substances, for damages to natural resources and for the costs of certain health studies.

In the course of our operations, we occasionally generate materials that are considered "hazardous substances" and, as a result, may incur CERCLA liability for cleanup costs. Also, claims may be filed for personal injury and property damage allegedly caused by the release of hazardous substances or other pollutants. We also generate solid wastes that are subject to the requirements of the Resource Conservation and Recovery Act, as amended, or "RCRA," and comparable state statutes.

Although we use operating and disposal practices that are standard in the industry, hydrocarbons or other wastes may have been released at properties owned or leased by us now or in the past, or at other locations where these hydrocarbons and wastes were taken for treatment or disposal. Under CERCLA, RCRA and analogous state laws, we could be required to clean up contaminated property (including contaminated groundwater), or to perform remedial activities to prevent future contamination.

Air Emissions

The Clean Air Act, as amended, or "CAA," and similar state laws and regulations restrict the emission of air pollutants and also impose various monitoring and reporting requirements. These laws and regulations may require us to obtain approvals or permits for construction, modification or operation of certain projects or facilities and may require use of emission controls.

Global Warming and Climate Change

Some scientific studies suggest that emissions of greenhouse gases (including carbon dioxide and methane) may contribute to warming of Earth's atmosphere. While we do not believe our operations raise climate change issues different from those generally raised by commercial use of fossil fuels, legislation or regulatory programs that restrict greenhouse gas emissions in areas where we conduct business could increase our costs in order to comply with any new laws.

Water Discharges

We operate facilities that are subject to requirements of the Clean Water Act, as amended, or "CWA," and analogous state laws that impose restrictions and controls on the discharge of pollutants into navigable waters. Spill prevention, control and counter-measure requirements under the CWA require implementation of measures to help prevent the contamination of navigable waters in the event of a hydrocarbon spill. Other requirements for the prevention of spills are established under the Oil Pollution Act of 1990, as amended, or "OPA," which applies to owners and operators of vessels, including barges, offshore platforms and certain onshore facilities. Under OPA, regulated parties are strictly and jointly and severally liable for oil spills and must establish and maintain evidence of financial responsibility sufficient to cover liabilities related to an oil spill for which such parties could be statutorily responsible.

Occupational Safety and Health Act

We are subject to the requirements of the federal Occupational Safety and Health Act, as amended, or "OSHA," and comparable state laws that regulate the protection of employee health and safety. OSHA's hazard communication standard requires that information about hazardous materials used or produced in our operations be maintained and provided to employees and state and local government authorities.

Saltwater Disposal Wells

We operate SWD wells that are subject to the CWA, Safe Drinking Water Act, and state and local laws and regulations, including those established by the Underground Injection Control Program of the Environmental Protection Agency, or "EPA," which establishes the minimum program requirements. Most of our SWD wells are

located in Texas. We also operate SWD wells in Arkansas, Louisiana and New Mexico. Regulations in these states require us to obtain an Underground Injection Control permit to operate each of our SWD wells. The applicable regulatory agency may suspend or modify one or more of our permits if our well operations are likely to result in pollution of freshwater, substantial violation of permit conditions or applicable rules, or if the well leaks into the environment.

Table of Contents
Index to Financial Statements

Access to Company Reports

Our Web site address is www.keyenergy.com, and we make available free of charge through our Web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Our Web site also includes general information about us, including our Corporate Governance Guidelines and charters for the committees of our board of directors. Information on our Web site or any other Web site is not a part of this report.

ITEM 1A. RISK FACTORS

In addition to the other information in this report, the following factors should be considered in evaluating us and our business.

Risks Related to Our Business

The depressed conditions in our industry have materially and adversely affected our results of operations, cash flows and financial condition during 2016 and, unless conditions in our industry improve, this trend could continue during 2017 and potentially beyond.

Oil and natural gas prices began a rapid and substantial decline in the fourth quarter of 2014. Depressed commodity price conditions persisted and worsened during 2015 and remained depressed during 2016. As a result, demand for our products and services has declined substantially, and the prices we are able to charge our customers for our products and services have also declined substantially. These trends materially and adversely affected our results of operations, cash flows and financial condition during 2016 and, unless conditions in our industry improve, this trend will continue during 2017 and potentially beyond.

We had substantial net losses during 2015 and 2016, and, during 2016, our cash flow used by operations was $138.9 million. If industry conditions do not improve, we may continue to suffer net losses and negative cash flows from operations.

Although our financial position has improved as a result of the reorganization and we are continuing to pursue cost reduction initiatives, there can be no assurance that we will be able to successfully consummate these initiatives or that they will be successful to improve our financial condition and liquidity.

Our business is cyclical and depends on conditions in the oil and natural gas industry, especially oil and natural gas prices and capital expenditures by oil and natural gas companies. A continuation of the depressed state of our industry, tight credit markets and disruptions in the U.S. and global economies and financial systems may adversely impact our business.

Prices for oil and natural gas historically have been volatile as a result of changes in the supply of, and demand for, oil and natural gas and other factors. The significant decline in oil and natural gas prices that began in 2014 and continued throughout 2015 and 2016 caused many of our customers to significantly reduce drilling, completion and other production activities and related spending on our products and services in 2015 and 2016. In addition, the reduction in demand from our customers has resulted in an oversupply of many of the services and products we provide, and such oversupply has substantially reduced the prices we can charge our customers for our services.

We depend on our customers' willingness to make capital expenditures to explore for, develop and produce oil and natural gas. Therefore, weakness in oil and natural gas prices (or the perception by our customers that oil and natural gas prices will remain reduced or will continue to decrease in the future) has and may continue to result in a reduction in the utilization of our equipment and in lower rates for our services. In addition to adversely affecting us, the continuation and worsening of these conditions have resulted and may continue to result in a material adverse impact on certain of our customers' liquidity and financial position resulting in further spending reductions, delays in payment of, or non-payment of, amounts owing to us and similar impacts. These conditions have had and may continue to have an adverse impact on our financial conditions, results of operations and cash flows, and it is difficult to predict how long the current depressed commodity price environment will continue.

Many factors affect the supply of and demand for oil and natural gas and, therefore, influence product prices, including:

- prices, and expectations about future prices, of oil and natural gas;
- domestic and worldwide economic conditions;
- domestic and foreign supply of and demand for oil and natural gas;
- the price and quantity of imports of foreign oil and natural gas including the ability of OPEC to set and maintain production levels for oil;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- the level of excess production capacity, available pipeline, storage and other transportation capacity;
- lead times associated with acquiring equipment and products and availability of qualified personnel;
- the expected rates of decline in production from existing and prospective wells;

Table of Contents
Index to Financial Statements

- the discovery rates of new oil and gas reserves;
- federal, state and local regulation of exploration and drilling activities and equipment, material or supplies that we furnish;
- public pressure on, and legislative and regulatory interest within, federal, state and local governments to stop, significantly limit or regulate hydraulic fracturing activities;
- weather conditions, including hurricanes that can affect oil and natural gas operations over a wide area and severe winter weather that can interfere with our operations;
- political instability in oil and natural gas producing countries;
- advances in exploration, development and production technologies or in technologies affecting energy consumption;
- the price and availability of alternative fuel and energy sources;
- uncertainty in capital and commodities markets; and
- changes in the value of the U.S. dollar relative to other major global currencies.

Spending by exploration and production companies has also been, and may continue to be, impacted by conditions in the capital markets. Limitations on the availability of capital, and higher costs of capital, for financing expenditures have contributed to exploration and production companies making materially significant reductions to capital budgets and such limitations may continue if oil and natural gas prices remain at current levels or decrease further. Such cuts in spending have curtailed, and may continue to curtail, drilling programs as well as discretionary spending on well services, which has resulted, and may continue to result, in a reduction in the demand for our services, the rates we can charge and the utilization of our assets. Moreover, reduced discovery rates of new oil and natural gas reserves, and a decrease in the development rate of reserves in our market areas whether due to increased governmental regulation, limitations on exploration and drilling activity or other factors, have had, and may continue to have, a material adverse impact on our business, even in a stronger oil and natural gas price environment.

A substantial decline in oil and natural gas prices generally leads to decreased spending by our customers. While higher oil and natural gas prices generally lead to increased spending by our customers, sustained high energy prices can be an impediment to economic growth, and can therefore negatively impact spending by our customers. Our customers also take into account the volatility of energy prices and other risk factors by requiring higher returns for individual projects if there is higher perceived risk. Any of these factors could affect the demand for oil and natural gas and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

The amount of our debt and the covenants in the agreements governing our debt could negatively impact our financial condition, results of operations and business prospects.

Although we reduced the amount of our debt by approximately $697 million as a result of the reorganization, as of December 31, 2016, we had $248.0 million of total debt. Our level of indebtedness, and the covenants contained in the agreements governing our debt, could have important consequences for our operations, including:

- making it more difficult for us to satisfy our obligations under the agreements governing our indebtedness and increasing the risk that we may default on our debt obligations;
- requiring us to dedicate a substantial portion of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes and other activities;
- limiting management's flexibility in operating our business;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- diminishing our ability to successfully withstand a downturn in our business or the economy generally;
- placing us at a competitive disadvantage against less leveraged competitors; and
- making us vulnerable to increases in interest rates, because our debt has variable interest rates.

As more fully described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources, each of our ABL Facility and our Term Loan Facility contains affirmative and negative covenants, including financial ratios and tests, with which we must comply. These covenants include, among others, covenants that restrict our ability to take certain actions without the permission of the holders of our indebtedness, including the incurrence of debt, the granting of liens, the making of investments, the payment of dividends and the sale of assets, and the financial ratios and tests include, among others, a requirement that we comply with a minimum liquidity covenant, a minimum asset coverage ratio and, during certain periods, a minimum fixed charge coverage ratio. In addition, under our Term Loan Facility and ABL Facility, we are required to take certain steps to perfect the security interest in the collateral within specified periods following the closing of those facilities. Our ability to satisfy required financial covenants, ratios and tests in our debt agreements can be affected by events beyond our control, including commodity prices, demand for our services, the valuation of our assets, as well as prevailing economic, financial and industry conditions, and we can offer no assurance that we will be able to remain in compliance with such covenants

or that the holders of our indebtedness will not seek to assert that we are not in compliance with our covenants. A breach of any of these covenants, ratios or tests could result in a default under our indebtedness. If we default, lenders under our ABL Facility will no longer be obligated to extend credit to us, and they and the administrative agent under our Term Loan Facility could declare all amounts of outstanding debt, together with accrued interest, to be immediately due and payable. The results of such actions would have a significant negative impact on our results of operations, financial position and cash flows, and absent strategic alternatives such as refinancing or restructuring our indebtedness or capital structure, we would not have sufficient liquidity to repay all of our outstanding indebtedness. If such a result were to occur, we may be forced into bankruptcy or forced to again seek bankruptcy protection to restructure our business and capital structure and may have to liquidate our assets and may receive less than the value at which those assets are carried on our financial statements.

We may incur more debt and long-term lease obligations in the future.

The agreements governing our long-term debt restrict, but do not prohibit, us from incurring additional indebtedness and other obligations in the future. As of December 31, 2016, we had $248.0 million of total debt.

An increase in our level of indebtedness could exacerbate the risks described in the immediately preceding risk factor and the occurrence of any of such events could result in a material adverse effect on our business, financial condition, results of operations, and business prospects.

