

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

FORM 10-Q

(Mark One)

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

For The Quarterly Period Ended September 30, 2019
Or

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

For the transition period from _____ to _____
Commission File Number 1-7573

PARKER DRILLING COMPANY

(Exact name of registrant as specified in its charter)

Delaware

73-0618660

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

5 Greenway Plaza, Suite 100, Houston, Texas 77046

(Address of principal executive offices) (Zip Code)

(281) 406-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	PKD	New York Stock Exchange

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

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

As of November 1, 2019 there were 15,044,739 common shares outstanding.

TABLE OF CONTENTS

	<u>Page</u>
Part I. Financial Information	
Item 1. Financial Statements	3
Consolidated Condensed Balance Sheets	3
Consolidated Condensed Statements of Operations	5
Consolidated Condensed Statements of Comprehensive Income (Loss)	7
Consolidated Condensed Statements of Cash Flows	8
Consolidated Condensed Statement of Stockholders' Equity	9
Notes to the Unaudited Consolidated Condensed Financial Statements	11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	45
Item 3. Quantitative and Qualitative Disclosures about Market Risk	63
Item 4. Controls and Procedures	63
Part II. Other Information	
Item 1. Legal Proceedings	64
Item 1A. Risk Factors	64
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	64
Item 3. Defaults Upon Senior Securities	64
Item 4. Mine Safety Disclosures	64
Item 5. Other Information	65
Item 6. Exhibits	66
Signatures	67

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Data)

	Successor September 30, 2019 (Unaudited)	Predecessor December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 101,106	\$ 48,602
Restricted cash	—	10,389
Accounts and notes receivable, net of allowance for bad debts of \$80 at September 30, 2019 and \$7,767 at December 31, 2018	167,236	136,437
Rig materials and supplies	22,367	36,245
Other current assets	28,380	35,231
Total current assets	319,089	266,904
Property, plant and equipment, net of accumulated depreciation of \$37,341 at September 30, 2019 and \$951,798 at December 31, 2018	297,213	534,371
Intangible assets, net (Note 4)	15,117	4,821
Deferred income taxes	4,608	2,143
Other non-current assets	31,630	20,175
Total assets	\$ 667,657	\$ 828,414
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Debtor in possession financing (Note 2)	\$ —	\$ 10,000
Accounts payable and accrued liabilities	107,638	75,063
Accrued income taxes	6,352	3,385
Total current liabilities	113,990	88,448
Long-term debt (Note 6)	177,032	—
Other long-term liabilities	15,328	11,544
Long-term deferred tax liability	6,491	510
Commitments and contingencies (Note 9)		
Total liabilities not subject to compromise	312,841	100,502
Liabilities subject to compromise (Note 2)	—	600,996
Total liabilities	312,841	701,498

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Data)

	<u>Successor</u> <u>September 30,</u> <u>2019</u> (Unaudited)	<u>Predecessor</u> <u>December 31,</u> <u>2018</u>
Stockholders' equity:		
Predecessor preferred stock, \$1.00 par value, 1,942,000 shares authorized, 500,000 shares issued and outstanding	—	500
Predecessor common stock, \$0.16 ² / ₃ par value, 18,666,667 shares authorized, 9,385,060 shares issued and outstanding (9,384,669 shares issued and outstanding in 2018)	—	1,398
Predecessor capital in excess of par value	—	766,347
Predecessor accumulated other comprehensive income (loss)	—	(6,879)
Successor common stock, \$0.01 par value, 500,000,000 shares authorized, 15,044,739 shares issued and outstanding	150	—
Successor capital in excess of par value	345,831	—
Successor accumulated other comprehensive income (loss)	205	—
Retained earnings (accumulated deficit)	8,630	(634,450)
Total stockholders' equity	<u>354,816</u>	<u>126,916</u>
Total liabilities and stockholders' equity	<u>\$ 667,657</u>	<u>\$ 828,414</u>

See accompanying notes to the unaudited consolidated condensed financial statements.

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

	Successor	Predecessor
	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Revenues	\$ 160,083	\$ 123,395
Expenses:		
Operating expenses	117,486	93,943
Depreciation and amortization	20,329	27,520
	137,815	121,463
Total operating gross margin	22,268	1,932
General and administrative expense	(5,983)	(14,495)
Loss on impairment	—	(43,990)
Gain (loss) on disposition of assets, net	(92)	9
Reorganization items	(211)	—
Total operating income (loss)	15,982	(56,544)
Other income (expense):		
Interest expense	(7,118)	(11,350)
Interest income	362	23
Other	(258)	(709)
Total other income (expense)	(7,014)	(12,036)
Income (loss) before income taxes	8,968	(68,580)
Income tax expense	4,979	2,371
Net income (loss)	3,989	(70,951)
Less: Predecessor preferred stock dividend	—	906
Net income (loss) available to common stockholders	\$ 3,989	\$ (71,857)
Basic earnings (loss) per common share:	\$ 0.27	\$ (7.70)
Diluted earnings (loss) per common share:	\$ 0.27	\$ (7.70)
Number of common shares used in computing earnings per share:		
Basic	15,044,739	9,334,390
Diluted	15,044,739	9,334,390

See accompanying notes to the unaudited consolidated condensed financial statements.

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

	Successor	Predecessor	
	Six Months Ended September 30,	Three Months Ended March 31,	Nine Months Ended September 30,
	2019	2019	2018
Revenues	\$ 316,114	\$ 157,397	\$ 351,673
Expenses:			
Operating expenses	230,135	120,871	277,111
Depreciation and amortization	40,720	25,102	83,205
	<u>270,855</u>	<u>145,973</u>	<u>360,316</u>
Total operating gross margin	45,259	11,424	(8,643)
General and administrative expense	(11,593)	(8,147)	(28,984)
Loss on impairment	—	—	(43,990)
Gain (loss) on disposition of assets, net	(145)	384	(126)
Reorganization items	(1,173)	(92,977)	—
Total operating income (loss)	<u>32,348</u>	<u>(89,316)</u>	<u>(81,743)</u>
Other income (expense):			
Interest expense	(14,781)	(274)	(33,787)
Interest income	736	8	76
Other	(902)	(10)	(1,609)
Total other income (expense)	<u>(14,947)</u>	<u>(276)</u>	<u>(35,320)</u>
Income (loss) before income taxes	17,401	(89,592)	(117,063)
Income tax expense	8,771	656	5,561
Net income (loss)	<u>8,630</u>	<u>(90,248)</u>	<u>(122,624)</u>
Less: Predecessor preferred stock dividend	—	—	2,719
Net income (loss) available to common stockholders	<u>\$ 8,630</u>	<u>\$ (90,248)</u>	<u>\$ (125,343)</u>
Basic earnings (loss) per common share:	\$ 0.57	\$ (9.63)	\$ (13.49)
Diluted earnings (loss) per common share:	\$ 0.57	\$ (9.63)	\$ (13.49)
Number of common shares used in computing earnings per share:			
Basic	15,044,739	9,368,322	9,292,858
Diluted	15,044,739	9,368,322	9,292,858

See accompanying notes to the unaudited consolidated condensed financial statements.

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

	Successor	Predecessor
	Three Months Ended September 30,	Three Months Ended September 30,
	2019	2018
Net income (loss)	\$ 3,989	\$ (70,951)
Other comprehensive income (loss), net of tax:		
Currency translation difference on related borrowings	(145)	(315)
Currency translation difference on foreign currency net investments	502	162
Total other comprehensive income (loss), net of tax:	357	(153)
Comprehensive income (loss)	\$ 4,346	\$ (71,104)

See accompanying notes to the unaudited consolidated condensed financial statements.

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

	Successor	Predecessor	
	Six Months Ended September 30,	Three Months Ended March 31,	Nine Months Ended September 30,
	2019	2019	2018
Net income (loss)	\$ 8,630	\$ (90,248)	\$ (122,624)
Other comprehensive income (loss), net of tax:			
Currency translation difference on related borrowings	(225)	141	(484)
Currency translation difference on foreign currency net investments	430	(518)	(2,216)
Total other comprehensive income (loss), net of tax:	205	(377)	(2,700)
Comprehensive income (loss)	\$ 8,835	\$ (90,625)	\$ (125,324)

See accompanying notes to the unaudited consolidated condensed financial statements.

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

	Successor	Predecessor	
	Six Months Ended September 30, 2019	Three Months Ended March 31, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities:			
Net income (loss)	\$ 8,630	\$ (90,248)	\$ (122,624)
Adjustments to reconcile net income (loss):			
Depreciation and amortization	40,720	25,102	83,205
(Gain) loss on disposition of assets, net	145	(384)	126
Reorganization items	—	62,470	—
Deferred tax expense (benefit)	5,202	(1,685)	(546)
Loss on impairment	—	—	43,990
Expenses not requiring cash	6,186	2,575	4,491
Change in assets and liabilities:			
Accounts and notes receivable	939	(32,842)	(15,646)
Other assets	(7,482)	(6,542)	7,678
Accounts payable and accrued liabilities	(19,393)	55,780	(3,866)
Accrued income taxes	(1,329)	688	(324)
Net cash provided by (used in) operating activities	33,618	14,914	(3,516)
Cash flows from investing activities:			
Capital expenditures	(46,738)	(9,231)	(52,020)
Proceeds from the sale of assets	374	101	1,031
Net cash provided by (used in) investing activities	(46,364)	(9,130)	(50,989)
Cash flows from financing activities:			
Payment of term loan	(35,158)	—	—
Payments of debt issuance costs	(275)	(490)	(1,443)
Proceeds from rights offering	—	95,000	—
Payment of amounts borrowed under debtor in possession financing	—	(10,000)	—
Predecessor preferred stock dividend	—	—	(3,625)
Shares surrendered in lieu of tax	—	—	(248)
Net cash provided by (used in) financing activities	(35,433)	84,510	(5,316)
Net increase (decrease) in cash and cash equivalents and restricted cash	(48,179)	90,294	(59,821)
Cash and cash equivalents and restricted cash at beginning of period	149,285	58,991	141,549
Cash and cash equivalents and restricted cash at end of period	\$ 101,106	\$ 149,285	\$ 81,728

See accompanying notes to the unaudited consolidated condensed financial statements.

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

	Shares	Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2017 (Predecessor)	9,762	\$ 500	\$ 1,548	\$ (170)	\$ 766,508	\$ (468,753)	\$ (3,512)	\$ 296,121
Activity in employees' stock plans	21	—	3	—	(126)	—	—	(123)
Amortization of stock-based awards	—	—	—	—	979	—	—	979
Predecessor preferred stock dividend	—	—	—	—	(906)	—	—	(906)
Comprehensive Income:								
Net income (loss)	—	—	—	—	—	(28,796)	—	(28,796)
Other comprehensive income (loss)	—	—	—	—	—	—	(300)	(300)
Balances, March 31, 2018 (Predecessor)	9,783	\$ 500	\$ 1,551	\$ (170)	\$ 766,455	\$ (497,549)	\$ (3,812)	\$ 266,975
Activity in employees' stock plans	37	—	6	—	(53)	—	—	(47)
Amortization of stock-based awards	—	—	—	—	833	—	—	833
Predecessor preferred stock dividend	—	—	—	—	(907)	—	—	(907)
Comprehensive Income:								
Net income (loss)	—	—	—	—	—	(22,877)	—	(22,877)
Other comprehensive income (loss)	—	—	—	—	—	—	(2,247)	(2,247)
Balances, June 30, 2018 (Predecessor)	9,820	\$ 500	\$ 1,557	\$ (170)	\$ 766,328	\$ (520,426)	\$ (6,059)	\$ 241,730
Activity in employees' stock plans	61	—	10	—	(91)	—	—	(81)
Amortization of stock-based awards	—	—	—	—	532	—	—	532
Predecessor preferred stock dividend	—	—	—	—	(906)	—	—	(906)
Comprehensive Income:								
Net income (loss)	—	—	—	—	—	(70,951)	—	(70,951)
Other comprehensive income (loss)	—	—	—	—	—	—	(153)	(153)
Balances, September 30, 2018 (Predecessor)	9,881	\$ 500	\$ 1,567	\$ (170)	\$ 765,863	\$ (591,377)	\$ (6,212)	\$ 170,171

See accompanying notes to the unaudited consolidated condensed financial statements.

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

	Shares	Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2018 (Predecessor)	9,885	\$ 500	\$ 1,568	\$ (170)	\$ 766,347	\$ (634,450)	\$ (6,879)	\$ 126,916
Activity in employees' stock plans	—	—	—	—	—	—	—	—
Amortization of stock-based awards	—	—	—	—	1,446	—	—	1,446
Predecessor preferred stock dividend	—	—	—	—	—	—	—	—
Comprehensive Income:								
Net income (loss)	—	—	—	—	—	(90,248)	—	(90,248)
Other comprehensive income (loss)	—	—	—	—	—	—	(377)	(377)
Balances, March 31, 2019 (Predecessor)	9,885	500	1,568	(170)	767,793	(724,698)	(7,256)	37,737
Cancellation of predecessor equity	(9,885)	(500)	(1,568)	170	(767,793)	724,698	7,256	(37,737)
Balances, March 31, 2019 (Predecessor)	—	—	—	—	—	—	—	—
Issuances of successor common stock	15,044	—	150	—	328,800	—	—	328,950
Issuances of successor warrants	—	—	—	—	14,687	—	—	14,687
Equity issuance costs	—	—	—	—	(837)	—	—	(837)
Balances, March 31, 2019 (Successor)	15,044	\$ —	\$ 150	\$ —	\$ 342,650	\$ —	\$ —	\$ 342,800
Amortization of stock-based awards	—	—	—	—	1,869	—	—	1,869
Comprehensive Income:								
Net income (loss)	—	—	—	—	—	4,641	—	4,641
Other comprehensive income (loss)	—	—	—	—	—	—	(152)	(152)
Balances, June 30, 2019 (Successor)	15,044	\$ —	\$ 150	\$ —	\$ 344,519	\$ 4,641	\$ (152)	\$ 349,158
Amortization of stock-based awards	—	—	—	—	1,312	—	—	1,312
Comprehensive Income:								
Net income (loss)	—	—	—	—	—	3,989	—	3,989
Other comprehensive income (loss)	—	—	—	—	—	—	357	357
Balances, September 30, 2019 (Successor)	15,044	\$ —	\$ 150	\$ —	\$ 345,831	\$ 8,630	\$ 205	\$ 354,816

See accompanying notes to the unaudited consolidated condensed financial statements.

PARKER DRILLING COMPANY AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Operations

Unless otherwise indicated, the terms “Company,” “Parker,” “we,” “us” and “our” refer to Parker Drilling Company, incorporated in Delaware, together with its wholly-owned subsidiaries, and “Parker Drilling” refers solely to the parent, Parker Drilling Company. Parker is an international provider of contract drilling and drilling-related services, as well as, rental tools and services. We have operated in over 60 countries since beginning operations in 1934, making us among the most geographically experienced drilling contractors and rental tools providers in the world.

Basis of Presentation

The consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and are unaudited. In the opinion of the Company, these consolidated condensed financial statements include all adjustments which, unless otherwise disclosed, are of a normal recurring nature, necessary for their fair presentation for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The consolidated condensed financial statements presented herein should be read in connection with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Consolidation

The consolidated condensed financial statements include the accounts of the Company and subsidiaries in which we exercise control or have a controlling financial interest, including entities, if any, in which the Company is allocated a majority of the entity’s losses or returns, regardless of ownership percentage. If a subsidiary of Parker Drilling has a 50.0 percent or greater interest in an entity but Parker Drilling’s interest in the subsidiary or the entity does not meet the consolidation criteria described above, then that interest is accounted for under the equity method.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. These reclassifications did not materially affect our consolidated financial results.

Use of Estimates

The preparation of our consolidated condensed financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect our reported amounts of assets and liabilities, our disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements, and our revenues and expenses during the periods reported. Estimates are typically used when accounting for certain significant items such as legal or contractual liability accruals, self-insured medical/dental plans, impairment, income taxes and valuation allowance, operating lease right-of-use assets, operating lease liabilities and other items requiring the use of estimates. Estimates are based on a number of variables, which may include third party valuations, historical experience, where applicable, and assumptions that we believe are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ from management estimates.

Cash, Cash equivalents and Restricted Cash

For purposes of the consolidated condensed balance sheets and the consolidated condensed statements of cash flows, the Company considers cash equivalents to be highly liquid debt instruments that have a remaining maturity of three months or less at the date of purchase.

	<u>Successor</u>	<u>Predecessor</u>
	<u>September 30,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
<i>Dollars in thousands</i>		
Cash and cash equivalents	\$ 101,106	\$ 48,602
Restricted cash	—	10,389
Cash, cash equivalents and restricted cash at end of period	\$ 101,106	\$ 58,991

Table of Contents

The restricted cash balance as of December 31, 2018 includes \$9.8 million in a cash collateral account to support the letters of credit outstanding and \$0.6 million held as compensating balances in the ordinary course of business for purchases and utilities.

Impairment

We evaluate the carrying amounts of long-lived assets for potential impairment when events occur or circumstances change that indicate the carrying values of such assets may not be recoverable. We evaluate recoverability by determining the undiscounted estimated future net cash flows for the respective asset groups identified. If the sum of the estimated undiscounted cash flows is less than the carrying value of the asset group, we measure the impairment as the amount by which the assets' carrying value exceeds the fair value of such assets. Management considers a number of factors, such as estimated future cash flows from the assets, appraisals, and current market value analysis in determining fair value. Assets are written down to fair value if the final estimate of current fair value is below the net carrying value. The assumptions used in the impairment evaluation are inherently uncertain and require management judgment.

Intangible Assets

Our intangible assets are related to customer relationships, developed technology and trade name, which are classified as definite lived intangibles, that are generally amortized over a weighted average period of approximately three to six years. We assess the recoverability of the unamortized balance of our intangible assets when indicators of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. Should the review indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of the intangible assets would be recognized as an impairment loss. See Note 4 - Intangible Assets for further discussion.

Income Taxes

Income taxes are accounted for under the asset and liability method and have been provided for based upon tax laws and rates in effect in the countries in which operations are conducted and income or losses are generated. There is little or no expected relationship between the provision for or benefit from income taxes and income or loss before income taxes as the countries in which we operate have taxation regimes that vary not only with respect to nominal rate, but also in terms of the availability of deductions, credits, and other benefits. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled and the effect of changes in tax rates is recognized in income in the period in which the change is enacted. Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In order to determine the amount of deferred tax assets or liabilities, as well as the valuation allowances, we must make estimates and assumptions regarding future taxable income, where rigs will be deployed, and other matters. Changes in these estimates and assumptions, including changes in tax laws and other changes affecting our ability to recognize the underlying deferred tax assets, could require us to adjust the valuation allowances.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50.0 percent likely of being realized and changes in recognition or measurement are reflected in the period in which the change in judgment occurs. See Note 8 - Income Taxes for further details.

Leases

As lessee, our leases are primarily operating leases. See Note 5 - Operating Leases for further details.

As lessor, our leases are primarily operating leases which are included in revenue in our consolidated condensed statement of operations. See Note 11 - Revenue for further details.

Legal and Investigative Matters

We accrue estimates of the probable and estimable costs for the resolution of certain legal and investigative matters. We do not accrue any amounts for other matters for which the liability is not probable and reasonably estimable. Generally, the estimate of probable costs related to these matters is developed in consultation with our legal advisors. The estimates take into consideration factors such as the complexity of the issues, litigation risks and settlement costs. If the actual settlement costs, final judgments, or fines, after appeals, differ from our estimates, our future financial results may be adversely affected.

[Table of Contents](#)

Revenue Recognition

See Note 11 - Revenue for further discussion of our revenue recognition policy.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables with a variety of national and international oil and natural gas companies. We generally do not require collateral on our trade receivables. We depend on a limited number of significant customers. Our largest customer, Exxon Neftegas Limited (“ENL”), constituted approximately 27.7 percent of our consolidated revenues for the six months ended September 30, 2019. Excluding revenues from reimbursable costs (“reimbursable revenues”) of \$37.1 million, ENL constituted approximately 18.4 percent of our total consolidated revenues for the six months ended September 30, 2019. For the three months ended March 31, 2019, ENL constituted approximately 31.2 percent of our total consolidated revenues. Excluding reimbursable revenues of \$26.3 million, ENL constituted approximately 17.7 percent of our total consolidated revenues for the three months ended March 31, 2019.

The following table includes our deposits in domestic banks in excess of federally insured limits and uninsured deposits in foreign banks:

	Successor September 30, 2019	Predecessor December 31, 2018
<i>Dollars in thousands</i>		
Deposits in domestic banks in excess of federally insured limits	\$ 62,307	\$ 27,520
Uninsured deposits in foreign banks	\$ 39,495	\$ 32,907

Earnings (Loss) Per Share (EPS)

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. The effects of dilutive securities such as Successor unvested restricted stock units, Successor unvested stock options, Successor warrants and Predecessor preferred stock are included in the diluted EPS calculation, when applicable. See Note 10 - Earnings (Loss) Per Common Share (“EPS”) for further details.

Bankruptcy

On December 12, 2018 (the “Petition Date”), Parker Drilling and certain of its U.S. subsidiaries (collectively, the “Debtors”) filed a prearranged plan of reorganization (the “Plan”) and commenced voluntary petitions under chapter 11 (the “Chapter 11 Cases”) of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the “Bankruptcy Court”). The Plan was confirmed by the Bankruptcy Court on March 7, 2019, and the Debtors emerged from the bankruptcy proceedings on March 26, 2019. The consolidated financial statements included herein have been prepared as if we were a going concern and in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 852 - Reorganizations (“Topic 852”). See Note 2 - Chapter 11 Emergence and Note 3 - Fresh Start Accounting for further details.

Note 2 - Chapter 11 Emergence

On December 12, 2018, prior to the commencement of the Chapter 11 Cases, the Debtors entered into a restructuring support agreement (as amended on January 28, 2019, the “RSA”) with certain significant holders of (1) 7.50% Senior Notes, due 2020 (the “7.50% Note Holders”) issued pursuant to the indenture (the “7.50% Notes Indenture”) dated July 30, 2013 (the “7.50% Notes”), by and among Parker Drilling, the subsidiary guarantors party thereto and Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), (2) 6.75% Senior Notes, due 2022 (the “6.75% Note Holders”) issued pursuant to the indenture (the “6.75% Notes Indenture”) dated January 22, 2014 (the “6.75% Notes” and together with the 7.50% Notes, the “Senior Notes”), by and among Parker Drilling, the subsidiary guarantors party thereto and the Trustee, (3) Parker Drilling’s existing common stock (the “Predecessor Common Stock”) and (4) Parker Drilling’s 7.25% Series A Mandatory Convertible Preferred Stock (the “Predecessor Preferred Stock” and such holders to support a restructuring (the “Restructuring”) on the terms set forth in the Plan.

On the Petition Date, the Debtors filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas pursuant to a prearranged plan of reorganization. The Plan was confirmed by the Bankruptcy Court on March 7, 2019, and the Debtors emerged from the bankruptcy proceedings on March 26, 2019.

References to “Successor” relate to the consolidated condensed statement of operations or consolidated condensed balance sheet of the reorganized Company as of and subsequent to March 31, 2019. References to “Predecessor” relate to the consolidated condensed balance sheet of the Company prior to, and consolidated condensed statement of operations through and including, March 31, 2019.

On March 26, 2019:

- (1) the Company amended and restated its certificate of incorporation and bylaws;
- (2) the Company appointed new members to the Successor’s board of directors to replace directors of the Predecessor;
- (3) the Company issued:
 - 2,827,323 shares of Successor Common Stock pro rata to 7.50% Note Holders;
 - 5,178,860 shares of Successor Common Stock pro rata to 6.75% Note Holders;
 - 90,558 shares of Successor Common Stock and 1,032,073 Successor warrants to purchase 1,032,073 shares of Successor Common Stock pro rata to holders of the Predecessor Preferred Stock;
 - 135,838 shares of Successor Common Stock and 1,548,109 Successor warrants to purchase 1,548,109 shares of Successor Common Stock pro rata to holders of the Predecessor Common Stock;
 - 504,577 shares of Successor Common Stock to commitment parties under that certain Backstop Commitment Agreement, dated December 12, 2018 and amended and restated on January 28, 2019, (as amended and restated, the “Backstop Commitment Agreement”) in respect of the commitment premium due thereunder;
 - 1,403,910 shares of Successor Common Stock to the commitment parties under the Backstop Commitment Agreement in connection with their backstop obligation thereunder to purchase unsubscribed shares of Successor Common Stock; and
 - 4,903,308 shares of Successor Common Stock to participants in the rights offering extended by Parker to the applicable classes under the Plan (including to the commitment parties party to the Backstop Commitment Agreement).

[Table of Contents](#)

Reorganization Items

Any expenses, gains and losses that are realized or incurred subsequent to and as a direct result of the Chapter 11 Cases are recorded under reorganization items on our consolidated condensed statement of operations.

Reorganization items consisted of:

<i>Dollars in thousands</i>	Successor		Predecessor	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2019		2018	
Gain on settlement of liabilities subject to compromise	\$	—	\$	—
Fresh start valuation adjustments		—		—
Professional fees		211		—
Backstop premium on the rights offering paid in stock		—		—
Other		—		—
Reorganization items	\$	211	\$	—

<i>Dollars in thousands</i>	Successor		Predecessor			
	Six Months Ended September 30,		Three Months Ended March 31,		Nine Months Ended September 30,	
	2019		2019		2018	
Gain on settlement of liabilities subject to compromise	\$	—	\$	(191,129)	\$	—
Fresh start valuation adjustments		—		242,567		—
Professional fees		1,173		30,107		—
Backstop premium on the rights offering paid in stock		—		11,033		—
Other		—		399		—
Reorganization items	\$	1,173	\$	92,977	\$	—

Supplemental cash flow information related to reorganization items paid is as follows:

<i>Dollars in thousands</i>	Successor		Predecessor			
	Six Months Ended September 30,		Three Months Ended March 31,		Nine Months Ended September 30,	
	2019		2019		2018	
Reorganization items paid	\$	22,081	\$	8,617	\$	—

Debtor in Possession Financing

Amounts outstanding against the debtor in possession financing facility were \$10.0 million as of December 31, 2018. The debtor in possession financing facility was terminated as of March 26, 2019.