We may not be able to generate sufficient cash flow to meet our debt service and other obligations.

Our ability to make payments on our indebtedness and to fund planned capital expenditures and other costs of our operations depends on our ability to generate cash in the future. This, to a large extent, is subject to conditions in the oil and natural gas industry, including commodity prices, demand for our services and the prices we are able to charge for our services, general economic and financial conditions, competition in the markets in which we operate, the impact of legislative and regulatory actions on how we conduct our business and other factors, all of which are beyond our control. During fiscal year 2016, we had negative cash flows from operations, and this trend could continue if conditions in our industry continue or worsen.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our ABL Facility and our Term Loan Facility bear interest at variable rates, exposing us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed would remain the same, and our net income and cash available for servicing our indebtedness would decrease.

We may be unable to implement price increases or maintain existing prices on our core services.

We periodically seek to increase the prices of our services to offset rising costs and to generate higher returns for our stockholders. Currently, the prices we are able to charge for our services and the demand for such services are severely depressed. Even when industry conditions are favorable, we operate in a very competitive industry and as a result, we are not always successful in raising, or maintaining our existing prices. Additionally, during periods of increased market demand, a significant amount of new service capacity, including new well service rigs, fluid hauling trucks, coiled tubing units and new fishing and rental equipment, may enter the market, which also puts pressure on the pricing of our services and limits our ability to increase or maintain prices. Furthermore, during periods of declining pricing for our services, we may not be able to reduce our costs accordingly, which could further adversely affect our profitability.

Even when we are able to increase our prices, we may not be able to do so at a rate that is sufficient to offset such rising costs. In periods of high demand for oilfield services, a tighter labor market may result in higher labor costs. During such periods, our labor costs could increase at a greater rate than our ability to raise prices for our services. Also, we may not be able to successfully increase prices without adversely affecting our activity levels. The inability to maintain our prices or to increase our prices as costs increase could have a material adverse effect on our business, financial position and results of operations.

We participate in a capital-intensive industry. We may not be able to finance future growth of our operations or future acquisitions.

Our activities require substantial capital expenditures. If our cash flow from operating activities and borrowings under our ABL Facility are not sufficient to fund our capital expenditure budget, we would be required to reduce these expenditures or fund these expenditures through debt or equity or alternative financing plans, such as refinancing or restructuring our debt or selling assets.

Our ability to raise debt or equity capital or to refinance or restructure our debt will depend on the condition of the capital markets and our financial condition at such time, among other things. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. Any of the foregoing consequences could materially and adversely affect our business, financial condition, results of operations and prospects.

Table of Contents
Index to Financial Statements

Increased labor costs or the unavailability of skilled workers could hurt our operations.

Companies in our industry, including us, are dependent upon the available labor pool of skilled employees. We compete with other oilfield services businesses and other employers to attract and retain qualified personnel with the technical skills and experience required to provide our customers with the highest quality service. We are also subject to the Fair Labor Standards Act, which governs such matters as minimum wage, overtime and other working conditions, and which can increase our labor costs or subject us to liabilities to our employees. A shortage in the labor pool of skilled workers or other general inflationary pressures or changes in applicable laws and regulations could make it more difficult for us to attract and retain personnel and could require us to enhance our wage and benefits packages. Labor costs may increase in the future or we may not be able to reduce wages when demand and pricing falls, and such changes could have a material adverse effect on our business, financial condition and results of operations.

Our future financial results could be adversely impacted by asset impairments or other charges.

We have recorded goodwill impairment charges and asset impairment charges in the past. We periodically evaluate our long-lived assets, including our property and equipment, indefinite-lived intangible assets, and goodwill for impairment. In performing these assessments, we project future cash flows on a discounted basis for goodwill, and on an undiscounted basis for other long-lived assets, and compare these cash flows to the carrying amount of the related assets. These cash flow projections are based on our current operating plans, estimates and judgmental assumptions. We perform the assessment of potential impairment on our goodwill and indefinite-lived intangible assets at least annually in the fourth quarter, or more often if events and circumstances warrant. We perform the assessment of potential impairment for our property and equipment whenever facts and circumstances indicate that the carrying value of those assets may not be recoverable due to various external or internal factors. If conditions in our industry do not improve or worsen, we could record additional impairment charges in future periods, which could have a material adverse effect on our financial position and results of operations.

Our business involves certain operating risks, which are primarily self-insured, and our insurance may not be adequate to cover all insured losses or liabilities we might incur in our operations.

Our operations are subject to many hazards and risks, including the following:

- accidents resulting in serious bodily injury and the loss of life or property;
- liabilities from accidents or damage by our fleet of trucks, rigs and other equipment;
- pollution and other damage to the environment;
- reservoir damage;
- blow-outs, the uncontrolled flow of natural gas, oil or other well fluids into the atmosphere or an underground formation; and
- fires and explosions.

If any of these hazards occur, they could result in suspension of operations, damage to or destruction of our equipment and the property of others, or injury or death to our or a third party's personnel.

We self-insure against a significant portion of these liabilities. For losses in excess of our self-insurance limits, we maintain insurance from unaffiliated commercial carriers. However, our insurance may not be adequate to cover all losses or liabilities that we might incur in our operations. Furthermore, our insurance may not adequately protect us against liability from all of the hazards of our business. As a result of market conditions, premiums and deductibles for certain of our insurance policies may substantially increase. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. We also are subject to the risk that we may be unable to maintain or obtain insurance of the type and amount we desire at a reasonable cost. If we were to incur a significant liability for which we were uninsured or for which we were not fully insured, it could have a material adverse effect on our financial position, results of operations and cash flows.

We operate in a highly competitive industry, with intense price competition, which may intensify as our competitors expand their operations.

The market for oilfield services in which we operate is highly competitive and includes numerous small companies capable of competing effectively in our markets on a local basis, as well as several large companies that possess substantially greater financial resources than we do. Contracts are traditionally awarded on the basis of competitive bids or direct negotiations with customers.

The principal competitive factors in our markets are product and service quality and availability, responsiveness, experience, technology, equipment quality, reputation for safety and price. The competitive environment has intensified as recent mergers among exploration and production companies have reduced the number of available customers. The fact that drilling rigs and other vehicles and oilfield services equipment are mobile and can be moved from one market to another in response to market conditions heightens the competition in the industry. We may be competing for work against competitors that may be better able

to withstand industry downturns and may be better suited to compete on the basis of price, retain skilled personnel and acquire new equipment and technologies, all of which could affect our revenues and profitability.

Compliance with regulations regarding the use of "conflict minerals" could limit the supply and increase the cost of certain metals used in manufacturing our products.

In accordance with Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), the SEC issued disclosure requirements, which became effective in 2014, for manufacturers of products containing certain minerals which are mined from the Democratic Republic of Congo and adjoining countries. These "conflict minerals" are commonly found in metals used in the manufacture of semiconductors. Manufacturers are also required to disclose their efforts to prevent the sourcing of such minerals and metals produced from them. One of our wholly-owned subsidiaries manufactures certain products that are covered by these requirements. The implementation of these new regulations may limit the sourcing and availability of some of the metals used in the manufacturing of our products. The regulations may also reduce the number of suppliers who provide conflict-free metals, and may affect our ability to obtain the metals in sufficient quantities or at competitive prices. Finally, some of our customers may elect to disqualify us as a supplier if we are unable to verify that the metals used in our products are free of conflict minerals.

We are subject to the economic, political and social instability risks of doing business in certain foreign countries.

We currently have operations based in Russia and we own a technology development and control systems business based in Canada. As a result, we are exposed to risks of international operations, including:

- increased governmental ownership and regulation of the economy in the markets in which we operate;
- inflation and adverse economic conditions stemming from governmental attempts to reduce inflation, such as imposition of higher interest rates and wage and price controls;
- economic and financial instability of national oil companies;
- increased trade barriers, such as higher tariffs and taxes on imports of commodity products;
- exposure to foreign currency exchange rates;
- exchange controls or other currency restrictions;
- war, civil unrest or significant political instability;
- restrictions on repatriation of income or capital;
- expropriation, confiscatory taxation, nationalization or other government actions with respect to our assets located in the markets where we operate;
- governmental policies limiting investments by and returns to foreign investors;
- labor unrest and strikes;
- deprivation of contract rights; and
- restrictive governmental regulation and bureaucratic delays.

The occurrence of one or more of these risks may:

- negatively impact our results of operations;
- restrict the movement of funds and equipment to and from affected countries; and
- inhibit our ability to collect receivables.

Our wholly owned subsidiary, Geostream, provides drilling, workover and reservoir engineering services in Russia. Continued political instability, deteriorating macroeconomic conditions, economic sanctions and actual or threatened military action related to developments in Ukraine or other eastern European countries could have a material adverse effect on our subsidiary's operations in the region and on the result of operations of our International segment.

If there is a failure to comply with the Foreign Corrupt Practices Act ("FCPA") and similar laws, it could have a negative impact on our ongoing operations.

Our ability to comply with the FCPA and similar laws is dependent on the success of our compliance program, including our ability to continue to manage our agents, affiliates and business partners, and supervise, train and retain competent employees. Our compliance program is also dependent on the efforts of our employees to comply with applicable law and our Business Code of Conduct.

On August 11, 2016, we entered into a settlement resolving an SEC investigation into possible violations by the Company of the FCPA, pursuant to which the Company agreed to pay $5 million in disgorgement and to cease and desist from causing violations of certain provisions of the FCPA, without admitting or denying the SEC's allegations except as to jurisdiction. We could be subject to other sanctions and civil and criminal prosecution as well as fines and penalties in the event any future investigation results in a finding of violation of the FCPA or similar laws by us or any of our employees.

Historically, we have experienced a high employee turnover rate. Any difficulty we experience replacing or adding workers could adversely affect our business.

Table of Contents
Index to Financial Statements

We believe that the high turnover rate in our industry is attributable to the nature of oilfield services work, which is physically demanding and performed outdoors. As a result, workers may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive with ours. The potential inability or lack of desire by workers to commute to our facilities and job sites, as well as the competition for workers from competitors or other industries, are factors that could negatively affect our ability to attract and retain workers. We may not be able to recruit, train and retain an adequate number of workers to replace departing workers. The inability to maintain an adequate workforce could have a material adverse effect on our business, financial condition and results of operations.

We may not be successful in implementing and maintaining technology development and enhancements. New technology may cause us to become less competitive.

The oilfield services industry is subject to the introduction of new drilling and completion techniques and services using new technologies, some of which may be subject to patent protection. As competitors and others use or develop new technologies in the future, we may be placed at a competitive disadvantage. Further, we may face competitive pressure to implement or acquire certain new technologies at a substantial cost. Some of our competitors have greater financial, technical and personnel resources that may allow them to implement new technologies before we can. If we are unable to develop and implement new technologies or products on a timely basis and at competitive cost, our business, financial condition, results of operations and cash flows could be adversely affected.

A component of our business strategy is to incorporate the KeyView® system, our proprietary technology, into our well service rigs. The inability to successfully develop, integrate and protect this technology could:

- limit our ability to improve our market position;
- increase our operating costs; and
- limit our ability to recoup the investments made in this technological initiative.

The loss of or a substantial reduction in activity by one or more of our largest customers could materially and adversely affect our business, financial condition and results of operations.