Liabilities Subject To Compromise

Pre-petition unsecured and under-secured obligations that could have been impacted by the Chapter 11 Cases have been classified as liabilities subject to compromise on our Predecessor consolidated condensed balance sheet. These liabilities were reported at the amounts allowed as claims by the Bankruptcy Court.

[Table of Contents](#)

Liabilities subject to compromise consisted of:

	<u>Successor</u>	<u>Predecessor</u>
	<u>September 30,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
<i>Dollars in thousands</i>		
Predecessor 6.75% senior notes, due July 2022	\$ —	\$ 360,000
Predecessor 7.50% senior notes, due August 2020	—	225,000
Accrued interest on predecessor senior notes	—	15,996
Liabilities subject to compromise	<u>\$ —</u>	<u>\$ 600,996</u>

Contractual interest expense for the three months ended March 31, 2019, on our senior notes was \$10.3 million; however, no interest expense was accrued on the senior notes, as they were impaired and extinguished upon emergence. See also Note 6 - Debt for further details.

[Table of Contents](#)

Note 3 - Fresh Start Accounting

Upon emergence from bankruptcy, we adopted fresh start accounting (“Fresh Start Accounting”) in accordance with Topic 852, which resulted in the Company becoming a new entity for financial reporting purposes. In accordance with Topic 852, the Company is required to adopt Fresh Start Accounting upon its emergence from bankruptcy because (1) the holders of the then existing common shares of the Predecessor received less than 50 percent of the new common shares of the Successor outstanding upon emergence and (2) the reorganization value of the Company’s assets immediately prior to confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims.

Upon adoption of Fresh Start Accounting, the reorganization value derived from the enterprise value as disclosed in the Plan was allocated to the Company’s assets and liabilities based on their fair values (except for deferred income taxes) in accordance with FASB ASC Topic No. 805 - Business Combinations. The amount of deferred income taxes recorded was determined in accordance with FASB ASC Topic No. 740 - Income Taxes.

We evaluated the events between March 26, 2019 and March 31, 2019 and concluded that the use of an accounting convenience date of March 31, 2019 (“Fresh Start Reporting Date”) would not have a material impact on our consolidated condensed statement of operations or consolidated condensed balance sheet. As such, the application of fresh start accounting was reflected in our condensed consolidated balance sheet as of March 31, 2019 and fresh start accounting adjustments related thereto were included in our consolidated condensed statement of operations for the three months ended March 31, 2019.

As a result of the adoption of Fresh Start Accounting and the effects of the implementation of the Plan, the consolidated condensed financial statements of the Successor, are not comparable to the consolidated condensed financial statements of the Predecessor.

The Company’s consolidated condensed financial statements and related footnotes are presented with a “black line” division, which emphasizes the lack of comparability between amounts presented as of and after March 31, 2019 and amounts presented for all prior periods. The Company’s financial results for future periods following the application of Fresh Start Accounting will be different from historical trends and the differences may be material.

Reorganization Value

Under Topic 852, the Successor determined a value to be assigned to the equity of the emerging entity as of the date of adoption of Fresh Start Accounting. The Plan confirmed by the Bankruptcy Court estimated a range of enterprise values between \$365.0 million and \$485.0 million, with a midpoint of \$425.0 million. The Company deemed it appropriate to use the midpoint between the low end and high end of the range to determine the final enterprise value of \$425.0 million.

The following table reconciles the enterprise value to the estimated fair value of our Successor Common Stock as of the Fresh Start Reporting Date:

Dollars in thousands

Enterprise value	\$ 425,000
Cash and cash equivalents and other	127,800
Fair value of term loan	<u>(210,000)</u>
Fair value of successor stockholders’ equity	<u>\$ 342,800</u>

The following table reconciles the enterprise value to the reorganization value of the Successor’s assets to be allocated to the Company’s individual assets as of the Fresh Start Reporting Date:

Dollars in thousands

Enterprise value	\$ 425,000
Cash and cash equivalents and other	127,800
Current liabilities	140,596
Non-current liabilities excluding long-term debt	20,985
Reorganization value of successor assets	<u>\$ 714,381</u>

With the assistance of financial advisors, we determined the enterprise and corresponding equity value of the Successor by calculating the present value of future cash flows based on our financial projections. The enterprise value and corresponding equity value are dependent upon achieving the future financial results set forth in our valuations, as well as the realization of

[Table of Contents](#)

certain other assumptions. All estimates, assumptions, valuations and financial projections, including the fair value adjustments, the enterprise value and equity value projections, are inherently subject to significant uncertainties and the resolution of contingencies beyond our control. Accordingly, we cannot assure you that the estimates, assumptions, valuations or financial projections will be realized, and actual results could vary materially.

Valuation Process

The fair values of the Company's principal assets, including drilling equipment, rental tools, real property, and intangible assets were estimated with the assistance of third party valuation advisors. The income approach, market approach, and the cost approach were considered for estimating the value of each individual asset. Although the income approach was not applied to value the machinery and equipment and real property assets individually, the Company did consider the earnings of the reporting unit within which each of these assets reside. Economic obsolescence related to machinery and equipment and real property was also considered and was applied to stacked and underutilized assets based upon the status of the asset. Economic obsolescence was also considered in situations in which the earnings of the applicable reporting unit in which the assets are employed suggest economic obsolescence. When penalizing assets for economic obsolescence, an additional economic obsolescence penalty was levied, while considering scrap value to be the floor value for an asset. Because more than one approach was used to develop a valuation, the various approaches were reconciled to determine a final value conclusion. The reorganization value was allocated to the Company's individual assets and liabilities based on their fair values as follows:

Rig Materials and Supplies

The fair value of the rig materials and supplies was determined using the direct and indirect cost approaches. The rig materials and supplies were analyzed on a line-by-line basis and each asset was adjusted for age, physical depreciation, and obsolescence.

Property, Plant and Equipment

Building, Land and Improvements

The fair value of the land assets was estimated using the sales comparison (market) approach, which involved gathering data on comparable sales and current listings of land in each subject market, then adjusting the unit price (per acre or per square foot) of each comparable for differences in market conditions, location, size, and other factors. A per unit value conclusion was then determined based on the adjusted prices of the comparable sales and listings. Fair value of buildings and improvements was estimated using the direct cost approach, in which the estimated replacement cost new of the improvements was adjusted for accrued physical depreciation and any functional or external obsolescence. As a supporting approach, the total fair value of all real property assets for each location was estimated using the sales comparison (or market approach). Held for sale assets were included at their respective pending or listed prices. The fair value of the leasehold improvements was determined using the cost approach, adjusted as needed for asset type, age, physical deterioration and obsolescence.

Rental Tools

The fair value of the rental tools was determined using a combination of the cost approach and sales comparison (market) approach depending upon the asset type. The fair value utilizing the cost approach was adjusted as needed for asset type, age, physical deterioration, and obsolescence. For assets where an active secondary market exists, we utilized the sales comparison (market) approach to estimate the fair value of the assets, which involved gathering market data and analyzing comparable sales of similar assets.

Drilling Equipment

The fair value of the drilling equipment was determined using a combination of the discounted cash flow method (income approach), the cost approach, and the sales comparison (market) approach. The income approach was utilized to estimate the fair value of drilling equipment that generated positive returns on projected cash flows over the remaining economic useful life of the drilling equipment and compared to the fair value utilizing the cost approach, adjusted as needed for asset type, age, physical deterioration and obsolescence. For assets where an active secondary market exists we utilized the sales comparison (market) approach to estimate the fair value of the assets, which involved gathering market data and analyzing comparable sales of similar assets.

Intangible Assets

We applied the income approach methodology to estimate the value of the customer relationships, trade name, and developed technology. We determined the value of the customer relationships based on the present value of the incremental after-tax cash flows attributable only to the intangible asset. The value of the trade name was estimated through the relief from royalty

Table of Contents

method based on the present value of the cost savings realized by the owner of the asset as a result of not having to pay a stream of royalty payments to another party. The cost savings were based on hypothetical royalty payments of 0.2 percent of revenue reflecting a rate in which an arm's length buyer would typically pay for the use of such intangible assets. Similar to the methodology used to value the trade name, we determined the value of the developed technology using a hypothetical royalty payment of 1.0 percent of revenue to reflect the attributable cost savings. The present value of the after-tax cash flows for all the Intangible Assets were estimated based on a discount rate of 20.0 percent.

Successor Warrants

The fair value of the Successor warrants was estimated by applying a Black-Scholes-Merton ("BSM") model. The BSM model is a pricing model used to estimate the theoretical price or fair value for a European-style call or put option/warrant based on current stock price, strike price, time to maturity, risk-free rate, volatility, and dividend yield.

[Table of Contents](#)

Consolidated Balance Sheet

The adjustments included in the following fresh start consolidated condensed balance sheet as of March 31, 2019 reflect the effects of the transactions contemplated by the Plan and executed by the Company on the Fresh Start Reporting Date (reflected in the column “Reorganization Adjustments”), and fair value and other required accounting adjustments resulting from the adoption of Fresh Start Accounting (reflected in the column “Fresh Start Adjustments”). The explanatory notes provide additional information with regard to the adjustments recorded, the methods used to determine the fair values and significant assumptions.

<i>Dollars in thousands</i>	<u>Predecessor</u>	<u>Reorganization Adjustments</u>	<u>Fresh Start Adjustments</u>	<u>Successor</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 51,777	\$ 76,072 (1)	\$ —	\$ 127,849
Restricted cash	11,070	10,366 (2)	—	21,436
Accounts and notes receivable, net	168,444	—	—	168,444
Rig materials and supplies	39,024	—	(21,185) (15)	17,839
Other current assets	31,944	(8,764) (3)	(3,603) (16)	19,577
Total current assets	<u>302,259</u>	<u>77,674</u>	<u>(24,788)</u>	<u>355,145</u>
Property, plant and equipment, net	533,938	—	(229,968) (17)	303,970
Intangible assets, net	4,245	—	13,755 (18)	18,000
Deferred income taxes	2,518	—	1,751 (19)	4,269
Other non-current assets	38,045	1,253 (4)	(6,301) (20)	32,997
Total assets	<u>\$ 881,005</u>	<u>\$ 78,927</u>	<u>\$ (245,551)</u>	<u>\$ 714,381</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Debtor in possession financing	\$ 10,000	\$ (10,000) (5)	\$ —	\$ —
Accounts payable and accrued liabilities	134,461	4,990 (6)	(3,868) (21)	135,583
Accrued income taxes	5,013	—	—	5,013
Total current liabilities	<u>149,474</u>	<u>(5,010)</u>	<u>(3,868)</u>	<u>140,596</u>
Long-term debt	—	210,000 (7)	—	210,000
Other long-term liabilities	20,901	—	(866) (22)	20,035
Long-term deferred tax liability	28,445	—	(27,495) (19)	950
Commitments and contingencies				
Total liabilities not subject to compromise	<u>198,820</u>	<u>204,990</u>	<u>(32,229)</u>	<u>371,581</u>
Liabilities subject to compromise	<u>600,996</u>	<u>(600,996) (8)</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>799,816</u>	<u>(396,006)</u>	<u>(32,229)</u>	<u>371,581</u>
Stockholders' equity:				
Predecessor preferred stock	500	(500) (9)	—	—
Predecessor common stock	1,398	(1,398) (10)	—	—
Predecessor capital in excess of par value	767,793	(35,839) (11)	(731,954) (23)	—
Predecessor accumulated other comprehensive income (loss)	(7,256)	—	7,256 (23)	—
Successor common stock	—	150 (12)	—	150
Successor capital in excess of par value	—	342,650 (13)	—	342,650
Accumulated deficit	(681,246)	169,870 (14)	511,376 (23)	—
Total stockholders' equity	<u>81,189</u>	<u>474,933</u>	<u>(213,322)</u>	<u>342,800</u>
Total liabilities and stockholders' equity	<u>\$ 881,005</u>	<u>\$ 78,927</u>	<u>\$ (245,551)</u>	<u>\$ 714,381</u>

Table of Contents

Reorganization Adjustments

- (1) Changes in cash and cash equivalents included the following:

Dollars in thousands

Proceeds from the rights offering	\$	95,000
Transfers from restricted cash for the return of cash collateral (for letters of credit)		10,433
Proceeds from refund of backstop commitment fee		7,600
Transfers from restricted cash for deposit releases		250
Transfers to restricted cash for funding of professional fees		(21,049)
Payment of debtor in possession financing principal and interest		(10,035)
Payment of professional fees		(5,154)
Payment of debt issuance costs for the successor credit facility		(490)
Payment of fees on letters of credit		(58)
Payment of term loan agent fees		(50)
Payment of other reorganization expenses		(375)
Net change in cash and cash equivalents	\$	<u>76,072</u>

- (2) Changes in restricted cash reflects the net transfer of cash between restricted cash and cash and cash equivalents.

- (3) Changes in other current assets include the following:

Dollars in thousands

Refund of backstop commitment fee	\$	(7,600)
Elimination of predecessor directors and officers insurance policies		(702)
Reclass of prepaid costs related to the successor credit facility		(488)
Payment of other costs related to the successor credit facility		26
Net change in other current assets	\$	<u>(8,764)</u>

- (4) Changes in other non-current assets include the following:

Dollars in thousands

Capitalization of debt issuance costs on the successor credit facility	\$	765
Reclass of prepaid costs related to the successor credit facility		488
Net change in other non-current assets	\$	<u>1,253</u>

- (5) Reflects the payment of debtor in possession financing principal.