Two customers accounted for more than 10% of our total consolidated revenues for the period ended from January 1, 2016 through December 15, 2016, and our ten largest customers represented approximately 57% and 23% of our consolidated revenues for the periods ended from January 1, 2016 through December 15, 2016 and from December 16, 2016 through December 31, 2016, respectively. The loss of or a substantial reduction in activity by one or more of these customers could have an adverse effect on our business, financial condition and results of operations.

Potential adoption of future state or federal laws or regulations surrounding the hydraulic fracturing process could make it more difficult to complete oil or natural gas wells and could materially and adversely affect our business, financial condition and results of operations.

Many of our customers utilize hydraulic fracturing services during the life of a well. Hydraulic fracturing is the process of creating or expanding cracks, or fractures, in underground formations where water, sand and other additives are pumped under high pressure into the formation. Although we are not a provider of hydraulic fracturing services, many of our services complement the hydraulic fracturing process.

Legislation has been introduced in Congress to provide for broader federal regulation of hydraulic fracturing operations and the reporting and public disclosure of chemicals used in the fracturing process. Additionally, the EPA has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel fuel under the Safe Drinking Water Act and in May 2012 issued draft guidance for fracturing operations that involved diesel fuels. If additional levels of regulation or permitting requirements were imposed through the adoption of new laws and regulations, our customers' business and operations could be subject to delays and increased operating and compliance costs, which could negatively impact the number of active wells in the marketplaces we serve. New regulations addressing hydraulic fracturing and chemical disclosure have been approved or are under consideration by a number of states and some municipalities have sought to restrict or ban hydraulic fracturing within their jurisdictions. The adoption of future federal, state or municipal laws regulating the hydraulic fracturing process could negatively impact

our business, financial condition and results of operations.

Permit conditions, legislation or regulatory initiatives could restrict our ability to dispose of fluids produced subsequent to well completion, which could have a material adverse effect on our business.

As part of our fluid management services, we provide disposal services for fluids produced subsequent to well completion. These fluids are removed from the well site and transported for disposal in SWD wells. We operate SWD wells that are subject to the CWA, the Safe Drinking Water Act, and state and local laws and regulations, including those established by the Underground Injection Control Program of the EPA, which establishes the minimum program requirements. Most of our SWD wells are located in Texas. We also operate SWD wells in Arkansas, Louisiana and New Mexico. Regulations in these states require us to obtain an Underground Injection Control permit to operate each of our SWD wells. The applicable regulatory agency may suspend or modify

one or more of our permits if our well operations are likely to result in pollution of freshwater or substantial violation of permit conditions or applicable rules, or if the well leaks into the environment.

In addition, there exists a growing concern that the injection of produced fluids into belowground disposal wells may trigger seismic activity in certain areas. In response to these concerns, regulators in some states are pursuing initiatives designed to impose additional requirements in connection with the permitting of SWD wells or otherwise to assess any relationship between seismicity and oil and gas operations. For example, in 2014, the Texas Railroad Commission, or TRC, published a rule governing permitting or re-permitting of disposal wells in Texas that would require, among other things, the submission of information on seismic events occurring within a specified radius of the disposal well location, as well as logs, geologic cross sections and structure maps relating to the disposal area in question. If a permittee or a prospective permittee fails to demonstrate that the saltwater or other fluids are confined to the disposal zone or if scientific data indicates such a disposal well is likely to be or determined to be contributing to seismic activity, then the TRC may deny, modify, suspend or terminate the permit application or existing operating permit for that well.

The imposition of permit conditions or the adoption and implementation of any new laws, regulations, or directives that restrict our ability to dispose of produced fluids, including by restricting disposal well locations, changing the depths of disposal wells, reducing the volume of wastewater disposed in wells, or requiring us to shut down disposal wells or otherwise, could lead to operational delays and increased operating costs, which could materially and adversely affect our business, financial condition and results of operations.

We may incur significant costs and liabilities as a result of environmental, health and safety laws and regulations that govern our operations.

Our operations are subject to U.S. federal, state and local and foreign laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the handling, storage and disposal of waste materials, including toxic and hazardous wastes. To comply with these laws and regulations, we must obtain and maintain numerous permits, approvals and certificates from various governmental authorities. While the cost of such compliance has not been significant in the past, new laws, regulations or enforcement policies could become more stringent and significantly increase our compliance costs or limit our future business opportunities, which could have a material adverse effect on our financial condition and results of operations.

Our operations pose risks of environmental liability, including leakage from our operations to surface or subsurface soils, surface water or groundwater. Some environmental laws and regulations may impose strict liability, joint and several liability, or both. Therefore, in some situations, we could be exposed to liability as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, third parties without regard to whether we caused or contributed to the conditions. Actions arising under these laws and regulations could result in the shutdown of our operations, fines and penalties, expenditures for remediation or other corrective measures, and claims for liability for property damage, exposure to hazardous materials, exposure to hazardous waste or personal injuries. Sanctions for noncompliance with applicable environmental laws and regulations also may include the assessment of administrative, civil or criminal penalties, revocation of permits, temporary or permanent cessation of operations in a particular location and issuance of corrective action orders. Such claims or sanctions and related costs could cause us to incur substantial costs or losses and could have a material adverse effect on our business, financial condition, results of operations and cash flow. Additionally, an increase in regulatory requirements on oil and natural gas exploration and completion activities could significantly delay or interrupt our operations.

The scope of regulation of our services may increase in light of the April 2010 Macondo accident and resulting oil spill in the Gulf of Mexico, including possible increases in liabilities or funding requirements imposed by governmental agencies. In 2012, the Bureau of Safety and Environmental Enforcement, or “BSEE,” expanded its regulatory oversight beyond oil and gas operators to include service and equipment contractors. In addition, U.S. federal law imposes on certain entities deemed to be “responsible parties” a variety of regulations related to the prevention of oil spills, releases of hazardous substances, and liability for removal costs and natural resource, real

property and certain economic damages arising from such incidents. Some of these laws may impose strict and/or joint and several liability for certain costs and damages without regard to the conduct of the parties. As a provider of services and rental equipment for offshore drilling and workover services, we may be deemed a “responsible party” under federal law. The implementation of such laws and the adoption and implementation of future regulatory initiatives, or the specific responsibilities that may arise from such initiatives may subject us to increased costs and liabilities, which could interrupt our operations or have an adverse effect on our revenue or results of operations.
Severe weather could have a material adverse effect on our business.
Our business could be materially and adversely affected by severe weather. Our customers' oil and natural gas operations located in Louisiana and parts of Texas may be adversely affected by hurricanes and tropical storms, resulting in reduced demand for our services. Furthermore, our customers' operations may be adversely affected by seasonal weather conditions. Adverse weather can also directly impede our own operations. Repercussions of severe weather conditions may include:

Table of Contents
Index to Financial Statements

- curtailment of services;
- weather-related damage to facilities and equipment, resulting in suspension of operations;
- inability to deliver equipment, personnel and products to job sites in accordance with contract schedules; and
- loss of productivity.

These constraints could delay our operations and materially increase our operating and capital costs. Unusually warm winters may also adversely affect the demand for our services by decreasing the demand for natural gas.

Acquisitions and divestitures - we may not be successful in identifying, making and integrating acquisitions or limiting ongoing costs associated with the operations we divest.

An important component of our growth strategy is to make acquisitions that will strengthen our core services or presence in selected markets. The success of this strategy will depend, among other things, on our ability to identify suitable acquisition candidates, to negotiate acceptable financial and other terms, to timely and successfully integrate acquired business or assets into our existing businesses and to retain the key personnel and the customer base of acquired businesses. Any future acquisitions could present a number of risks, including but not limited to:

- incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized as a result of acquiring operations or assets;
- failure to successfully integrate the operations or management of any acquired operations or assets in a timely manner;
- failure to retain or attract key employees;
- diversion of management's attention from existing operations or other priorities;
- the inability to implement promptly an effective control environment;
- potential impairment charges if purchase assumptions are not achieved or market conditions decline;
- the risks inherent in entering markets or lines of business with which the company has limited or no prior experience; and
- inability to secure sufficient financing, sufficient financing on economically attractive terms, that may be required for any such acquisition or investment.

Our business strategy anticipates, and is based upon our ability to successfully complete and integrate, acquisitions of other businesses or assets in a timely and cost effective manner. Our failure to do so could adversely affect our business, financial condition or results of operations.

We also make strategic divestitures from time to time. In the case of divestitures, we may agree to indemnify acquiring parties for certain liabilities arising from our former businesses. These divestitures may also result in continued financial involvement in the divested businesses, including through guarantees, service level agreements, or other financial arrangements, following the transaction. Lower performance by those divested businesses could affect our future financial results if there is contingent consideration associated.

Compliance with climate change legislation or initiatives could negatively impact our business.

Various state governments and regional organizations comprising state governments are considering enacting new legislation and promulgating new regulations governing or restricting the emission of greenhouse gases, or “GHG,” from stationary sources, which may include our equipment and operations. At the federal level, the EPA has already issued regulations that require us to establish and report an inventory of GHG emissions. The EPA also has established a GHG permitting requirement for large stationary sources and may lower the threshold of the permitting program, which could include our equipment and operations. Legislative and regulatory proposals for restricting GHG emissions or otherwise addressing climate change could require us to incur additional operating costs and could adversely affect demand for natural gas and oil. The potential increase in our operating costs could include new or increased costs to obtain permits, operate and maintain our equipment and facilities, install new emission controls on our equipment and facilities, acquire allowances to authorize our greenhouse gas emissions, pay taxes related to our GHG emissions and administer and manage a GHG emissions program.

Conservation measures and technological advances could reduce demand for oil and natural gas.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, technological advances in fuel economy and energy generation could reduce demand for oil and natural gas. Moreover, incentives to conserve energy or use alternative energy sources could reduce demand for oil and natural gas. Management cannot predict the impact of the changing demand for oil and natural gas services and products, and any major changes may have a material effect on our business, financial condition, results of operations and cash flows.

Risks Related to Our Emergence from Bankruptcy

Information contained in our historical financial statements will not be comparable to the information contained in our financial statements after the application of fresh start accounting.

Table of Contents
Index to Financial Statements

This Annual Report on Form 10-K reflects the consummation of the Plan and the adoption of fresh start accounting. As a result, our financial statements from and after the Effective Date will not be comparable to our financial statements for prior periods. This will make it difficult for stockholders to assess our performance in relation to prior periods. Please see “Note 3. Fresh Start Accounting” in “Item 8. Financial Statements and Supplementary Data” for additional information.

We have a limited operating history since our emergence from bankruptcy and consequently our business plan is difficult to evaluate and our long term viability cannot be assured.

Our prospects for financial success are difficult to assess because we have a limited operating history since emergence from bankruptcy. The Company together with certain subsidiaries filed for Chapter 11 relief on October 24, 2016, and we emerged from bankruptcy on December 15, 2016. There can be no assurance that our business will be successful, that we will be able to achieve or maintain a profitable operation, or that we will not encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated. There can be no assurance that we will achieve or sustain profitability or positive cash flows from our operating activities.

Our corporate advisory services agreement may result in financial burden or other adverse effects.

On the Effective Date, the Company entered into the CASA with Platinum, an affiliate of Soter. Pursuant to this agreement, Platinum provides a range of business, financial and accounting advice in exchange for an advisory fee of $2.75 million per year (subject to certain adjustments). During the term of the CASA, the Company will be obligated to accrue and pay the advisory fee in accordance with the terms set forth in the CASA. In addition, the business, financial and accounting advice provided by Platinum to the Company under the CASA could increase the influence that Platinum has over our operations.

The CASA may not be terminated by the Company until December 31, 2019, but Platinum may terminate the CASA at any time upon 90 days’ prior written notice to the Company. The CASA also terminates automatically if Soter owns less than 33% of our common stock. After the termination of the CASA, Key may need to provide its own services to replace those provided under the CASA or procure such services from third parties. Any failure of or delay in procuring comparable services following a termination of the CASA could result in unexpected costs and business disruption.

Risks Related to Our Common Stock

Our controlling stockholder may deter transactions that could be beneficial to other stockholders.

Pursuant to our certificate of incorporation, our bylaws and the Plan, beginning on the Effective Date and until the 2019 annual stockholders meeting (the “Initial Board Term”), directors appointed by Soter, our largest stockholder, will collectively hold votes that constitute a majority of all votes held by directors of the Company. As a result, subject to certain approval rights of directors selected by certain other stockholders, the Soter directors will control decisions made by the board. This control could discourage others from initiating any merger, takeover or other transaction that may otherwise be beneficial to the other holders of shares of our common stock.

After the Initial Board Term, for as long as our Series A Preferred Stock is outstanding, directors selected by Soter will continue to hold votes that constitute a majority of all votes held by all directors. As a result, subject to certain approval rights held by non-Soter directors, the Soter directors will continue to control decisions made by the board, including whether to enter into transactions that may otherwise be beneficial to the other holders of shares of our common stock.

The resale of shares of our common stock, including shares issuable upon exercise of our warrants, may adversely affect the market price of our common stock.

At the time of our emergence from bankruptcy, we granted registration rights to certain stockholders. The shares of our outstanding common stock held by these stockholders will be registered for resale under a registration statement pursuant to the Securities Act of 1933, as amended (the “Securities Act”), other than shares held by Soter, which will not be registered for resale at this time. The shares held by these stockholders (other than Soter) constitute approximately 32% of our outstanding common stock as of February 15, 2017, all of which may be sold in the public markets

pursuant to an effective registration statement.

Furthermore, as of December 16, 2016, there were 919,004 4-Year Warrants and 919,004 5-Year Warrants outstanding. The exercise price of one 4-Year Warrant is $43.52, and the exercise price of one 5-Year Warrant is $54.40, each subject to certain adjustments. To the extent such warrants are exercised, additional shares of our common stock will be issued, which will result in dilution to the holders of our common stock and increase the number of shares eligible for resale in the public market.

The sale of a significant number of shares of our common stock, including shares issuable upon exercise of our warrants, or substantial trading in our common stock or the perception in the market that substantial trading in our common stock will occur, may adversely affect the market price of our common stock.

We cannot assure you that an active trading market for our common stock will develop or be maintained, and the market price of our common stock may be volatile, which could cause the value of your investment to decline.

The common stock of the Successor Company was listed on the New York Stock Exchange (the "NYSE") on December 16, 2016, following our emergence from bankruptcy. We cannot assure you that an active public market for our common stock will develop or, if it develops, that it will be sustained. In the absence of an active public trading market, it may be difficult to liquidate your investment in our common stock.

Table of Contents
Index to Financial Statements

The trading price of our common stock on the NYSE may fluctuate substantially. Numerous factors, including many over which we have no control, may have a significant impact on the market price of our common stock. These risks include those described or referred to in this "Risk Factors" section as well as, among other things:

- our operating and financial performance and prospects;
- our ability to repay our debt;
- our access to financial and capital markets to refinance our debt or replace the existing credit facilities;
- investor perceptions of us and the industry and markets in which we operate;
- future sales of equity or equity-related securities;
- changes in earnings estimates or buy/sell recommendations by analysts; and
- general financial, domestic, economic and other market conditions.

The Company does not expect to pay dividends on its common stock in the foreseeable future.

We do not anticipate to pay cash dividends or other distributions with respect to shares of our common stock in the foreseeable future, and we cannot assure that such dividends or other distributions will be paid at any time in the future or at all. In addition, restrictive covenants in our debt agreement limit our ability to pay dividends. As a result, holders of shares of common stock likely will not be able to realize a return on their investment, if any, until the shares are sold.

Certain provisions of our corporate documents and Delaware law, as well as change of control provisions in our debt agreements, could delay or prevent a change of control, even if that change would be beneficial to stockholders, or could have a material negative impact on our business.

Certain provisions in our certificate of incorporation, bylaws and debt agreements may have the effect of deterring transactions involving a change in control, including transactions in which stockholders might receive a premium for their shares.

In addition to the risks of having a controlling stockholder as described in the risk factor "Our controlling stockholder may deter transactions that could be beneficial to other stockholders," our certificate of incorporation provides for the issuance of up to 10,000,000 shares of preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. The authorization of preferred shares empowers our board, without further stockholder approval, to issue preferred shares with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of the common stock. If issued, the preferred stock could also dilute the holders of our common stock and could be used to discourage, delay or prevent a change of control.

Furthermore, our debt agreements contain provisions pursuant to which an event of default or mandatory prepayment offer may result if certain "persons" or "groups" become the beneficial owner of more than 50.1% of our common stock. This could deter certain parties from seeking to acquire us, and if any "person" or "group" were to become the beneficial owner of more than 50.1% of our common stock, we may not be able to repay our indebtedness.

We are also a Delaware corporation subject to Section 203 of the Delaware General Corporation Law (the "DGCL"). In general, Section 203 of the DGCL prevents an "interested stockholder" (as defined in the DGCL) from engaging in a "business combination" (as defined in the DGCL) with us for three years following the date that person becomes an interested stockholder unless one or more of the following occurs:

- Before that person became an interested stockholder, our board of directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;
- Upon consummation of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding stock held by certain directors and employee stock plans; or
- Following the transaction in which that person became an interested stockholder, the business combination is approved by our board of directors and authorized at a meeting of stockholders by the affirmative vote of the holders

of at least 66 2/3% of our outstanding voting stock not owned by the interested stockholder.

The DGCL generally defines "interested stockholder" as any person who, together with affiliates and associates, is the owner of 15% or more of our outstanding voting stock or is our affiliate or associate and was the owner of 15% or more of our outstanding voting stock at any time within the three-year period immediately before the date of determination.

All of these factors could materially adversely affect the price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents
Index to Financial Statements

ITEM 2. PROPERTIES

We lease office space for our principal executive offices in Houston, Texas. We also lease local office space in the various countries in which we operate. Additionally, we own or lease numerous rig facilities, storage facilities, truck facilities and sales and administrative offices throughout the geographic regions in which we operate. We lease temporary facilities to house employees in regions where infrastructure is limited. In connection with our Fluid Management Services, we operate a number of owned and leased SWD facilities, and brine and freshwater stations. Our leased properties are subject to various lease terms and expirations.

We believe all properties that we currently occupy are suitable for their intended uses. We believe that our current facilities are sufficient to conduct our operations. However, we continue to evaluate the purchase or lease of additional properties or the consolidation of our properties, as our business requires.

The following table shows our active owned and leased properties, as well as active SWD facilities, categorized by geographic region as of December 31, 2016:

Region	Office, Repair & Service and Other(1)	SWDs, Brine and Freshwater Stations(2)	Operational Field Services Facilities
United States			
Owned	40	31	64
Leased	35	37	36
International			
Owned	—	—	—
Leased	7	—	1
TOTAL	82	68	101

(1) Includes six residential properties leased in the United States and two residential property leased outside the United States used to house employees.

(2) Includes SWD facilities as “leased” if we own the wellbore for the SWD but lease the land. In other cases, we lease both the wellbore and the land. Lease terms vary among different sites, but with respect to some of the SWD facilities for which we lease the land and own the wellbore, the land owner has an option under the land lease to retain the wellbore at the termination of the lease.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various suits and claims that have arisen in the ordinary course of business. We do not believe that the disposition of any of our ordinary course litigation will result in a material adverse effect on our consolidated financial position, results of operations or cash flows.

In November 2015, the Santa Barbara County District Attorney filed a criminal complaint against two former employees and Key, specifically alleging three counts of violations of California Labor Code section 6425(a) against Key. The complaint sought unspecified penalties against Key related to an October 12, 2013 accident which resulted in the death of one Key employee at a drilling site near Santa Maria, California. An arraignment was held on February 10, 2016, where Key and its former employees pleaded not guilty to all charges.

On or about January 10, 2017, Key entered into a settlement with the Santa Barbara County District Attorney. Key agreed to plead no contest to one felony count (Count 2), a violation of California Labor Code 6425(a). The Santa Barbara County District Attorney also agreed to recommend total restitution, fines, fees, and surcharges not to exceed $450,000. The court dismissed the remaining charges (Counts 1 and 3) against Key. The parties agreed to postpone sentencing in the matter until January 20, 2018. The parties agreed that if Key pays all of the total restitution, fines, fees, and surcharges by January 20, 2018, the Santa Barbara County District Attorney will not object to Key withdrawing its plea to a felony count on Count 2 and entering a plea to a misdemeanor.

On or about November 23, 2015, the North Dakota Industrial Commission (“NDIC”) filed a notice in the county of Burleigh County, ND alleging statutory violations by Key Energy Services, LLC, as operator of two salt water disposal wells in the state of North Dakota. The NDIC pled for approximately $888,000 in fines and costs. In October 2016, the Company settled with the NDIC for $88,750.

On October 24, 2016, Key and certain of its domestic subsidiaries filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware pursuant to a prepackaged plan of reorganization. The Plan was confirmed by the Bankruptcy Court on December 6, 2016, and the Company emerged from the bankruptcy proceedings on December 15, 2016. For more information regarding the bankruptcy, see Emergence from Legal Proceedings in Item 1. Business above.

Table of Contents
Index to Financial Statements

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents
Index to Financial Statements

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and Share Prices

Our common stock is traded on the NYSE under the symbol "KEG." As of February 15, 2017, there were 155 registered holders of 20,096,462 issued and outstanding shares of common stock. This number of registered holders does not include holders that have shares of common stock held for them in "street name," meaning that the shares are held for their accounts by a broker or other nominee. In these instances, the brokers or other nominees are included in the number of registered holders, but the underlying holders of the common stock that have shares held in "street name" are not. The following table sets forth the reported high and low closing price of our common stock for the periods indicated:

	High	Low
Year Ended December 31, 2016		
1st Quarter	$0.53	$0.19
2nd Quarter	0.53	0.21
3rd Quarter	0.24	0.04
4th Quarter (Predecessor Company until December 15, 2016)	0.13	0.04
4th Quarter (Successor Company from and after December 16, 2016)	33.25	31.50

	High	Low
Year Ended December 31, 2015		
1st Quarter	$2.39	$1.32
2nd Quarter	2.69	1.72
3rd Quarter	1.60	0.47
4th Quarter	0.78	0.42

The following Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following performance graph compares the performance of our common stock to the PHLX Oil Service Sector Index, the Russell 2000 Index and our peer group as established by management. Our peer group consists of the following companies: Archrock, Inc., Basic Energy Services, Inc., C & J Energy Services, Inc., Helix Energy Solutions Group, Inc., Oceaneering International Inc., Oil States International Inc., Patterson UTI Energy Inc., Pioneer Energy Services Corp., RPC, Inc., Seventy-Seven Energy Inc., and Superior Energy Services, Inc.