- (6) Changes in accounts payable and accrued liabilities include the following:

Dollars in thousands

Accrual of professional fees	\$	7,100
Payment of professional fees		(2,017)
Payment of debtor in possession financing interest		(35)
Payment of letters of credit fees		(58)
Net change in accounts payable and accrued liabilities	\$	<u>4,990</u>

- (7) Changes in long-term debt include the issuance of the \$210.0 million Term Loan.

Table of Contents

- (8) Liabilities subject to compromise to be settled in accordance with the Plan and the resulting gain was determined as follows:

Dollars in thousands

Liabilities subject to compromise	\$	(600,996)
Issuance of term loan		210,000
Issuance of successor common stock to the 7.50% note holders and 6.75% note holders		175,058
Excess fair value ascribed to lenders participating in equity rights offering		24,809
Gain on settlement of liabilities subject to compromise	\$	<u>(191,129)</u>

- (9) Changes in Predecessor Preferred Stock reflects the cancellation of Predecessor Preferred Stock.

- (10) Changes in Predecessor Common Stock reflects the cancellation of Predecessor Common Stock.

- (11) Changes in Predecessor capital in excess of par include the following:

Dollars in thousands

Cancellation of predecessor preferred stock	\$	500
Cancellation of predecessor common stock		1,398
Issuance of successor warrants to predecessor common stock and predecessor preferred stock holders		(14,687)
Issuance of successor common stock to predecessor common stock and predecessor preferred stock holders		(4,950)
Excess fair value ascribed to parties participating in rights offering, excluding lenders		(18,100)
Net change in predecessor capital in excess of par value	\$	<u>(35,839)</u>

- (12) Changes in Successor Common Stock include the following:

Dollars in thousands

Issuance of successor common stock to the 7.50% note holders and 6.75% note holders	\$	80
Issuance of successor common stock pursuant to rights offering		68
Issuance of successor common stock to predecessor common stock and predecessor preferred stock holders		2
Net change in successor common stock	\$	<u>150</u>

- (13) Change in Successor capital in excess of par value include the following:

Dollars in thousands

Issuance of successor common stock to the 7.50% note holders and 6.75% note holders	\$	174,978
Issuance of successor common stock pursuant to rights offering		148,874
Issuance of successor warrants to predecessor common stock and predecessor preferred stock holders		14,687
Issuance of successor common stock to predecessor common stock and predecessor preferred stock holders		4,948
Equity issuance costs		(837)
Net change in successor capital in excess of par value	\$	<u>342,650</u>

Table of Contents

- (14) Changes in accumulated deficit include the following:

Dollars in thousands

Gain on settlement of liabilities subject to compromise	\$	191,129
Backstop premium on rights offering		(11,032)
Accrual of professional fees		(5,988)
Payment of professional fees		(3,137)
Elimination of predecessor directors and officers insurance policies		(702)
Payment of other reorganization items		(400)
Net change in accumulated deficit	\$	169,870

Fresh Start Accounting Adjustments

- (15) Changes in rig materials and supplies reflect the fair value adjustment due to the adoption of fresh start accounting.
- (16) Changes in other current assets reflect the elimination of capitalized mobilization costs due to the adoption of fresh start accounting.
- (17) Changes in property, plant and equipment, net reflects the fair value adjustment due to the adoption of fresh start accounting.
- (18) Changes in intangible assets, net reflects the fair value adjustment due to the adoption of fresh start accounting.

<u>Dollars in thousands</u>	<u>Successor Fair Value</u>	<u>Predecessor Historical Book Value</u>
Customer relationships	\$ 16,300	\$ —
Trade names	1,500	368
Developed technology	200	3,877
Intangible assets, net	\$ 18,000	\$ 4,245

- (19) Changes in deferred income taxes reflects the adjustment due to the adoption of fresh start accounting.
- (20) Changes in other non-current assets reflect the following:

Dollars in thousands

Fair value adjustment to rig material and supplies	\$	(6,845)
Fair value adjustment to investment in non-consolidated subsidiaries		2,290
Fair value adjustment to long-term notes receivable		(272)
Elimination of capitalized mobilization costs		(857)
Elimination of long-term other deferred charges		(617)
Net change in other non-current assets	\$	(6,301)

- (21) Changes in accounts payable and accrued liabilities due to the adoption of fresh start accounting include the following:

Dollars in thousands

Elimination of deferred rent	\$	(1,100)
Elimination of deferred revenue		(2,768)
Net change in accounts payable and accrued liabilities	\$	(3,868)

- (22) Changes in other long-term liabilities reflects the elimination of deferred revenue due to the adoption of fresh start accounting.
- (23) Changes reflect the cumulative impact of fresh start accounting adjustments discussed above and the elimination of Predecessor accumulated other comprehensive loss and Predecessor accumulated deficit.

[Table of Contents](#)

Note 4 - Intangible Assets

Intangible Assets consist of the following:

<i>Dollars in thousands</i>	Estimated Useful Life (Years)	Successor		
		Balance at September 30, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	3	\$ 16,300	\$ (2,716)	\$ 13,584
Trade names	5	1,500	(150)	1,350
Developed technology	6	200	(17)	183
Total amortized intangible assets		\$ 18,000	\$ (2,883)	\$ 15,117

Amortization expense related to intangible assets is presented below:

<i>Dollars in thousands</i>	Successor	Predecessor
	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Intangibles amortization expense	\$ 1,442	\$ 577

<i>Dollars in thousands</i>	Successor	Predecessor	
	Six Months Ended September 30, 2019	Three Months Ended March 31, 2019	Nine Months Ended September 30, 2018
Intangibles amortization expense	\$ 2,883	\$ 577	\$ 1,730

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

<i>Dollars in thousands</i>	Expected future intangible amortization expense
2019	\$ 1,442
2020	\$ 5,767
2021	\$ 5,767
2022	\$ 1,691
Beyond 2022	\$ 450

Table of Contents

Note 5 - Operating Leases

We adopted the Accounting Standards Update (“ASU”) 2016-02, Leases (“Topic 842”) effective January 1, 2019. As lessee, our leasing activities primarily consist of operating leases for administrative offices, warehouses, oilfield services equipment, office equipment, computers and other items. Our leases have remaining lease terms of 1 year to 6 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

We elected the following package of practical expedients permitted under the transition guidance:

- an election to adopt the modified retrospective transition method applied at the beginning of the period of adoption, which does not require a restatement of the prior period. Accordingly, no cumulative-effect adjustment to retained earnings was made.
- an election not to apply the recognition requirements in Topic 842 to short-term leases (initial lease term of 12 months or less) and recognize lease payments in the consolidated condensed statement of operations. Short-term leases have not been recorded on the balance sheet.
- a practical expedient to not reassess whether a contract is or contains a lease and carry forward its historical lease classification.
- a practical expedient to account for the lease and non-lease components separately (except as discussed below).
- a practical expedient to account for the lease and non-lease components as a single lease component for certain assets, by class of underlying asset.

We determine whether a contract is or contains a lease at its inception. Topic 842 requires lessees to recognize operating lease right-of-use assets and operating lease liabilities on the balance sheet. An operating lease right-of-use asset represents our right to use an underlying asset for the lease term and operating lease liability represents our obligation to make lease payments arising from the lease. An operating lease right-of-use asset and operating lease liability are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease right-of-use assets also include any lease payments made and exclude lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. The adoption of this standard resulted in the recording of operating lease right-of-use assets and operating lease liabilities of approximately \$21.0 million as of January 1, 2019.

Supplemental lease information related to our operating leases as of September 30, 2019 is shown below:

	<u>Successor</u> <u>September 30,</u> <u>2019</u>
<i>Dollars in thousands.</i>	
Operating lease right-of-use assets ⁽¹⁾	\$ 17,173
Operating lease liabilities - current ⁽²⁾	7,466
Operating lease liabilities - noncurrent ⁽³⁾	8,647
Total operating lease liabilities	<u>\$ 16,113</u>
Weighted average remaining lease term (in years)	3
Weighted average discount rate	7.4%

(1) This amount is included in other non-current assets in our consolidated condensed balance sheet.

(2) This amount is included in accounts payable and accrued liabilities in our consolidated condensed balance sheet.

(3) This amount is included in other long-term liabilities in our consolidated condensed balance sheet.

[Table of Contents](#)

Supplemental cash flow information related to leases are as follow:

	Successor		Predecessor	
	Six Months Ended September 30,		Three Months Ended March 31,	
	2019		2019	
<i>Dollars in thousands</i>				
Cash paid for amounts included in the measurement of operating lease liabilities	\$	4,519	\$	2,498
Operating lease right-of-use assets obtained in exchange for lease obligations	\$	976	\$	60

Maturities of operating lease liabilities as of September 30, 2019 were as follows:

	Successor
	Operating Leases
<i>Dollars in thousands</i>	
2019	\$ 1,930
2020	7,314
2021	4,530
2022	2,052
2023	1,593
Beyond 2023	588
Total undiscounted lease liability	18,007
Imputed interest	(1,894)
Total operating lease liabilities	\$ 16,113

Future minimum operating lease payments as of December 31, 2018 were as follows:

	Successor
	Operating Leases
<i>Dollars in thousands</i>	
2019	\$ 10,722
2020	7,887
2021	4,193
2022	1,968
2023	1,540
Beyond 2023	636
Total lease payments	\$ 26,946

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Expenses for operating leases are shown below:

	Successor
	Three Months Ended September 30,
	2019
<i>Dollars in thousands</i>	
Operating lease expense	\$ 2,071
Short-term lease expense	1,146
Variable lease expense	1,827
Total lease expense	\$ 5,044

[Table of Contents](#)

	Successor	Predecessor
	Six Months Ended September 30,	Three Months Ended March 31,
	2019	2019
<i>Dollars in thousands</i>		
Operating lease expense	\$ 4,756	\$ 2,709
Short-term lease expense	1,978	787
Variable lease expense	3,676	1,840
Total lease expense	\$ 10,410	\$ 5,336

Table of Contents

Note 6 - Debt

The following table illustrates the Company's debt portfolio as of September 30, 2019 and December 31, 2018:

<i>Dollars in thousands</i>	Successor	Predecessor
	September 30, 2019	December 31, 2018
Successor credit facility	\$ —	\$ —
Successor term loan, due March 2024	177,032	—
Predecessor 6.75% senior notes, due July 2022	—	360,000
Predecessor 7.50% senior notes, due August 2020	—	225,000
Predecessor 2015 secured credit agreement	—	—
Total debt	<u>\$ 177,032</u>	<u>\$ 585,000</u>

Successor Credit Facility

On March 26, 2019, pursuant to the terms of the Plan, we and certain of our subsidiaries, entered into a credit agreement with the lenders party thereto (the "Credit Facility Lenders"), Bank of America, N.A., as administrative agent and Bank of America, N.A. and Deutsche Bank Securities Inc. as joint lead arrangers and joint bookrunners, providing for a revolving credit facility (the "Credit Facility") with initial aggregate commitments in the amount of \$50.0 million, guaranteed by certain of our subsidiaries. Availability under the Credit Facility is subject to a monthly borrowing base calculation based on eligible domestic rental equipment and eligible domestic accounts receivable and requires us to maintain minimum liquidity of \$25.0 million, defined as cash in our liquidity account not to exceed \$10.0 million and availability under the borrowing base. The Credit Facility allows for an increase to the aggregate commitments by up to an additional \$75.0 million, subject to certain conditions. The Credit Facility provides for a \$30.0 million sublimit of the aggregate commitments that is available for the issuance of letters of credit. The Credit Facility matures on March 26, 2023. Debt issuance costs of \$1.3 million (\$1.1 million, net of amortization as of September 30, 2019) are being amortized over the term of the Credit Facility on a straight-line basis.

As of September 30, 2019, the borrowing base availability under the Credit Facility was \$87.7 million, allowing full access to the \$50.0 million in aggregate commitments, which was further reduced by \$15.0 million of restricted availability due to the minimum liquidity covenant and \$10.3 million in supporting letters of credit outstanding, resulting in availability under the Credit Facility of \$24.7 million.

The Credit Facility bears interest either at a rate equal to:

- LIBOR plus an applicable margin that varies from 2.25 percent to 2.75 percent per annum or
- a base rate plus an applicable margin that varies from 1.25 percent to 1.75 percent per annum.

We are required to pay a commitment fee of 0.5 percent per annum on the actual daily unused portion of the current aggregate commitments under the Credit Facility. We are also required to pay customary letter of credit and fronting fees.

The Credit Facility also contains customary affirmative and negative covenants, including, among other things, as to compliance with laws (including environmental laws and anti-corruption laws), delivery of quarterly and annual consolidated financial statements and monthly borrowing base certificates, conduct of business, maintenance of property, maintenance of insurance, restrictions on the incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments, and other customary covenants. Additionally, the Credit Facility contains customary events of default and remedies for credit facilities of this nature. If we do not comply with the financial and other covenants in the Credit Facility, the Credit Facility Lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Credit Facility, and any outstanding unfunded commitments may be terminated. As of September 30, 2019, we were in compliance with all the financial covenants under the Credit Facility.