The graph below compares the cumulative total stockholder return on the Successor Company's common stock from December 16, 2016, the date such common stock was listed on the NYSE, through January 31, 2017. The graph assumes $100 invested on December 16, 2016 in our common stock and $100 invested on each such date in each of the PHLX Oil Service Sector Index, the Russell 2000 Index and our peer group, with dividends reinvested.

Table of Contents
Index to Financial Statements

COMPARISON OF CUMULATIVE TOTAL RETURN*
Among Key Energy Services, Inc., the Russell 2000 Index,
the PHLX Oil Service Sector Index and Peer Group

* $100 invested on December 16, 2016 in stock or index, including reinvestment of dividends.

Dividend Policy

There were no dividends declared or paid on our common stock for the years ended December 31, 2016, 2015 and 2014. Under the terms of the ABL Facility and the Term Loan Facility, our ability to pay dividends on the common stock is restricted. We do not currently intend to pay dividends.

Table of Contents
Index to Financial Statements

Issuer Purchases of Equity Securities

During the fourth quarter of 2016, we repurchased an aggregate of 1.6 million shares of our common stock. The repurchases were to satisfy tax withholding obligations that arose upon vesting of restricted stock. Set forth below is a summary of the share repurchases:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans(1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan(1)
Predecessor				
October 1, 2016 to October 31, 2016	13,830	$ 0.07	—	—
November 1, 2016 to November 30, 2016	2,810	$ 0.07	—	—
December 1, 2016 to December 15, 2016	1,597,407	$ 0.13	—	—
Successor				
December 16, 2016 to December 31, 2016	—	$ —	—	—

(1) The Company did not have at any time between October 1 and December 31, 2016, and currently does not have, a share repurchase program in place.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2016 with respect to equity compensation plans (including individual compensation arrangements) under which our common stock is authorized for issuance. The material features of each of these plans are described in “Note 21. Share-Based Compensation” in “Item 8. Financial Statement and Supplementary Date.”

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants And Rights (a)(2)	Weighted Average Exercise Price of Outstanding Options, Warrants And Rights (b)(3)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)(4)
	(in thousands)		(in thousands)
Equity compensation plans approved by stockholders(1)	1,295	$ 33.67	1,168
Equity compensation plans not approved by stockholders	—	$ —	—
Total	1,295		1,168

(1) Represents options and other stock-based awards outstanding under the 2016 Equity and Cash Incentive Plan (the “2016 ECIP”).

(2) Includes 647,532 of shares that may be issued upon the vesting and exercise of stock options and 647,538 of shares that may be issued upon vesting of restricted stock units (“RSUs”).

(3) RSUs do not have an exercise price; therefore RSUs are excluded from weighted average exercise price of outstanding awards.

(4) Represents the number of shares remaining available for grant under the 2016 ECIP as of December 31, 2016. If any common stock underlying an unvested award is canceled, forfeited or is otherwise terminated without delivery of shares, then such shares will again be available for issuance under the 2016 ECIP.

ITEM 6. SELECTED FINANCIAL DATA

The following historical selected financial data as of and for the years ended December 31, 2012 through December 31, 2016 has been derived from our audited financial statements. The historical selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical consolidated financial statements and related notes thereto included in "Item 8. Financial Statements and Supplementary Data."

Table of Contents
Index to Financial Statements

RESULTS OF OPERATIONS DATA
(in thousands, except per share amounts)

	Successor Period from December 16, 2016 through December 31, 2016	Predecessor Period from January 1, 2016 through December 15, 2016	Year Ended December 31, 2015	2014	2013	2012
REVENUES	$17,830	$399,423	$792,326	$1,427,336	$1,591,676	$1,960,070
COSTS AND EXPENSES:						
Direct operating expenses	16,603	362,825	714,637	1,059,651	1,114,462	1,308,845
Depreciation and amortization expense	3,574	131,296	180,271	200,738	225,297	213,783
General and administrative expenses	6,501	163,257	202,631	249,646	221,753	230,496
Impairment expense	—	44,646	722,096	121,176	—	—
Operating income (loss)	(8,848)	(302,601)	(1,027,309)	(203,875)	30,164	206,946
Reorganization items, net	—	(245,571)	—	—	—	—
Interest expense, net of amounts capitalized	1,364	74,320	73,847	54,227	55,204	53,566
Other (income) expense, net	32	(2,443)	9,394	1,009	(803)	(6,649)
Income (loss) from continuing operations before tax	(10,244)	(128,907)	(1,110,550)	(259,111)	(24,237)	160,029
Income tax (expense) benefit	—	(2,829)	192,849	80,483	3,064	(57,352)
Income (loss) from continuing operations	(10,244)	(131,736)	(917,701)	(178,628)	(21,173)	102,677
Loss from discontinued operations, net of tax	—	—	—	—	—	(93,568)
Net income (loss)	(10,244)	(131,736)	(917,701)	(178,628)	(21,173)	9,109
Income attributable to noncontrolling interest	—	—	—	—	595	1,487
INCOME (LOSS) ATTRIBUTABLE TO KEY	$(10,244)	$(131,736)	$(917,701)	$(178,628)	$(21,768)	$7,622
Earnings (loss) per share from continuing operations attributable to Key:						
Basic	$(0.51)	$(0.82)	$(5.86)	$(1.16)	$(0.14)	$0.67
Diluted	$(0.51)	$(0.82)	$(5.86)	$(1.16)	$(0.14)	$0.67
Loss per share from discontinued operations:						
Basic	$—	$—	$—	$—	$—	$(0.62)
Diluted	$—	$—	$—	$—	$—	$(0.62)
Earnings (loss) per share attributable to Key:						
Basic	$(0.51)	$(0.82)	$(5.86)	$(1.16)	$(0.14)	$0.05
Diluted	$(0.51)	$(0.82)	$(5.86)	$(1.16)	$(0.14)	$0.05

Table of Contents
Index to Financial Statements

	Successor Period from December 16, 2016 through December 31, 2016	Predecessor Period from January 1, 2016 through December 15, 2016	Year Ended December 31, 2015	2014	2013	2012
Income (loss) from continuing operations attributable to Key:						
Income (loss) from continuing operations	$(10,244)	$(131,736)	$(917,701)	$(178,628)	$(21,173)	$102,677
Income attributable to noncontrolling interest	—	—	—	—	595	1,487
Income (loss) from continuing operations attributable to Key	$(10,244)	$(131,736)	$(917,701)	$(178,628)	$(21,768)	$101,190
Weighted Average Shares Outstanding:						
Basic	20,090	160,587	156,598	153,371	152,271	151,106
Diluted	20,090	160,587	156,598	153,371	152,271	151,125

CASH FLOW DATA
(in thousands)

	Successor Period from December 16, 2016 through December 31, 2016	Predecessor Period from January 1, 2016 through December 15, 2016	Year Ended December 31, 2015	2014	2013	2012
Net cash provided by (used in) operating activities	$(417)	$(138,449)	$(22,386)	$164,168	$228,643	$369,660
Net cash provided by (used in) investing activities	(251)	6,544	(19,403)	(146,840)	(160,881)	(428,709)
Net cash provided by (used in) financing activities	(15)	18,759	218,729	(22,058)	(85,492)	73,946
Effect of changes in exchange rates on cash	—	(20)	110	3,728	87	(4,391)

BALANCE SHEET DATA
(in thousands)

	Successor Year Ended December 31, 2016	Predecessor Year Ended December 31, 2015	2014	2013	2012
Working capital	$117,775	$265,943	$191,937	$273,809	$284,698
Property and equipment, gross	408,716	2,376,388	2,555,515	2,606,738	2,528,578
Property and equipment, net	405,151	880,032	1,235,258	1,365,646	1,436,674
Total assets	657,981	1,327,798	2,322,763	2,573,573	2,744,960
Long-term debt and capital leases, net of current maturities	245,477	961,700	737,691	750,084	831,482

Total liabilities	415,364	1,187,508	1,264,700	1,322,480	1,457,628
Equity	242,617	140,290	1,058,063	1,251,093	1,287,332
Cash dividends per common share	—	—	—	—	—

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto in "Item 8. Financial Statements and Supplementary Data." The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances including those identified in "Cautionary Note Regarding Forward-Looking Statements" above. Actual results may differ materially from these expectations due to potentially inaccurate assumptions and known or unknown

risks and uncertainties. Such forward-looking statements should be read in conjunction with our disclosures under "Item 1A. Risk Factors."

Overview

We provide a full range of well services to major oil companies, foreign national oil companies and independent oil and natural gas production companies to produce, maintain and enhance the flow of oil and natural gas throughout the life of a well. These services include rig-based and coiled tubing-based well maintenance and workover services, well completion and recompletion services, fluid management services, fishing and rental services and other ancillary oilfield services. Additionally, certain of our rigs are capable of specialty drilling applications. We operate in most major oil and natural gas producing regions of the continental United States, and we have operations in Russia, which we are attempting to sell. In addition, we have a technology development and control systems business based in Canada.

The demand for our services fluctuates, primarily in relation to the price (or anticipated price) of oil and natural gas, which, in turn, is driven primarily by the supply of, and demand for, oil and natural gas. Generally, as supply of those commodities decreases and demand increases, service and maintenance requirements increase as oil and natural gas producers attempt to maximize the productivity of their wells in a higher priced environment. However, in the lower oil and natural gas price environment that has persisted since late 2014, demand for service and maintenance has decreased as oil and natural gas producers decrease their activity. In particular, the demand for new or existing field drilling and completion work is driven by available investment capital for such work and our customers have significantly curtailed their capital spending in both 2015 and 2016. Because these types of services can be easily "started" and "stopped," and oil and natural gas producers generally tend to be less risk tolerant when commodity prices are low or volatile, we may experience a more rapid decline in demand for well maintenance services compared with demand for other types of oilfield services. Further, in a lower-priced environment, fewer well service rigs are needed for completions, as these activities are generally associated with drilling activity.

Emergence from Voluntary Reorganization and Fresh Start Accounting

Upon our emergence from bankruptcy on the Effective Date, the Company adopted fresh start accounting which resulted in the creation of a new entity for financial reporting purposes. As a result of the application of fresh start accounting, as well as the effects of the implementation of the Plan, the Consolidated Financial Statements on or after December 16, 2016 are not comparable with the Consolidated Financial Statements prior to that date. Refer to "Note 3. Fresh Start Accounting" in "Item 8. Financial Statements and Supplementary Data" for additional information. References to "Successor" or "Successor Company" relate to the financial position and results of operations of the reorganized Company subsequent to December 15, 2016. References to "Predecessor" or "Predecessor Company" refer to the financial position and results of operations of the Company prior to December 15, 2016.

Business and Growth Strategies

Focus on Production Related Services

Over the life of an oil and gas well, regular maintenance of well bore and artificial lift systems is required to maintain production and offset natural production declines. In most of these interventions, a well service rig is required to remove and replace items needing repair, or to perform activities that would increase the oil and gas production from current levels. In many instances these interventions require additional assets or services to perform. With the decline in oil prices beginning in 2014, we believe that a number of oil and gas producers in the United States significantly curtailed their recurring well maintenance activities. We believe that a recovery in oil prices will result in oil and gas producers making the decision to resume regular well maintenance activities. Additionally, we believe that in many instances since the oil price decline began in 2014, oil and gas producers have foregone regular maintenance activities, and that additional demand for our services will be provided by oil and gas producers seeking to improve their production by repairing their wells. Key is well positioned to capitalize on these trends through its fleet of active and warm stacked well service rigs and the additional fishing and rental service offerings it provides and we will continue to invest, either in equipment or through acquisition to grow and take advantage of this dynamic.

Growth in Population of Horizontal Oil and Gas Wells

Since the revolution of horizontal well drilling and hydraulic fracturing began in the United States, thousands of new horizontal oil wells have been added, many in the period from 2012 to 2014. As the initial production from these wells decline over their first several years of production, and these wells are placed on artificial lift systems to maintain production, we believe that these wells will require periodic maintenance similar to a conventional oil well. In many instances due to the depth and long lateral sections of these wells, a larger well service rig with a higher rated derrick capacity will be needed to do this maintenance. We intend to invest in this portion of our well service rig fleet, and the needed rental equipment and services, either through organic capital deployment or acquisition to capitalize on this trend and the growing population of horizontal wells that have entered or will enter the phase of their life where regular maintenance is required.

Table of Contents
Index to Financial Statements

PERFORMANCE MEASURES

The Baker Hughes U.S. rig count data, which is publicly available on a weekly basis, is often used as a coincident indicator of overall Exploration and Production ("E&P") company spending and broader oilfield activity. In assessing overall activity in the U.S. onshore oilfield service industry in which we operate, we believe that the Baker Hughes U.S. land drilling rig count is the best barometer of E&P companies' capital spending and resulting activity levels. Historically, our activity levels have been highly correlated to U.S. onshore capital spending by our E&P company customers as a group.

Year	WTI Cushing Crude Oil(1)	NYMEX Henry Hub Natural Gas(1)	Average Baker Hughes U.S. Land Drilling Rigs(2)
2012	$ 94.05	$ 2.75	1,871
2013	$ 97.98	$ 3.73	1,705
2014	$ 93.17	$ 4.37	1,804
2015	$ 48.66	$ 2.62	943
2016	$ 43.29	$ 2.52	486

(1) Represents the average of the monthly average prices for each of the years presented. Source: U.S. Energy Information Administration, Bloomberg.

(2) Source: www.bakerhughes.com

Internally, we measure activity levels for our well servicing operations primarily through our rig and trucking hours. Generally, as capital spending by E&P companies increases, demand for our services also rises, resulting in increased rig and trucking services and more hours worked. Conversely, when activity levels decline due to lower spending by E&P companies, we generally provide fewer rig and trucking services, which results in lower hours worked. The following table presents our quarterly rig and trucking hours from 2014 through 2016.

	Rig Hours			Trucking Hours	Key's U.S. Working Days(1)
	U.S.	International	Total		
2016:					
First Quarter	153,417	5,715	159,132	217,429	63
Second Quarter	144,587	6,913	151,500	199,527	64
Third Quarter	163,206	6,170	169,376	198,362	64
Fourth Quarter	169,087	4,341	173,428	192,049	61
Total 2016	630,297	23,139	653,436	807,367	252
2015:					
First Quarter	271,005	36,950	307,955	418,032	62
Second Quarter	232,169	25,555	257,724	342,271	63
Third Quarter	226,953	13,330	240,283	309,601	64
Fourth Quarter	203,252	8,279	211,531	247,979	62
Total 2015	933,379	84,114	1,017,493	1,317,883	251
2014:					
First Quarter	347,047	46,090	393,137	481,353	63
Second Quarter	355,219	33,758	388,977	493,494	63
Third Quarter	365,891	34,603	400,494	506,486	64
Fourth Quarter	341,313	41,156	382,469	481,653	61
Total 2014	1,409,470	155,607	1,565,077	1,962,986	251

(1) Key's U.S. working days are the number of weekdays during the quarter minus national holidays.

MARKET AND BUSINESS CONDITIONS AND OUTLOOK

Our core businesses depend on our customers’ willingness to make expenditures to produce, develop and explore for oil and natural gas. Industry conditions are influenced by numerous factors, such as oil and natural gas prices, the supply of and demand for oil and natural gas, domestic and worldwide economic conditions, and political instability in oil producing countries. Oil and natural gas prices began a rapid and substantial decline in the fourth quarter of 2014. Depressed commodity price conditions

persisted and worsened during 2015 and that trend continued into 2016. As a result, the rig count and demand for our products and services declined substantially, and the prices we are able to charge our customers for our products and services have also declined substantially. While we have sought to anticipate activity declines and have reshaped our organizational and cost structure to mitigate the negative impact of these declines, we have continued to experience negative operating results and cash flows from operations. Although oil prices have improved off the low point of 2016, and our revenues improved in the fourth quarter of 2016 over the third quarter of 2016, we have not experienced an uptick in activity levels commensurate with increases in oil prices. The November 2016 decision by OPEC to curtail the cartel's oil production has provided for continued improvement in oil prices and in the future outlook for oil prices and thus improvement in the spending outlook for our customers. We believe that with this improved outlook and increased spending by our customers, demand for our services will continue to improve, allowing for increases in both activity and the price of our services over 2017. With increased demand for oilfield services broadly, however, the demand for qualified employees will also increase, which may impact our ability to meet the needs of our customers or to offset inflation in labor costs with price increases from our customers.

RESULTS OF OPERATIONS

Consolidated Results of Operations

The following tables set forth consolidated results of operations and financial information by operating segment and other selected information for the periods indicated. The period from December 16 to December 31, 2016 (Successor Company) and the period from January 1 to December 15, 2016 (Predecessor Company) are distinct reporting periods as a result of our emergence from bankruptcy on December 15, 2016. References in these results of operations to the change and the percentage change combine the Successor Company and Predecessor Company results for the year ended December 31, 2016 in order to provide some comparability of such information to the year ended December 31, 2015. While this combined presentation is not presented according to generally accepted accounting principles in the United States ("GAAP") and no comparable GAAP measure are presented, management believes that providing this financial information is the most relevant and useful method for making comparisons to the year ended December 31, 2015.

	Successor	Predecessor			
	(a)	(b)	(c)	(a) + (b) - (c)	
	Period from December 16, 2016 through December 31, 2016	Period from January 1, 2016 through December 15, 2016	Year Ended December 31, 2015	Change	% Change
REVENUES	$17,830	$399,423	$792,326	$(375,073)	(47)%
COSTS AND EXPENSES:					
Direct operating expenses	16,603	362,825	714,637	(335,209)	(47)%
Depreciation and amortization expense	3,574	131,296	180,271	(45,401)	(25)%
General and administrative expenses	6,501	163,257	202,631	(32,873)	(16)%
Impairment expense	—	44,646	722,096	(677,450)	(94)%
Operating loss	(8,848)	(302,601)	(1,027,309)	715,860	(70)%
Reorganization items, net	—	(245,571)	—	(245,571)	(100)%
Interest expense, net of amounts capitalized	1,364	74,320	73,847	1,837	2 %
Other (income) loss, net	32	(2,443)	9,394	(11,805)	(126)%
Loss before income taxes	(10,244)	(128,907)	(1,110,550)	971,399	(87)%

Income tax benefit	—	(2,829)	192,849	(195,678)	(101)%
NET LOSS	$(10,244)	$(131,736)	$(917,701)	$775,721	(85)%

Years Ended December 31, 2016 and 2015

Revenues

Our revenues for the combined year ended December 31, 2016 decreased $375.1 million, or 47.3%, to $417.3 million from $792.3 million for the year ended December 31, 2015, due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services. Internationally, we had lower revenue as a result of reduced customer activity in Russia and Colombia and the exit of operations in the Middle East and South America. See “Segment Operating Results — Years Ended December 31, 2016 and 2015” below for a more detailed discussion of the change in our revenues.

Direct operating expenses

Our direct operating expenses decreased $335.2 million, or 46.9%, to $379.4 million (90.9% of revenues) for the combined year ended December 31, 2016, compared to $714.6 million (90.2% of revenues) for the year ended December 31, 2015. The decrease is primarily related to a decrease in employee compensation costs, fuel expense and repair and maintenance expense as we sought to reduce our cost structure and as a result of lower activity levels. See “Segment Operating Results — Years Ended December 31, 2016 and 2015” below for a more detailed discussion of the change in our direct operating expenses.

Depreciation and amortization expense

Depreciation and amortization expense decreased $45.4 million, or 25.2%, to $134.9 million (32.3% of revenues) for the combined year ended December 31, 2016, compared to $180.3 million (22.8% of revenues) for the year ended December 31, 2015. The decrease is primarily attributable to the impairment of certain fixed assets in 2015 and decreases in capital expenditures and lower amortization expense due to the impairment of certain intangible assets.

General and administrative expenses

General and administrative expenses decreased $32.9 million, or 16.2%, to $169.8 million (40.7% of revenues) for the combined year ended December 31, 2016, compared to $202.6 million (25.6% of revenues) for the year ended December 31, 2015. The decrease is primarily due to lower employee compensation costs due to reduced staffing levels and reduction in wages and $30.8 million lower expenses related to our FCPA investigations by the DOJ and the SEC, which concluded in April and August 2016, respectively, partially off-set by $25.8 million in restructuring fees in 2016.

Impairment expense

During the combined year ended December 31, 2016, we recorded a $44.6 million impairment to reduce the carrying value of assets held for sale to fair market value related to our business unit in Mexico. During the year ended December 31, 2015, we recorded a $582.7 million impairment of goodwill, a $51.1 million impairment of fixed assets that are being held and used, a $1.5 million impairment of other intangible assets that are no longer being used, and a $86.8 million impairment of fixed assets to reduce the carrying value of assets held for sale to fair market value.

Reorganization items, net

Reorganization items primarily consist of $578.7 million gain on debt discharge partially offset by $299.6 million loss on fresh start accounting revaluations, $19.2 million write-off of deferred financing costs and debt premiums and discounts, and $15.2 million of professional fees incurred in connection with our emergence from voluntary reorganization.

Interest expense, net of amounts capitalized

Interest expense increased $1.8 million to $75.7 million (18.1% of revenues), for the combined year ended December 31, 2016, compared to $73.8 million (9.3% of revenues) for the year ended December 31, 2015. The increase is primarily related to increased borrowings and interest rate under the new Term Loan Facility in the combined year ended December 31, 2016 and the write-off of the remaining $0.8 million of unamortized deferred financing costs related to a previously terminated credit facility in the second quarter of 2015.

Other (income) loss, net

During the combined year ended December 31, 2016, we recognized other income, net, of $2.4 million, compared to other loss, net, of $9.4 million for the year ended December 31, 2015. A $7.8 million allowance for the collectibility of our notes receivable related to the sale of our operations in Argentina was recorded in the year ended December 31, 2015. Our foreign exchange loss relates to U.S. dollar-denominated transactions in our foreign locations and fluctuations in exchange rates between local currencies and the U.S. dollar.