On October 8, 2019, we entered into an amended and restated credit agreement (the "Amended and Restated Credit Agreement"), which amended and restated the Credit Facility. The Amended and Restated Credit Agreement:

- (1) matures on October 8, 2024, subject to certain restrictions, including the refinancing of the Company's Term Loan Agreement,
- (2) reduced our annual borrowing costs by reducing

Table of Contents

- the interest rate to LIBOR plus a range of 1.75 percent to 2.25 percent (based on availability) and
 - the unused commitment fee to a range of 0.25 percent to 0.375 percent (based on utilization),
- (3) replaced a \$25 million liquidity covenant with a minimum fixed charge coverage ratio requirement of 1.0x when excess availability is less than the greater of
- 20.0 percent of the lesser of commitments and the borrowing base and
 - \$10.0 million,
- (4) allowed an additional borrower to be included in the borrowing base upon completion of a field examination,
- (5) revised the calculation of the borrowing base by, among other things, excluding eligible domestic rental equipment and including 90 percent of investment grade eligible domestic accounts receivable, and
- (6) allowed the Company to grant a second priority lien on non-working capital assets in the event of a refinancing of the Term Loan Agreement (as defined below).

As described below, the Amended and Restated Credit Agreement also permitted us to make a voluntary prepayment of \$35.0 million on our Term Loan (as defined below) without such prepayment being included in the calculation of our fixed coverage ratio.

If the Amended and Restated Credit Agreement were executed on or before September 30, 2019, the borrowing base availability would have been \$41.7 million and, after deducting \$10.3 million in letters of credit, would have resulted in net availability of \$31.3 million, an increase of \$6.7 million under the Credit Facility.

Successor Term Loan, Due March 2024

On March 26, 2019, pursuant to the terms of the Plan, we and certain of our subsidiaries entered into a second lien term loan credit agreement (the “Term Loan Agreement”) with the lenders party thereto (the “Term Loan Lenders”) and UMB Bank, N.A., as administrative agent, providing for term loans (the “Term Loan”) in the amount of \$210.0 million, guaranteed by certain of our subsidiaries. The Term Loan matures on March 26, 2024.

The Term Loan bears interest at a rate of 13.0 percent per annum, payable quarterly on the first day of each January, April, July, and October, beginning July 1, 2019, with 11.0 percent paid in cash and 2.0 percent paid in kind and capitalized by adding such amount to the outstanding principal.

We may voluntarily prepay all or a part of the Term Loan and, under certain conditions we are required to prepay all or a part of the Term Loan, in each case, at a premium (1) on or prior to 6 months after the closing date of 0 percent; (2) from 6 months and on or prior to two years after the closing date of 6.50 percent; (3) from two years and on or prior to three years after the closing date of 3.25 percent; and (4) from three years after the closing date and thereafter of 0 percent.

On September 20, 2019, we made a voluntary prepayment on the Term Loan of \$35.0 million in principal, plus \$1.0 million in interest associated with the principal payment. Since the prepayment occurred within the first six months from the closing date, no premium was applicable on the prepayment. As of September 30, 2019, the Term Loan balance was \$177.0 million.

The Term Loan is subject to mandatory prepayments and customary reinvestment rights. The mandatory prepayments include prepayment requirements with respect to a change of control, asset sales and debt issuances, in each case subject to certain exceptions or conditions. The Term Loan Agreement also contains customary affirmative and negative covenants, including as to compliance with laws (including environmental laws and anti-corruption laws), delivery of quarterly and annual financial statements, conduct of business, maintenance of property, maintenance of insurance, restrictions on the incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments and other customary covenants. Additionally, the Term Loan Agreement contains customary events of default and remedies for facilities of this nature. If we do not comply with the covenants in the Term Loan Agreement, the Term Loan Lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Term Loan Agreement. As of September 30, 2019, we were in compliance with all the financial covenants under the Term Loan Agreement.

Predecessor 6.75% Senior Notes, Due July 2022

On January 22, 2014, we issued \$360.0 million aggregate principal amount of the 6.75% Notes pursuant to the 6.75% Notes Indenture. The 6.75% Notes were general unsecured obligations of the Company and ranked equal in right of payment with all of our existing and future senior unsecured indebtedness. The 6.75% Notes were jointly and severally guaranteed by all of our

Table of Contents

subsidiaries that guaranteed indebtedness under the Second Amended and Restated Senior Secured Credit Agreement, as amended from time-to-time (“2015 Secured Credit Agreement”) and our 7.50% Notes. Interest on the 6.75% Notes was payable on January 15 and July 15 of each year, beginning July 15, 2014. Debt issuance costs related to the 6.75% Notes were approximately \$7.6 million. After the commencement of the Chapter 11 Cases, the carrying amount of debt was adjusted to the claim amount and all unamortized debt issuance costs prior to the commencement of the Chapter 11 Cases were fully expensed.

Predecessor 7.50% Senior Notes, Due August 2020

On July 30, 2013, we issued \$225.0 million aggregate principal amount of the 7.50% Notes pursuant to the 7.50% Notes Indenture. The 7.50% Notes were general unsecured obligations of the Company and ranked equal in right of payment with all of our existing and future senior unsecured indebtedness. The 7.50% Notes were jointly and severally guaranteed by all of our subsidiaries that guaranteed indebtedness under the 2015 Secured Credit Agreement and the 6.75% Notes. Interest on the 7.50% Notes was payable on February 1 and August 1 of each year, beginning February 1, 2014. Debt issuance costs related to the 7.50% Notes were approximately \$5.6 million. After the commencement of the Chapter 11 Cases, the carrying amount of debt was adjusted to the claim amount and all unamortized debt issuance costs prior to the commencement of the Chapter 11 Cases were fully expensed.

The commencement of the Chapter 11 Cases constituted an event of default that accelerated the Company’s obligations under the indentures governing the 6.75% Notes and the 7.50% Notes. However, any efforts to enforce such payment obligations were automatically stayed under the provisions of the Bankruptcy Code. The principal balance on the 6.75% Notes and 7.50% Notes of \$360.0 million and \$225.0 million, respectively, had been reclassified from long-term debt to liabilities subject to compromise as of December 31, 2018. See also Note 2 - Chapter 11 Emergence for further details.

As previously disclosed in our Current Report on Form 8-K filed with the SEC on March 26, 2019, our obligations with respect to the Senior Notes as well as our subsidiaries’ obligations under their respective guarantees under the 6.75% Notes Indenture and the 7.50% Notes Indenture (and the Senior Notes) were cancelled and extinguished as provided in the Plan. From and after March 26, 2019, neither the Company nor its subsidiaries have any continuing obligations under the 6.75% Notes Indenture and 7.50% Notes Indenture or with respect to the Senior Notes or the guarantees related thereto except to the extent specifically provided in the Plan.

Predecessor 2015 Secured Credit Agreement

On January 26, 2015, we entered into the 2015 Secured Credit Agreement. The 2015 Secured Credit Agreement was originally comprised of a \$200.0 million revolving credit facility (the “Revolver”). The 2015 Secured Credit Agreement formerly included financial maintenance covenants, including a leverage ratio, consolidated interest coverage ratio, senior secured leverage ratio, and asset coverage ratio, many of which were suspended beginning in September 2015.

We executed various amendments which, among other things: (1) modified the credit facility to an asset-based lending structure, (2) reduced the size of the Revolver to \$80.0 million, (3) eliminated the financial maintenance covenants previously in effect and replaced them with a minimum liquidity covenant of \$30.0 million and a monthly borrowing base calculation, (4) allowed for the refinancing of our existing Senior Notes with either secured or unsecured debt, (5) added the ability for the Company to designate certain of its subsidiaries as “Designated Borrowers”, and (6) permitted the Company to make restricted payments in the form of certain equity interests.

On October 25, 2018, we entered into a Consent Agreement and a Cash Collateral Agreement, whereby we could open bank accounts not subject to the 2015 Secured Credit Agreement for the purpose of depositing cash to secure certain letters of credit. On October 30, 2018, we deposited \$10.0 million into a cash collateral account to support the letters of credit outstanding, which is included in the restricted cash balance on the consolidated balance sheet as of December 31, 2018.

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

All of the Company’s obligations under the 2015 Secured Credit Agreement were paid prior to the commencement of the Chapter 11 Cases, and the 2015 Secured Credit Agreement, including the Revolver thereunder, was terminated concurrently with

[Table of Contents](#)

the commencement of the Chapter 11 Cases. See also Note 2 - Chapter 11 Emergence for further details. Unamortized debt issuance costs were fully expensed upon termination of the 2015 Secured Credit Agreement.

Supplemental cash flow information related to interest paid is as follow:

<i>Dollars in thousands</i>	Successor		Predecessor			
	Six Months Ended September 30,		Three Months Ended March 31,	Nine Months Ended September 30,		
	2019		2019	2018		
Interest paid	\$	7,248	\$	184	\$	41,175

Note 7 - Fair Value of Measurements

Certain of our assets and liabilities are required to be measured at fair value on a recurring basis. For purposes of recording fair value adjustments for certain financial and non-financial assets and liabilities, and determining fair value disclosures, we estimate fair value at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability.

The fair value measurement and disclosure requirements of FASB ASC Topic No. 820, Fair Value Measurement and Disclosures requires inputs that we categorize using a three-level hierarchy, from highest to lowest level of observable inputs, as follows:

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

When multiple input levels are required for a valuation, we categorize the entire fair value measurement according to the lowest level of input that is significant to the entire measurement even though we may also have utilized significant inputs that are more readily observable. The amounts reported in our consolidated condensed balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value.

Fair value of our Term Loan is determined using Level 2 inputs. The Level 2 fair value was determined using a market approach by comparing secured debt of other companies in our industry that have a similar credit rating and debt amount. Fair value of our 6.75% Notes and 7.50% Notes was determined using Level 2 inputs.

Fair values and related carrying values of our debt instruments were as follows:

<i>Dollars in thousands</i>	Successor		Predecessor					
	September 30, 2019		December 31, 2018					
	Carrying Amount	Fair Value	Carrying Amount	Fair Value				
Successor term loan, due March 2024	\$	177,032	\$	205,601	\$	—	\$	—
Predecessor 6.75% senior notes, due July 2022		—		—		360,000		180,000
Predecessor 7.50% senior notes, due August 2020		—		—		225,000		117,000
Total	\$	177,032	\$	205,601	\$	585,000	\$	297,000

Market conditions could cause an instrument to be reclassified from Level 1 to Level 2, or Level 2 to Level 3. There were no transfers between levels of the fair value hierarchy or any changes in the valuation techniques used during the nine months ended September 30, 2019.

[Table of Contents](#)

Note 8 - Income Taxes

Income tax expense and the effective tax rate is shown below:

<i>Dollars in thousands</i>	Successor		Predecessor	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2019		2018	
Income tax (benefit) expense	\$	4,979	\$	2,371
Effective tax rate		55.5 %		(3.5)%

<i>Dollars in thousands</i>	Successor		Predecessor			
	Six Months Ended September 30,		Three Months Ended March 31,			
	2019		2019			
		Nine Months Ended September 30,		2018		
Income tax (benefit) expense	\$	8,771	\$	656	\$	5,561
Effective tax rate		50.4 %		(0.7)%		(4.8)%

The Company's effective tax rate was 50.4 percent for the six months ended September 30, 2019, which varied from the U.S. statutory rate of 21.0 percent primarily due to the jurisdictional mix of income and loss during the quarter, our continued inability to recognize the benefits associated with certain losses as a result of valuation allowances, and changes in uncertain tax positions. The Company's effective tax rate was negative 0.7 percent for the three months ended March 31, 2019, respectively, which varied from the U.S. statutory rate of 21.0 percent primarily due to the jurisdictional mix of income and loss during the quarter, our continued inability to recognize the benefits associated with certain losses as a result of valuation allowances, and the income tax impacts of adjustments made as part of Fresh Start Accounting. See Note 3 - Fresh Start Accounting for further details. The Company's effective tax rate was negative 4.8 percent for the nine months ended September 30, 2018, which varied from the U.S. statutory rate of 21.0 percent primarily due to the jurisdictional mix of income and loss and our continued inability to recognize the benefits associated with certain losses as a result of valuation allowances.

Supplemental cash flow information related to income taxes paid (net of refunds) are as follow:

<i>Dollars in thousands</i>	Successor		Predecessor			
	Six Months Ended September 30,		Three Months Ended March 31,			
	2019		2019			
		Nine Months Ended September 30,		2018		
Income taxes paid (net of refunds)	\$	5,440	\$	1,421	\$	5,871

We apply the accounting guidance related to accounting for uncertainty in income taxes. This guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. Our liability for unrecognized tax benefits is primarily related to foreign operations, (all of which, if recognized, would favorably impact our effective tax rate). Unrecognized tax benefits and accrued interest and penalties related to uncertain tax positions was as follows:

<i>Dollars in thousands</i>	Successor		Predecessor	
	September 30, 2019		December 31, 2018	
Liability for unrecognized tax benefits	\$	3,403	\$	5,728
Accrued interest and penalties related to uncertain tax positions	\$	1,323	\$	2,107

As described in Note 2 - Chapter 11 Emergence, in accordance with the Plan, our 7.50% Notes and 6.75% Notes were canceled and exchanged for Successor Common Stock, the Term Loan, and right to participate in the rights offering. The Internal Revenue Service Code ("IRC") of 1986, as amended, provides that a debtor in a Chapter 11 bankruptcy case may exclude cancellation of debt income ("CODI") from taxable income but must reduce certain of its tax attributes by the amount of any CODI realized as a result of the consummation of a plan of reorganization. The amount of CODI realized by a taxpayer is determined

[Table of Contents](#)

based on the fair market value of the consideration received by the creditors in settlement of outstanding indebtedness. Upon emergence from Chapter 11 bankruptcy proceedings, the CODI may reduce some or all of the amount of prior U.S. tax attributes, which can include net operating losses, capital losses, and tax basis in assets. The actual reduction in tax attributes does not occur until January 1, 2020. The amount of the remaining U.S. deferred tax assets, against which a full valuation exists, will be limited under IRC Section 382 due to the change in control resulting from the Plan.

The Company has evaluated the impact of the reorganization, including the change in control, resulting from its emergence from bankruptcy. The Company believes that the Successor Company will be able to fully absorb the CODI realized by the Predecessor in connection with the reorganization with its net operating losses, capital losses, and tax basis in assets. It is more likely than not that the Successor will not realize future income tax benefits related to its remaining U.S. net deferred tax asset based on the IRC Section 382 limitation, historical results, and expected market conditions known on the date of measurement, and the Company has therefore maintained a full valuation allowance against the remaining U.S. net deferred tax asset. This is periodically reassessed and could change in the future.

Note 9 - Commitments and Contingencies

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

[Table of Contents](#)

Note 10 - Earnings (Loss) Per Common Share (“EPS”)

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. The effects of dilutive securities such as Successor unvested restricted stock units, Successor unvested stock options, Successor warrants and Predecessor preferred stock are included in the diluted EPS calculation, when applicable. The number of outstanding dilutive securities can change with turnover of employees holding these securities.

The Successor unvested restricted stock units represent shares of Successor Common Stock that were issued upon emergence from bankruptcy under the 2019 Long Term Incentive Plan to certain employees. The Successor unvested stock options were issued upon emergence from bankruptcy under the 2019 Long Term Incentive Plan to certain employees and are convertible into one share each of Successor Common Stock at an exercise price of \$23. The Successor warrants were issued upon emergence from bankruptcy and are initially convertible into one share each of Successor Common Stock at an initial exercise price of \$48.85. See Note 2 - Chapter 11 Emergence for more details. The 500,000 units of Predecessor preferred stock were convertible into 47,6190 shares of Predecessor common stock for each Predecessor preferred stock for a total of 1,587,300 shares of Predecessor common stock.

The following table represents the computation of earnings per share:

	Successor	Predecessor
	Three Months Ended September 30,	Three Months Ended September 30,
	2019	2018
<i>Dollars in thousands, except share and per share amounts.</i>		
Basic EPS		
Numerator		
Net income (loss) available to common stockholders (numerator)	\$ 3,989	\$ (71,857)
Denominator		
Weighted average shares outstanding	15,044,739	9,334,390
Number of shares used for basic EPS computation	15,044,739	9,334,390
Basic earnings (loss) per common share	\$ 0.27	\$ (7.70)

	Successor	Predecessor
	Three Months Ended September 30,	Three Months Ended September 30,
	2019	2018
<i>Dollars in thousands, except share and per share amounts.</i>		
Diluted EPS		
Numerator		
Net income (loss) available to common stockholders (numerator)	\$ 3,989	\$ (71,857)
Denominator		
Number of shares used for basic EPS computation	15,044,739	9,334,390
Successor unvested restricted stock units	—	—
Successor unvested stock options	—	—
Successor warrants	—	—
Predecessor preferred stock	—	—
Number of shares used for diluted EPS computation	15,044,739	9,334,390
Diluted earnings (loss) per common share	\$ 0.27	\$ (7.70)

[Table of Contents](#)

	Successor		Predecessor	
	Six Months Ended September 30,		Three Months Ended March 31,	Nine Months Ended September 30,
	2019		2019	2018
<i>Dollars in thousands, except share and per share amounts</i>				
Basic EPS				
Numerator				
Net income (loss) available to common stockholders (numerator)	\$	8,630	\$ (90,248)	\$ (125,343)
Denominator				
Weighted average shares outstanding		15,044,739	9,368,322	9,292,858
Number of shares used for basic EPS computation		15,044,739	9,368,322	9,292,858
Basic earnings (loss) per common share	\$	0.57	\$ (9.63)	\$ (13.49)

	Successor		Predecessor	
	Six Months Ended September 30,		Three Months Ended March 31,	Nine Months Ended September 30,
	2019		2019	2018
<i>Dollars in thousands, except share and per share amounts</i>				
Diluted EPS				
Numerator				
Net income (loss) available to common stockholders (numerator)	\$	8,630	\$ (90,248)	\$ (125,343)
Denominator				
Number of shares used for basic EPS computation		15,044,739	9,368,322	9,292,858
Successor unvested restricted stock units		—	—	—
Successor unvested stock options		—	—	—
Successor warrants		—	—	—
Predecessor preferred stock		—	—	—
Number of shares used for diluted EPS computation		15,044,739	9,368,322	9,292,858
Diluted earnings (loss) per common share	\$	0.57	\$ (9.63)	\$ (13.49)

The following shares were excluded from the computation of diluted EPS as such shares would be anti-dilutive:

	Successor		Predecessor	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2019		2018	
Successor unvested restricted stock units		198,765		—
Successor unvested stock options		298,150		—
Successor warrants		2,580,182		—
Predecessor preferred stock		—		1,587,300

	Successor		Predecessor	
	Six Months Ended September 30,		Three Months Ended March 31,	Nine Months Ended September 30,
	2019		2019	2018
Successor unvested restricted stock units		198,765	—	—
Successor unvested stock options		298,150	—	—
Successor warrants		2,580,182	—	—
Predecessor preferred stock		—	1,587,300	1,587,300

[Table of Contents](#)

Note 11 - Revenue

The following table shows the Company's revenues by type:

	<u>Successor</u> <u>Three Months Ended</u> <u>September 30,</u> <u>2019</u>
<i>Dollars in thousands</i>	
Lease revenue	\$ 40,691
Service revenue	119,392
Total revenues	<u>\$ 160,083</u>

	<u>Successor</u> <u>Six Months Ended</u> <u>September 30,</u> <u>2019</u>	<u>Predecessor</u> <u>Three Months Ended</u> <u>March 31,</u> <u>2019</u>
<i>Dollars in thousands</i>		
Lease revenue	\$ 83,122	\$ 42,041
Service revenue	232,992	115,356
Total revenues	<u>\$ 316,114</u>	<u>\$ 157,397</u>

Our business is comprised of two business lines: (1) rental tools services and (2) drilling services. See Note 12 - Reportable Segments for further details on these business lines and revenue disaggregation amounts.

Lease Revenue

We adopted Topic 842 effective January 1, 2019. For a lessor, lease revenue recognition begins at the commencement of the lease date, which is defined as the date on which a lessor makes an underlying asset available for use by the lessee. Any pre-commencement payments (e.g. mobilization) are deferred. Subsequently, any lease payments (i.e. related to any fixed consideration received) are recorded as receivables when due and payable by the lessee. All of our lease revenue is from variable lease payments. Variable lease payments are recognized as income in profit or loss as the variability is resolved (i.e. as performance or use of the asset occurs).

We elected the following package of practical expedients permitted under the transition guidance:

- an election to adopt the modified retrospective transition method applied at the beginning of the period of adoption which does not require a restatement of the prior period. Accordingly, no cumulative-effect adjustment to retained earnings was made.
- a practical expedient to not reassess whether a contract is or contains a lease and carry forward its historical lease classification.
- a practical expedient to account as a single performance obligation entirely depending on predominant component(s) i.e. lease or non-lease component. Revenue is recognized under Topic 842, if the lease component is predominant. Similarly, revenue is recognized under ASU 2014-09, Revenue from Contracts with Customers ("Topic 606") if the non-lease component is predominant.

Our lease revenue comes from rental tools services business and drilling services business as described below.

Rental Tools Services Business

Dayrate Revenues

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

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

Drilling Services Business

Dayrate Revenues

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

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

Mobilization Revenues

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

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

Service Revenue

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

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

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

Rental Tools Services Business

Dayrate Revenues

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

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

Table of Contents

Drilling Services Business

Dayrate Revenues

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

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

Mobilization Revenues

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

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

Capital Modification Revenues

We may, from time to time, receive fees from our customers for capital improvements to our rigs to meet contractual requirements (on either a fixed lump-sum or variable dayrate basis).

Such revenues are allocated to the overall performance obligation and typically recognized ratably over the initial term of the related drilling contract as these activities are not considered to be distinct within the context of our contracts. A contract liability is recorded for such fees when received.

Demobilization Revenues

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

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

Reimbursable Revenues

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

Such reimbursable revenues are variable and subject to uncertainty, as the amounts received and timing thereof is highly dependent on factors outside of our control. Accordingly, reimbursable revenues are not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs are incurred on behalf of a customer. We are generally considered a principal in such transactions and record the associated revenues at the gross amount billed to the customer in our consolidated condensed statements of operations. Such amounts are recognized once the services have been performed.

Reimbursable revenues during the period were as follows:

	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u>	<u>Three Months Ended</u>
	<u>September 30,</u>	<u>September 30,</u>
	<u>2019</u>	<u>2018</u>
<u>Dollars in thousands</u>		
Reimbursable revenue	\$ 23,152	\$ 13,404

[Table of Contents](#)

	Successor		Predecessor	
	Six Months Ended September 30,		Three Months Ended March 31,	Nine Months Ended September 30,
	2019		2019	2018
<i>Dollars in thousands</i>				
Reimbursable revenue	\$	41,617	\$	28,541
			\$	40,440

Contract Costs

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

Mobilization Costs

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

Capitalized mobilization costs were as follows:

	Successor		Predecessor	
	September 30, 2019		December 31, 2018	
<i>Dollars in thousands</i>				
Capitalized mobilization costs	\$	6,151	\$	5,343

There was no impairment loss in relation to capitalized costs. Amortization of these capitalized mobilization costs were as follows:

	Successor		Predecessor	
	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
<i>Dollars in thousands</i>				
Amortization of capitalized mobilization costs	\$	352	\$	1,774

	Successor		Predecessor	
	Six Months Ended September 30,		Three Months Ended March 31,	Nine Months Ended September 30,
	2019		2019	2018
<i>Dollars in thousands</i>				
Amortization of capitalized mobilization costs	\$	480	\$	3,066
			\$	3,901

Demobilization Costs

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

Capital Modification Costs

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

Contract Liabilities

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

[Table of Contents](#)

	Successor	Predecessor
	September 30, 2019	December 31, 2018
<i>Dollars in thousands</i>		
Contract liabilities - current (Deferred revenue) ⁽¹⁾	\$ 1,942	\$ 4,081
Contract liabilities - noncurrent (Deferred revenue) ⁽¹⁾	895	2,441
Total contract liabilities	<u>\$ 2,837</u>	<u>\$ 6,522</u>

(1) Contract liabilities - current and contract liabilities - noncurrent are included in accounts payable and accrued liabilities and other long-term liabilities respectively, in our consolidated condensed balance sheet as of September 30, 2019 and December 31, 2018.

Contract liabilities relate to mobilization revenues and capital modification revenues, where, we have unconditional right to cash or cash has been received but performance obligations have not been fulfilled. These liabilities are reduced and revenue is recognized as performance obligations are fulfilled.

Significant changes to contract liabilities balances during the nine months ended September 30, 2019 are shown below:

<i>Dollars in thousands</i>	Contract Liabilities
Balance at December 31, 2018 (Predecessor)	\$ 6,522
Decrease due to recognition of revenue	(1,451)
Increase to deferred revenue during current period	1,635
Elimination of deferred revenue due to the adoption of fresh start accounting	(3,634)
Balance at March 31, 2019 (Predecessor)	<u>3,072</u>
Decrease due to recognition of revenue	(1,250)
Increase to deferred revenue during current period	1,015
Balance at September 30, 2019 (Successor)	<u>\$ 2,837</u>

Transaction Price Allocated to the Remaining Performance Obligations

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

	Successor					
	Balance at September 30, 2019					
<i>Dollars in thousands</i>	Remaining 2019	2020	2021	Beyond 2021	Total	
Deferred lease revenue	\$ —	—	—	—	\$ —	
Deferred service revenue	\$ 464	1,842	531	—	\$ 2,837	

The revenues included above consist of mobilization and capital modification revenues for both wholly and partially unsatisfied performance obligations, which have been estimated for purposes of allocating across the entire corresponding performance obligations. The amounts are derived from the specific terms within contracts that contain such provisions, and the expected timing for recognition of such revenue is based on the estimated start date and duration of each respective contract based on information known at September 30, 2019. The actual timing of recognition of such amounts may vary due to factors outside of our control. We have applied the disclosure practical expedient in FASB ASC Topic No. 606-10-50-14A(b) and have not included estimated variable consideration related to wholly unsatisfied performance obligations or to distinct future time increments within our contracts.