Table of Contents
Index to Financial Statements

The table below presents comparative detailed information about combined other loss, net at December 31, 2016 and 2015:

	Successor	Predecessor			
	(a)	(b)	(c)	(a) + (b) - (c)	
	Period from December 16, 2016 through December 31, 2016	Period from January 1, 2016 through December 15, 2016	Year Ended December 31, 2015	Change	% Change
Interest income	$ (20)	$ (407)	$ (159)	$ (268)	169 %
Foreign exchange loss	17	1,005	4,153	$ (3,131)	(75)%
Allowance for collectibility of notes receivable	—	—	7,705	$ (7,705)	(100)%
Other, net	35	(3,041)	(2,305)	$ (701)	30 %
Total	$ 32	$ (2,443)	$ 9,394	$ (11,805)	(126)%

Income tax (expense) benefit

Our income tax benefit was zero (0.0% effective rate) on pre-tax loss of $10.2 million and $2.8 million (2.2% effective rate) on pre-tax loss of $128.9 million for the period from December 16, 2016 through December 31, 2016 and for the period from January 1, 2016 through December 15, 2016, respectively, compared to an income tax benefit of $192.8 million (17.4% effective rate) on a pre-tax loss of $1.1 billion for the year ended December 31, 2015. Our effective tax rates for such periods differ from the U.S. statutory rate of 35% due to a number of factors, including the mix of profit and loss between domestic and international taxing jurisdictions and the impact of permanent items, including goodwill impairment expense and expenses subject to statutorily imposed limitations such as meals and entertainment expenses, that affect book income but do not affect taxable income and discrete tax adjustments, such as valuation allowances against deferred tax assets and tax expense or benefit recognized for uncertain tax positions.

Years Ended December 31, 2015 and 2014

	Year Ended December 31,			
	2015	2014	Change	% Change
REVENUES	$792,326	$1,427,336	$(635,010)	(44)%
COSTS AND EXPENSES:				
Direct operating expenses	714,637	1,059,651	(345,014)	(33)%
Depreciation and amortization expense	180,271	200,738	(20,467)	(10)%
General and administrative expenses	202,631	249,646	(47,015)	(19)%
Impairment expense	722,096	121,176	600,920	496 %
Operating loss	(1,027,309)	(203,875)	(823,434)	404 %
Interest expense, net of amounts capitalized	73,847	54,227	19,620	36 %
Other loss, net	9,394	1,009	8,385	831 %
Loss before income taxes	(1,110,550)	(259,111)	(851,439)	329 %
Income tax benefit	192,849	80,483	112,366	140 %
NET LOSS	$(917,701)	$(178,628)	$(739,073)	414 %

For the year ended December 31, 2015, our operating loss was $1.0 billion, compared to an operating loss of $203.9 million for the year ended December 31, 2014. Loss per share was $5.86 for the year ended December 31, 2015 compared to $1.16 loss per share for the year ended December 31, 2014.

Revenues

Our revenues for the year ended December 31, 2015 decreased $635.0 million, or 44.5%, to $792.3 million from $1.4 billion for the year ended December 31, 2014, due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services. Internationally, we had lower revenue as a result of reduced customer activity in Russia and Colombia and the exit of operations in the Middle East and South America. See “Segment Operating Results — Years Ended December 31, 2015 and 2014” below for a more detailed discussion of the change in our revenues.

Table of Contents
Index to Financial Statements

Direct operating expenses

Our direct operating expenses decreased $345.0 million, or 32.6%, to $714.6 million (90.2% of revenues) for the year ended December 31, 2015, compared to $1.06 billion (74.2% of revenues) for the year ended December 31, 2014. The decrease is primarily related to a decrease in employee compensation costs, fuel expense and repair and maintenance expense as we sought to reduce our cost structure and as a result of lower activity levels. See "Segment Operating Results — Years Ended December 31, 2015 and 2014" below for a more detailed discussion of the change in our direct operating expenses.

Depreciation and amortization expense

Depreciation and amortization expense decreased $20.5 million, or 10.2%, to $180.3 million (22.8% of revenues) for the year ended December 31, 2015, compared to $200.7 million (14.1% of revenues) for the year ended December 31, 2014. The decrease is primarily attributable to the impairment of certain fixed assets and decreases in capital expenditures and lower amortization expense due to the impairment of certain intangible assets.

General and administrative expenses

General and administrative expenses decreased $47.0 million, or 18.8%, to $202.6 million (25.6% of revenues) for the year ended December 31, 2015, compared to $249.6 million (17.5% of revenues) for the year ended December 31, 2014. The decrease is primarily due to lower employee compensation costs due to reduced staffing levels and reduction in wages and $31.6 million related to our FCPA investigations in 2015 compared to $41.1 million in 2014.

Impairment expense

During the year ended December 31, 2015, we recorded a $582.7 million impairment of goodwill, a $51.1 million impairment of fixed assets that are being held and used, a $1.5 million impairment of other intangible assets that are no longer being used, and a $86.8 million impairment of fixed assets to reduce the carrying value of assets held for sale to fair market value. During the year ended December 31, 2014, we recorded a $28.7 million impairment of goodwill and tradenames in our Russian business unit which is included in our International reporting segment and a $73.4 million impairment of goodwill and fixed assets at our Fishing and Rental Services segment and a $19.1 million impairment of goodwill at our Coiled Tubing segment.

Interest expense, net of amounts capitalized

Interest expense increased $19.6 million to $73.8 million (9.3% of revenues), for the year ended December 31, 2015, compared to $54.2 million (3.8% of revenues) for the year ended December 31, 2014. The increase is primarily related to increased borrowings and interest rate under the new Term Loan Facility in the year ended December 31, 2015 and the write-off of the remaining $0.8 million of unamortized deferred financing costs related to the 2011 Credit Facility in the second quarter of 2015.

Other loss, net

During the year ended December 31, 2015, we recognized other loss, net, of $9.4 million, compared to other loss, net, of $1.0 million for the year ended December 31, 2014. A $7.8 million allowance for the collectibility of our notes receivable related to the sale of our operations in Argentina was recorded in the year ended December 31, 2015. Our foreign exchange loss relates to U.S. dollar-denominated transactions in our foreign locations and fluctuations in exchange rates between local currencies and the U.S. dollar.

The table below presents comparative detailed information about other loss, net at December 31, 2015 and 2014:

	Year Ended December 31,			
	2015	2014	Change	% Change
Interest income	$(159)	$(82)	$(77)	94%
Foreign exchange loss	4,153	3,733	420	11%
Allowance for collectibility of notes receivable	7,705	—	7,705	—%
Other, net	(2,305)	(2,642)	337	(13)%

Total	$9,394	$1,009	$8,385	831 %

33

Table of Contents
Index to Financial Statements

Income tax benefit

Our income tax benefit on continuing operations was $192.8 million (17.4% effective rate) on pre-tax loss of $1.1 billion for the year ended December 31, 2015, compared to an income tax benefit of $80.5 million (31.1% effective rate) on a pre-tax loss of $259.1 million for the year ended December 31, 2014. Our effective tax rates for such periods differ from the U.S. statutory rate of 35% due to a number of factors, including the mix of profit and loss between domestic and international taxing jurisdictions and the impact of permanent items, including goodwill impairment expense and expenses subject to statutorily imposed limitations such as meals and entertainment expenses, that affect book income but do not affect taxable income and discrete tax adjustments, such as valuation allowances against deferred tax assets and tax expense or benefit recognized for uncertain tax positions.

Segment Operating Results

Years Ended December 31, 2016 and 2015

The following table shows operating results for each of our reportable segments for the years ended December 31, 2016 and 2015 (in thousands):

For the Successor period from December 16, 2016 through December 31, 2016

	U.S. Rig Service	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support	Total
Revenues from external customers	$8,549	$ 3,208	$1,392	$3,389	$ 1,292	$ —	$17,830
Operating expenses	10,481	4,346	1,648	3,654	1,225	5,324	26,678
Operating loss	(1,932)	(1,138)	(256)	(265)	67	(5,324)	(8,848)

For the Predecessor period from January 1, 2016 through December 15, 2016

	U.S. Rig Service	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support	Total
Revenues from external customers	$222,877	$ 76,008	$30,569	$55,790	$ 14,179	$ —	$399,423
Operating expenses	262,335	113,944	49,891	82,198	73,405	120,251	702,024
Operating loss	(39,458)	(37,936)	(19,322)	(26,408)	(59,226)	(120,251)	(302,601)

For the year ended December 31, 2015

	U.S. Rig Service	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support	Total
Revenues from external customers	$377,131	$ 153,153	$89,823	$121,883	$ 50,336	$ —	$792,326
Operating expenses	685,070	196,637	244,991	319,295	232,872	140,770	1,819,635
Operating income (loss)	(307,939)	(43,484)	(155,168)	(197,412)	(182,536)	(140,770)	(1,027,309)

U.S. Rig Services

Revenues for our U.S. Rig Services segment decreased $145.7 million, or 38.6%, to $231.4 million for the combined year ended December 31, 2016, compared to $377.1 million for the year ended December 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our U.S. Rig Services segment were $272.8 million during the combined year ended December 31, 2016, which represented a decrease of $412.3 million, or 60.2%, compared to $685.1 million for the year ended December 31, 2015. These expenses decreased primarily due to no impairment expense in 2016 compared to $297.7 million impairment expense in 2015 and as a result of a decrease in employee compensation costs and

equipment expense as we sought to reduce our cost structure and as a result of lower activity levels.

Table of Contents
Index to Financial Statements

Fluid Management Services

Revenues for our Fluid Management Services segment decreased $73.9 million, or 48.3%, to $79.2 million for the combined year ended December 31, 2016, compared to $153.2 million for the year ended December 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Fluid Management Services segment were $118.3 million during the combined year ended December 31, 2016, which represented a decrease of $78.3 million, or 39.8%, compared to $196.6 million for the year ended December 31, 2015. These expenses decreased primarily due to no impairment expense in 2016 compared to $24.5 million impairment expense in 2015 and as a result of a decrease in employee compensation costs and equipment expense as we sought to reduce our cost structure and as a result of lower activity levels.

Coiled Tubing Services

Revenues for our Coiled Tubing Services segment decreased $57.9 million, or 64.4%, to $32.0 million for the combined year ended December 31, 2016, compared to $89.8 million for the year ended December 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Coiled Tubing Services segment were $51.5 million during the combined year ended December 31, 2016, which represented a decrease of $193.5 million, or 79.0%, compared to $245.0 million for the year ended December 31, 2015. These expenses decreased primarily due to no impairment expense in 2016 compared to $82.7 million impairment of goodwill and a $51.1 million impairment of fixed assets in 2015 and as a result of a decrease in employee compensation costs, repair and maintenance expense and fuel costs as we sought to reduce our cost structure and as a result of lower activity levels.

Fishing and Rental Services

Revenues for our Fishing and Rental Services segment decreased $62.7 million, or 51.4%, to $59.2 million for the combined year ended December 31, 2016, compared to $121.9 million for the year ended December 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Fishing and Rental Services segment were $85.9 million during the combined year ended December 31, 2016, which represented a decrease of $233.4 million, or 73.1%, compared to $319.3 million for the year ended December 31, 2015. These expenses decreased primarily due to no impairment expense in 2016 compared to $173.5 million impairment of goodwill and a $6.0 million impairment of intangible assets in 2015 and as a result of a decrease in employee compensation costs, repair and maintenance expense and fuel costs as we sought to reduce our cost structure and as a result of lower activity levels.