Note 12 - Reportable Segments

Our business is comprised of two business lines: (1) rental tools services and (2) drilling services. We report our rental tools services business as two reportable segments: (1) U.S. rental tools and (2) International rental tools. We report our drilling services business as two reportable segments: (1) U.S. (lower 48) drilling and (2) International & Alaska drilling.

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

Rental Tools Services Business

In our rental tools services business, we provide premium rental equipment and services to exploration & production companies, drilling contractors, and service companies on land and offshore in the U.S. and select international markets. Tools we provide include standard and heavy-weight drill pipe, all of which are available with standard or high-torque connections, tubing, drill collars, pressure control equipment, including blowout preventers, and more. We also provide well construction services, which includes tubular running services and downhole tool rentals, well intervention services, which includes whipstocks, fishing, and related services, as well as inspection and machine shop support. Rental tools are used during drilling and/or workover programs and are requested by the customer as needed, requiring us to keep a broad inventory of rental tools in stock. Rental tools are usually rented on a daily or monthly basis.

U.S. Rental Tools

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

International Rental Tools

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

Drilling Services Business

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

U.S. (Lower 48) Drilling

Our U.S. (lower 48) drilling segment provides drilling services with our GOM barge drilling rig fleet and markets our U.S. (lower 48) based O&M services. We also provide O&M services for a customer-owned rig offshore California. Our GOM barge rigs drill for oil and natural gas in shallow waters in and along the inland waterways and coasts of Louisiana, Alabama, and Texas. The majority of these wells are drilled in shallow water depths ranging from 6 to 12 feet. Our rigs are suitable for a variety of drilling programs, from inland coastal waters requiring shallow draft barges, to open water drilling on both state and federal waters. Contract terms typically consist of well-to-well or multi-well programs, most commonly ranging from 20 to 180 days.

[Table of Contents](#)

International & Alaska Drilling

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

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

We have rigs under contract in Alaska, Kazakhstan, the Kurdistan region of Iraq, Guatemala, Mexico, and on Sakhalin Island, Russia. In addition, we have O&M and ongoing project-related services for customer-owned rigs in Alaska, California, Kuwait, Canada, Indonesia, and on Sakhalin Island, Russia.

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

	Successor	Predecessor
	Three Months Ended September 30,	Three Months Ended September 30,
	2019	2018
<i>Dollars in thousands</i>		
Revenues: ⁽¹⁾		
U.S. rental tools	\$ 49,256	\$ 50,944
International rental tools	24,067	20,151
Total rental tools services	73,323	71,095
U.S. (lower 48) drilling	14,487	4,530
International & Alaska drilling	72,273	47,770
Total drilling services	86,760	52,300
Total revenues	160,083	123,395
Operating gross margin: ⁽²⁾		
U.S. rental tools	13,446	16,588
International rental tools	1,925	(2,713)
Total rental tools services	15,371	13,875
U.S. (lower 48) drilling	2,505	(3,402)
International & Alaska drilling	4,392	(8,541)
Total drilling services	6,897	(11,943)
Total operating gross margin	22,268	1,932
General and administrative expense	(5,983)	(14,495)
Loss on impairment	—	(43,990)
Gain (loss) on disposition of assets, net	(92)	9
Reorganization items	(211)	—
Total operating income (loss)	15,982	(56,544)
Interest expense	(7,118)	(11,350)
Interest income	362	23
Other	(258)	(709)
Income (loss) before income taxes	\$ 8,968	\$ (68,580)

[Table of Contents](#)

	Successor		Predecessor	
	Six Months Ended September 30,		Three Months Ended March 31,	Nine Months Ended September 30,
	2019		2019	2018
<i>Dollars in thousands.</i>				
Revenues: ⁽¹⁾				
U.S. rental tools	\$	102,192	\$	52,595
International rental tools		46,222		21,109
Total rental tools services		148,414		73,704
U.S. (lower 48) drilling		26,966		6,627
International & Alaska drilling		140,734		77,066
Total drilling services		167,700		83,693
Total revenues		316,114		157,397
Operating gross margin: ⁽²⁾				
U.S. rental tools		31,317		17,289
International rental tools		2,626		(3,581)
Total rental tools services		33,943		13,708
U.S. (lower 48) drilling		3,485		(1,508)
International & Alaska drilling		7,831		(776)
Total drilling services		11,316		(2,284)
Total operating gross margin		45,259		11,424
General and administrative expense		(11,593)		(8,147)
Loss on impairment		—		(43,990)
Gain (loss) on disposition of assets, net		(145)		384
Reorganization items		(1,173)		(92,977)
Total operating income (loss)		32,348		(89,316)
Interest expense		(14,781)		(274)
Interest income		736		8
Other		(902)		(10)
Income (loss) before income taxes	\$	17,401	\$	(89,592)
			\$	(117,063)

(1) For the six months ended September 30, 2019, our largest customer, ENL, constituted approximately 27.7 percent of our total consolidated revenues and approximately 62.2 percent of our International & Alaska Drilling segment revenues. Excluding reimbursable revenues of \$37.1 million, ENL constituted approximately 18.4 percent of our total consolidated revenues and approximately 49.8 percent of our International & Alaska Drilling segment revenues.

For the three months ended March 31, 2019, our largest customer, ENL, constituted approximately 31.2 percent of our total consolidated revenues and approximately 63.8 percent of our International & Alaska Drilling segment revenues. Excluding reimbursable revenues of \$26.3 million, ENL constituted approximately 17.7 percent of our total consolidated revenues and approximately 46.6 percent of our International & Alaska Drilling segment revenues.

For the nine months ended September 30, 2018, our largest customer, ENL, constituted approximately 25.7 percent of our total consolidated revenues and approximately 57.5 percent of our International & Alaska Drilling segment revenues. Excluding reimbursable revenues of \$34.6 million, ENL constituted approximately 17.9 percent of our total consolidated revenues and approximately 47.6 percent of our International & Alaska Drilling segment revenues.

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

Table of Contents

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

<i>Dollars in Thousands</i>	Successor		Predecessor	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2019		2018	
United States	\$	70,887	\$	57,016
Russia		45,769		30,315
EMEA & Asia		22,807		23,902
Latin America		10,480		2,596
Other CIS		3,721		2,743
Other		6,419		6,823
Total revenues	\$	160,083	\$	123,395

<i>Dollars in Thousands</i>	Successor		Predecessor			
	Six Months Ended September 30,	Three Months Ended March 31,	Nine Months Ended September 30,			
	2019	2019	2018			
United States	\$	143,047	\$	66,253	\$	153,665
Russia		88,047		49,387		90,378
EMEA & Asia		47,794		25,133		66,206
Latin America		17,275		5,482		10,214
Other CIS		7,313		3,621		9,799
Other		12,638		7,521		21,411
Total revenues	\$	316,114	\$	157,397	\$	351,673

Note 13 - Recent Accounting Pronouncements

Standards recently adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU requires (a) an entity to separate the lease components from the non-lease components in a contract where the lease component will be accounted for under ASU 2016-02 and the non-lease component will be accounted for under ASU 2014-09, (b) recognition of lease assets and lease liabilities by lessees and derecognition of the leased asset and recognition of a net investment in the lease by the lessor and (c) additional disclosure requirements for both lessees and lessors. We adopted the ASU 2016-02, Leases (Topic 842) effective January 1, 2019, using the modified retrospective transition method applied at the beginning of the period of adoption. See Note 5 - Operating Leases for further details.

Standards not yet adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326). This requires changes to the recognition of credit losses on financial instruments not accounted for at fair value through net income, including loans, debt securities, trade receivables, net investments in leases and available-for-sale debt securities. This ASU broadens the information that an entity must consider in developing its estimate of expected credit losses, requiring an entity to estimate credit losses over the life of an exposure based on historical information, current information and reasonable and supportable forecasts. The guidance is effective for interim and annual periods beginning after December 15, 2019. In October 2019, FASB tentatively decided to defer the effective dates for eligible SEC filers that are eligible to be smaller reporting companies to interim and annual periods beginning after December 15, 2022. We are currently evaluating the effect the guidance will have on our consolidated financial statements.

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

Management’s discussion and analysis should be read in conjunction with Item 1. Financial Statements of this quarterly report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2018. We use rounded numbers in the Management Discussion and Analysis section which may result in slight differences with results reported under Item 1. Financial Statements.

Executive Summary

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

Some of these historical market indicators are listed below:

	Nine Months Ended September 30,		% Change
	2019	2018	
Worldwide rig count ⁽¹⁾			
U.S. (land and offshore)	985	1,018	(3)%
International ⁽²⁾	1,094	980	12%
Commodity Prices ⁽³⁾			
Crude oil (Brent) per bbl	\$ 64.8	\$ 72.7	(11)%
Crude oil (West Texas Intermediate) per bbl	\$ 57.1	\$ 66.8	(15)%
Natural gas (Henry Hub) per mcf	\$ 2.6	\$ 2.9	(10)%

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

(2) Excludes Canadian Rig Count.

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

Recent Developments**Chapter 11 Emergence**

On December 12, 2018, prior to the commencement of the Chapter 11 Cases, the Debtors entered into a restructuring support agreement (as amended on January 28, 2019, the “RSA”) with certain significant holders of (1) 7.50% Senior Notes, due 2020 (the “7.50% Note Holders”) issued pursuant to the indenture (the “7.50% Notes Indenture”) dated July 30, 2013 (the “7.50% Notes”), by and among Parker Drilling, the subsidiary guarantors party thereto and Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), (2) 6.75% Senior Notes, due 2022 (the “6.75% Note Holders”) issued pursuant to the indenture (the “6.75% Notes Indenture”) dated January 22, 2014 (the “6.75% Notes” and together with the 7.50% Notes, the “Senior Notes”), by and among Parker Drilling, the subsidiary guarantors party thereto and the Trustee, (3) Parker Drilling’s existing common stock (the “Predecessor Common Stock”) and (4) Parker Drilling’s 7.25% Series A Mandatory Convertible Preferred Stock (the “Predecessor Preferred Stock” and such holders to support a restructuring (the “Restructuring”) on the terms set forth in the Plan.

On December 12, 2018 (the “Petition Date”), Parker Drilling and certain of its U.S. subsidiaries (collectively, the “Debtors”) filed a prearranged plan of reorganization (the “Plan”) and commenced voluntary petitions under chapter 11 (the “Chapter 11 Cases”) of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the “Bankruptcy Court”). The Plan was confirmed by the Bankruptcy Court on March 7, 2019, and the Debtors emerged from the bankruptcy proceedings on March 26, 2019.

Fresh Start Accounting

Upon emergence from bankruptcy, we adopted fresh start accounting (“Fresh Start Accounting”) in accordance with FASB ASC Topic No. 852 - Reorganizations (“Topic 852”), which resulted in the Company becoming a new entity for financial reporting purposes. In accordance with Topic 852, the Company is required to adopt Fresh Start Accounting upon its emergence from bankruptcy because (1) the holders of the then existing common shares of the Predecessor received less than 50% of the new

Table of Contents

common shares of the Successor outstanding upon emergence and (2) the reorganization value of the Company's assets immediately prior to confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims.

Upon adoption of Fresh Start Accounting, the reorganization value derived from the enterprise value as disclosed in the Plan, was allocated to the Company's assets and liabilities based on their fair values (except for deferred income taxes) in accordance with FASB ASC Topic No. 805 - Business Combinations. The amount of deferred income taxes recorded was determined in accordance with FASB ASC Topic No. 740 - Income Taxes.

We evaluated the events between March 26, 2019 and March 31, 2019 and concluded that the use of an accounting convenience date of March 31, 2019, (the "Fresh Start Reporting Date") would not have a material impact on our results of operations or balance sheet. As such, the application of fresh start accounting was reflected in our condensed consolidated balance sheet as of March 31, 2019, and fresh start accounting adjustments related thereto were included in our condensed consolidated statement of operations for the three months ended March 31, 2019.

References to "Successor" relate to the financial position and results of operations of the reorganized Company as of and subsequent to March 31, 2019. References to "Predecessor" relate to the financial position of the Company prior to, and results of operations through and including, March 31, 2019. As a result of the adoption of Fresh Start Accounting and the effects of the implementation of the Plan, the Company's consolidated condensed financial statements of the Successor (as of and subsequent to March 31, 2019), are not comparable to its consolidated condensed financial statements of the Predecessor.