International

Revenues for our International segment decreased $34.9 million, or 69.3%, to $15.5 million for the combined year ended December 31, 2016, compared to $50.3 million for the year ended December 31, 2015. The decrease was primarily attributable to lower customer activity in Mexico and the exit of operations in the Middle East, South America.

Operating expenses for our International segment decreased $158.2 million, or 68.0%, to $74.6 million for the combined year ended December 31, 2016, compared to $232.9 million for the year ended December 31, 2015. These expenses decreased primarily due to impairment expense of $44.6 million in 2016 compared to $80.8 million impairment of assets held for sale and a $4.4 million impairment of goodwill in 2015 and as a result of a decrease in employee compensation costs and equipment expense from lower activity and the exit of certain International markets.

Functional support

Operating expenses for our Functional Support segment decreased $15.2 million, or 10.8%, to $125.6 million (30.1% of consolidated revenues) for the combined year ended December 31, 2016 compared to $140.8 million (17.8% of

consolidated revenues) for the year ended December 31, 2015. The decrease is primarily due to lower employee compensation costs due to reduced staffing levels and $30.8 million lower expenses related to our FCPA investigations by the DOJ and the SEC, which concluded in April and August 2016, respectively, partially off-set by $25.8 million in professional fees related to corporate restructuring in 2016.

Table of Contents
Index to Financial Statements

Years Ended December 31, 2015 and 2014

The following table shows operating results for each of our reportable segments for the years ended December 31, 2015 and 2014 (in thousands):

For the year ended December 31, 2015

	U.S. Rig Service	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support	Total
Revenues from external customers	$377,131	$ 153,153	$89,823	$121,883	$ 50,336	$ —	$792,326
Operating expenses	685,070	196,637	244,991	319,295	232,872	140,770	1,819,635
Operating income (loss)	(307,939)	(43,484)	(155,168)	(197,412)	(182,536)	(140,770)	(1,027,309)

For the year ended December 31, 2014

	U.S. Rig Service	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support	Total
Revenues from external customers	$679,045	$ 249,589	$173,364	$212,598	$ 112,740	$ —	$1,427,336
Operating expenses	582,658	246,262	184,183	271,542	178,172	168,394	1,631,211
Operating income (loss)	96,387	3,327	(10,819)	(58,944)	(65,432)	(168,394)	(203,875)

U.S. Rig Services

Revenues for our U.S. Rig Services segment decreased $301.9 million, or 44.5%, to $377.1 million for the year ended December 31, 2015, compared to $679.0 million for the year ended December 31, 2014. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our U.S. Rig Services segment were $685.1 million during the year ended December 31, 2015, which represented an increase of $102.4 million, or 17.6%, compared to $582.7 million for the year ended December 31, 2014. These expenses increased primarily as a result of a $297.7 million impairment of goodwill in 2015, partially offset by a decrease in employee compensation costs and equipment expense as we sought to reduce our cost structure and as a result of lower activity levels.

Fluid Management Services

Revenues for our Fluid Management Services segment decreased $96.4 million, or 38.6%, to $153.2 million for the year ended December 31, 2015, compared to $249.6 million for the year ended December 31, 2014. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Fluid Management Services segment were $196.6 million during the year ended December 31, 2015, which represented a decrease of $49.6 million, or 20.2%, compared to $246.3 million for the year ended December 31, 2014. These expenses decreased primarily as a result of a decrease in equipment expense and employee compensation costs as we sought to reduce our cost structure and as a result of lower activity levels. This decrease was partially offset by a $24.5 million impairment of goodwill recorded in 2015.

Coiled Tubing Services

Revenues for our Coiled Tubing Services segment decreased $83.5 million, or 48.2%, to $89.8 million for the year ended December 31, 2015, compared to $173.4 million for the year ended December 31, 2014. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Coiled Tubing Services segment were $245.0 million during the year ended December 31, 2015, which represented an increase of $60.8 million, or 33.0%, compared to $184.2 million for the year ended

December 31, 2014. These expenses increased primarily as a result of a $82.7 million impairment of goodwill and a $51.1 million impairment of fixed assets in 2015 compared to a $19.1 million impairment of goodwill in 2014, partially offset by a decrease in employee compensation costs, repair and maintenance expense and fuel costs as we sought to reduce our cost structure and as a result of lower activity levels.

Fishing and Rental Services

Revenues for our Fishing and Rental Services segment decreased $90.7 million, or 42.7%, to $121.9 million for the year ended December 31, 2015, compared to $212.6 million for the year ended December 31, 2014. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Fishing and Rental Services segment were $319.3 million during the year ended December 31, 2015, which represented an increase of $47.8 million, or 17.6%, compared to $271.5 million for the year ended December 31, 2014. These expenses increased primarily as a result of a $173.5 million impairment of goodwill and a $6.0 million impairment of intangible assets in 2015 compared to a $62.1 impairment of fixed assets in 2014, partially offset by a decrease in employee compensation costs, repair and maintenance expense and fuel costs as we sought to reduce our cost structure and as a result of lower activity levels.

International

Revenues for our International segment decreased $62.4 million, or 55.4%, to $50.3 million for the year ended December 31, 2015, compared to $112.7 million for the year ended December 31, 2014. The decrease was primarily attributable to lower customer activity in Russia and Colombia and the exit of operations in the Middle East and South America.

Operating expenses for our International segment increased $54.7 million, or 30.7%, to $232.9 million for the year ended December 31, 2015, compared to $178.2 million for the year ended December 31, 2014. These expenses increased primarily as a result of an increase in impairment of assets held for sale of $80.8 million and a $4.4 million impairment of goodwill in 2015 compared to a $22.4 million impairment of goodwill and $6.3 million impairment of intangible assets in 2014, partially offset by a decrease in employee compensation costs and equipment expense, primarily due to lower activity.

Functional support

Operating expenses for our Functional Support segment decreased $27.6 million, or 16.4%, to $140.8 million (17.8% of consolidated revenues) for the year ended December 31, 2015 compared to $168.4 million (11.8% of consolidated revenues) for the year ended December 31, 2014. The decrease is primarily due to lower employee compensation costs due to reduced staffing levels and reduction in wages and $31.6 million related to our FCPA investigations in 2015 compared to $41.1 million in 2014.

Liquidity and Capital Resources

We require capital to fund our ongoing operations, including maintenance expenditures on our existing fleet and equipment, organic growth initiatives, investments and acquisitions, our debt service payments and our other obligations. We believe that our internally generated cash flows from operations, current reserves of cash and availability under our ABL Facility are sufficient to finance our cash requirements for current and future operations, budgeted capital expenditures, debt service and other obligations for the next twelve months.

Oil and natural gas prices began a rapid and substantial decline in the fourth quarter of 2014. Depressed commodity price conditions persisted and worsened during 2015 and remained depressed during 2016. As a result, demand for our products and services declined substantially, and the prices we are able to charge our customers for our products and services have also declined substantially. These trends materially and adversely affected our results of operations, cash flows and financial condition during 2016 and, unless conditions in our industry improve, this trend will continue during 2017 and potentially beyond.

In response to these conditions, we have undertaken several actions detailed below in an effort to preserve and improve our liquidity and financial position.

- On December 15, 2016, the Company emerged from a pre-planned voluntary chapter 11 reorganization resulting in approximately $697 million of the Company’s long-term debt being eliminated along with more than $45.6 million of annual interest expense going forward.
-

On December 15, 2016, we entered into our new $80 million ABL Facility (which was increased to $100 million on February 3, 2017) due June 15, 2021, and our new $250 million Term Loan Facility due December 15, 2021. As of December 31, 2016, we had no borrowings outstanding under the ABL Facility and $38.5 million of letters of credit outstanding with borrowing capacity of $27.7 million available subject to covenant constraints under our ABL Facility.

- In April 2015, we announced our decision to exit markets in which we participate outside of North America. Our strategy is to sell or relocate the assets of the businesses operating in these markets. As of December 31, 2015, we had sold our subsidiary in Bahrain and certain assets in Oman, Ecuador and Colombia and are no longer operating in these markets. During the fourth quarter of 2016, we completed the sale of our business in Mexico and we are currently in discussions to sell our business in Russia.
- Beginning in the first quarter of 2015, we began a series of structural cost cutting changes at both corporate and field levels, which include fixed costs, supply-chain efficiencies and headcount and wage reductions.

However, we still have substantial indebtedness and other obligations, and we may incur additional expenses that we are unable to predict at this time.

Our ability to fund our operations, pay the principal and interest on our long-term debt and satisfy our other obligations will depend upon our available liquidity and the amount of cash flows we are able to generate from our operations. During 2016, our net cash used in operating activities was $138.4 million, and, if industry conditions do not improve, we may have negative cash flows from operations in 2017.

As of December 31, 2016, our working capital was $117.8 million compared to $269.1 million as of December 31, 2015. Our working capital decreased during 2016 primarily as a result of repayment of long-term debt, decrease in accounts receivable and other current assets, which were partially offset by the receipt of cash proceeds from the rights offering as part of our restructuring and also by a decrease in accounts payable and other accrued expenses.

As of December 31, 2016, we had $90.5 million of cash, of which approximately $4.1 million was held in the bank accounts of our foreign subsidiaries. As of December 31, 2016, $0.3 million of the cash held by our foreign subsidiaries was held in U.S. bank accounts and denominated in U.S. dollars. We believe that the cash held by our wholly owned foreign subsidiaries could be repatriated for general corporate use without material withholdings.

Cash Flows

Cash used in operating activities was $0.4 million, $138.4 million, and $22.4 million for the periods from December 16, 2016 through December 31, 2016 and from January 1, 2016 through December 15, 2016 and the year ended December 31, 2015, respectively. Cash used by operating activities for these periods was primarily related to net loss adjusted for noncash items and payments of accounts payable and other accrued liabilities partially offset by cash inflows related to the collection of accounts receivable.

Cash used in investing activities was $0.3 million for the period from December 16, 2016 through December 31, 2016, and cash provided by investing activities was $6.5 million from January 1, 2016 through December 15, 2016, compared to cash of $19.4 million used in investing activities for the year ended December 31, 2015. Investing cash inflows primarily relate to sales of assets during these periods. Investing cash outflows primarily relate to capital expenditures. Capital expenditures primarily relate to replacement assets for our existing fleet and equipment.

Cash provided by financing activities was $18.8 million and $218.7 million for the period from January 1, 2016 through December 15, 2016 and during the year ended December 31, 2015. Cash provided by financing activities for the period from January 1, 2016 through December 15, 2016 was primarily related to proceeds from stock offering partially offset by repayment of long-term debt and increase in restricted cash. Cash provided by financing activities for the year ended December 31, 2015 related to proceeds from long-term debt partially offset by net payments on our previous credit facility.

Table of Contents
Index to Financial Statements

The following table summarizes our cash flows for the period from December 16, 2016 through December 31, 2016, period from January 1, 2016 through December 15, 2016 and year ended December 31, 2015 (in thousands):

	Successor Period from December 16, 2016 through December 31, 2016	Predecessor Period from January 1, 2016 through December 15, 2016	Year Ended December 31, 2015
Net cash used by operating activities	$ (417)	$(138,449)	$