Plan to delist from the New York Stock Exchange

As more fully described in proxy materials filed with the SEC, the Company's Finance and Strategic Planning Committee, which consists solely of independent directors, has recommended, and its Board of Directors (the "Board") has approved, a plan to cease the registration of the Company's common stock under the Securities Exchange Act of 1934, as amended, and to delist its shares of common stock from trading on the New York Stock Exchange. In order to deregister its shares of common stock, the Company must reduce its number of stockholders of record to below 300. To accomplish this, the Board is proposing to amend the Company's amended and restated certificate of incorporation to effect a reverse stock split, to be followed immediately by a forward stock split, at a ratio of (i) not less than 1-for-5 and not greater than 1-for-100, in the case of the reverse stock split, and (ii) not less than 5-for-1 and not greater than 100-for-1, in the case of the forward stock split, which collectively are the "stock splits". If approved by our stockholders, the exact stock split ratios will be set within the foregoing ranges at the discretion of the Board (and, in all cases, with the forward stock split ratio being the inverse of the reverse stock split ratio), without further approval or authorization of our stockholders. In addition, our Board, in its sole discretion, may effectuate the stock splits immediately following the public announcement of the stock split ratios chosen by the Board or elect to abandon the proposed stock splits and the overall transaction (whether or not authorized by the stockholders), at any time. A stockholder owning immediately prior to the effective time fewer than a minimum number of shares, which, depending on the stock split ratios chosen by the Board, would be between 5 and 100, would be paid \$30.00, without interest, for each share of common stock held by such holder immediately prior to the effective time. Cashed out stockholders would no longer be stockholders of the Company. Based upon information provided as of September 24, 2019 and for illustrative purposes only, we estimate that the cash payment to cashed out stockholders, professional fees and other expenses would be approximately \$1.6 million, if the reverse stock split ratio were 50, which is the approximate midpoint within the proposed range of stock split ratios. However, this amount could be higher or lower depending on the reverse stock split ratio the Board chooses and the number of persons owning fewer than the minimum number immediately prior to the effective time. The consideration to be paid to the cashed out stockholders and the costs of the stock splits will be paid from cash on hand.

Financial Results

Revenues were \$160.1 million for the three months ended September 30, 2019 and \$123.4 million for the three months ended September 30, 2018. Operating gross margin was \$22.3 million for the three months ended September 30, 2019 and \$1.9 million for the three months ended September 30, 2018.

Outlook

We expect U.S. rental tools fourth quarter revenues to be slightly lower as compared with the third quarter, as U.S. land activity continues to decline. For the International rental tools segment, we expect fourth quarter revenues will increase as compared with the third quarter, as recently awarded contracts are recognized and activity increases.

We expect U.S. (lower 48) drilling fourth quarter revenues to decrease as compared with the third quarter due to lower utilization in the Gulf of Mexico market and changes in O&M activity. For the International & Alaska drilling segment, we anticipate fourth quarter revenues will decline as compared with the third quarter, largely due to anticipated lower utilization in Sakhalin Island, Russia and the Kurdistan Region of Iraq, partially offset by improvements in Alaska and Mexico.

Results of Operations

Our business is comprised of two business lines: (1) rental tools services and (2) drilling services. We report our rental tools services business as two reportable segments: (1) U.S. rental tools and (2) International rental tools. We report our drilling services business as two reportable segments: (1) U.S. (lower 48) drilling and (2) International & Alaska drilling. We eliminate inter-segment revenues and expenses.

We analyze financial results for each of our reportable segments. The reportable segments presented are consistent with our reportable segments discussed in our consolidated condensed financial statements. See Note 12 - Reportable Segments in Item 1. Financial Statements for further discussion. We monitor our reporting segments based on several criteria, including operating gross margin and operating gross margin excluding depreciation and amortization. Operating gross margin excluding depreciation and amortization is computed as revenues less direct operating expenses, and excludes depreciation and amortization expense, where applicable. Operating gross margin percentages are computed as operating gross margin as a percent of revenues. The operating gross margin excluding depreciation and amortization amounts and percentages should not be used as a substitute for those amounts reported under accounting principles generally accepted in the United States ("U.S. GAAP"), but should be viewed in addition to the Company's reported results prepared in accordance with U.S. GAAP. Management believes this information provides valuable insight into the information management considers important in managing the business.

Three months ended September 30, 2019 and the Three months ended September 30, 2018

Revenues were \$160.1 million for the three months ended September 30, 2019 and \$123.4 million for the three months ended September 30, 2018. Operating gross margin was \$22.3 million for the three months ended September 30, 2019 and \$1.9 million for the three months ended September 30, 2018.

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

<i>Dollars in Thousands</i>	Successor		Predecessor	
	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
Revenues:				
U.S. rental tools	\$ 49,256	31%	\$ 50,944	42 %
International rental tools	24,067	15%	20,151	16 %
Total rental tools services	73,323	46%	71,095	58 %
U.S. (lower 48) drilling	14,487	9%	4,530	4 %
International & Alaska drilling	72,273	45%	47,770	38 %
Total drilling services	86,760	54%	52,300	42 %
Total revenues	160,083	100%	123,395	100 %
Operating gross margin excluding depreciation and amortization:⁽¹⁾				
U.S. rental tools	23,743	48%	28,995	57 %
International rental tools	3,824	16%	1,378	7 %
Total rental tools services	27,567	38%	30,373	43 %
U.S. (lower 48) drilling	3,938	27%	(1,171)	(26)%
International & Alaska drilling	11,092	15%	250	1 %
Total drilling services	15,030	17%	(921)	(2)%
Total operating gross margin excluding depreciation and amortization	42,597	27%	29,452	24 %
Depreciation and amortization	(20,329)		(27,520)	
Total operating gross margin	22,268		1,932	
General and administrative expense	(5,983)		(14,495)	
Loss on impairment	—		(43,990)	
Gain (loss) on disposition of assets, net	(92)		9	
Reorganization items	(211)		—	
Total operating income (loss)	\$ 15,982		\$ (56,544)	

(1) Percentage amounts are calculated by dividing the operating gross margin excluding depreciation and amortization by revenue for the respective segment and business lines.

[Table of Contents](#)

Operating gross margin amounts are reconciled to Operating gross margin excluding depreciation and amortization as follows:

<i>Dollars in Thousands</i>	U.S. Rental Tools	International Rental Tools	U.S. (Lower 48) Drilling	International & Alaska Drilling	Total
Three months ended September 30, 2019 (Successor)					
Operating gross margin ⁽¹⁾ (Successor)	\$ 13,446	\$ 1,925	\$ 2,505	\$ 4,392	\$ 22,268
Depreciation and amortization (Successor)	10,297	1,899	1,433	6,700	20,329
Operating gross margin excluding depreciation and amortization (Successor)	<u>\$ 23,743</u>	<u>\$ 3,824</u>	<u>\$ 3,938</u>	<u>\$ 11,092</u>	<u>\$ 42,597</u>
Three months ended September 30, 2018 (Predecessor)					
Operating gross margin ⁽¹⁾ (Predecessor)	\$ 16,588	\$ (2,713)	\$ (3,402)	\$ (8,541)	\$ 1,932
Depreciation and amortization (Predecessor)	12,407	4,091	2,231	8,791	27,520
Operating gross margin excluding depreciation and amortization (Predecessor)	<u>\$ 28,995</u>	<u>\$ 1,378</u>	<u>\$ (1,171)</u>	<u>\$ 250</u>	<u>\$ 29,452</u>

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

The following table presents our average utilization rates and rigs available for service for the three months ended September 30, 2019 and 2018, respectively:

	Successor Three Months Ended September 30, 2019	Predecessor Three Months Ended September 30, 2018
U.S. (lower 48) drilling		
Rigs available for service ⁽¹⁾	10	13
Utilization rate of rigs available for service ⁽²⁾	21 %	14 %
International & Alaska drilling		
Eastern hemisphere		
Rigs available for service ⁽¹⁾	10	10
Utilization rate of rigs available for service ⁽²⁾	41 %	50 %
Latin America region		
Rigs available for service ⁽¹⁾	7	7
Utilization rate of rigs available for service ⁽²⁾	48 %	25 %
Alaska		
Rigs available for service ⁽¹⁾	2	2
Utilization rate of rigs available for service ⁽²⁾	50 %	50 %
Total International & Alaska drilling		
Rigs available for service ⁽¹⁾	19	19
Utilization rate of rigs available for service ⁽²⁾	45 %	41 %

- (1) The number of rigs available for service is determined by calculating the number of days each rig was in our fleet and was under contract or available for contract. For example, a rig under contract or available for contract for six months of a year is 0.5 rigs available for service for such year. Our method of computation of rigs available for service may or may not be comparable to other similarly titled measures of other companies.

- (2) Rig utilization rates are based on a weighted average basis assuming total days availability for all rigs available for service. Rigs acquired or disposed of are treated as added to or removed from the rig fleet as of the date of acquisition or disposal. Rigs that are in operation or fully or partially staffed and on a revenue-producing standby status are considered to be utilized. Rigs under contract that generate revenues during moves between locations or during mobilization or demobilization are also considered to be utilized. Our method of computation of rig utilization may or may not be comparable to other similarly titled measures of other companies.

Rental Tools Services Business

U.S. Rental Tools

U.S. rental tools segment revenues were \$49.3 million for the third quarter of 2019 and \$50.9 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by customer activity in U.S. land and offshore rentals.

U.S. rental tools segment operating gross margin excluding depreciation and amortization was \$23.7 million for the third quarter of 2019 and \$29.0 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by revenues discussed above.

International Rental Tools

International rental tools segment revenues were \$24.1 million for the third quarter of 2019 and \$20.2 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by well construction, well intervention services, and surface and tubular services.

International rental tools segment operating gross margin excluding depreciation and amortization was \$3.8 million for the third quarter of 2019 and \$1.4 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by revenues discussed above.

Drilling Services Business

U.S. (Lower 48) Drilling

U.S. (lower 48) drilling segment revenues were \$14.5 million for the third quarter of 2019 and \$4.5 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by our inland barge rig fleet and operations and management (“O&M”) revenue.

U.S. (lower 48) drilling segment operating gross margin excluding depreciation and amortization was \$3.9 million for the third quarter of 2019 and a loss of \$1.2 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by revenues discussed above.

International & Alaska Drilling

International & Alaska drilling segment revenues were \$72.3 million for the third quarter of 2019 and \$47.8 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by O&M revenue and revenue from Company-owned rigs in Canada, Kuwait, Indonesia, Sakhalin Island, Russia, Mexico, Kazakhstan, Alaska and the Kurdistan region of Iraq.

International & Alaska drilling segment operating gross margin excluding depreciation and amortization was \$11.1 million for the third quarter of 2019 and \$0.3 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by revenues discussed above.

Other Financial Data

General and Administrative Expense

General and administrative expense was \$6.0 million for the third quarter of 2019 and \$14.5 million for the third quarter of 2018. The results for the three months ended September 30, 2019, were primarily driven by compensation expense and professional fees.

Loss on impairment

There was no loss on impairment for the third quarter of 2019. Loss on impairment was \$44.0 million for the third quarter of 2018, which consisted of \$34.2 million for Gulf of Mexico inland barge asset group and \$9.8 million for International barge asset group.

Gain (Loss) on Disposition of Assets, Net

Gain (loss) on disposition of assets, net was a loss of \$0.1 million and nominal for the third quarter of 2019 and 2018, respectively. We periodically sell equipment deemed to be excess, obsolete, or not currently required for operations.

Reorganization Items

Reorganization items were \$0.2 million for the third quarter of 2019. The reorganization items primarily consisted of professional fees related to the Chapter 11 Cases. There were no reorganization items for the third quarter of 2018.

Interest Expense and Income

Interest expense was \$7.1 million for the third quarter of 2019 and \$11.4 million for the third quarter of 2018. The company emerged from bankruptcy at the end of the first quarter of 2019, which resulted in a decrease in overall debt balance. Interest income was \$0.4 million in the third quarter of 2019 and nominal for 2018. We earn interest income on our cash balances.

Other

Other income and expense was \$0.3 million of expense for the third quarter of 2019 and \$0.7 million of expense for the third quarter of 2018. Activity in all periods primarily included the impact of foreign currency fluctuations.

Income Tax Expense

Income tax expense was \$5.0 million for the third quarter of 2019 and \$2.4 million during the third quarter of 2018. We recognized income tax expense due to the jurisdictional mix of income and loss during the period, along with our continued inability to recognize the benefits associated with certain losses as a result of valuation allowances.

[Table of Contents](#)

Six Months Ended September 30, 2019, Three Months Ended March 31, 2019 and the Nine Months Ended September 30, 2018

Revenues were \$316.1 million and \$157.4 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$351.7 million for the nine months ended September 30, 2018. Operating gross margin was \$45.3 million and \$11.4 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and a loss of \$8.6 million for the nine months ended September 30, 2018.

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

	Successor		Predecessor			
	Six Months Ended September 30, 2019		Three Months Ended March 31,		Nine Months Ended September 30,	
	2019		2019		2018	
<i>Dollars in Thousands</i>						
Revenues:						
U.S. rental tools	\$ 102,192	32%	\$ 52,595	34 %	\$ 127,775	36 %
International rental tools	46,222	15%	21,109	13 %	57,563	16 %
Total rental tools services	148,414	47%	73,704	47 %	185,338	52 %
U.S. (lower 48) drilling	26,966	9%	6,627	4 %	9,167	3 %
International & Alaska drilling	140,734	44%	77,066	49 %	157,168	45 %
Total drilling services	167,700	53%	83,693	53 %	166,335	48 %
Total revenues	316,114	100%	157,397	100 %	351,673	100 %
Operating gross margin excluding depreciation and amortization:						
<i>(1)</i>						
U.S. rental tools	51,412	50%	29,004	55 %	67,562	53 %
International rental tools	6,755	15%	534	3 %	2,329	4 %
Total rental tools services	58,167	39%	29,538	40 %	69,891	38 %
U.S. (lower 48) drilling	6,494	24%	(700)	(11)%	(5,274)	(58)%
International & Alaska drilling	21,318	15%	7,688	10 %	9,945	6 %
Total drilling services	27,812	17%	6,988	8 %	4,671	3 %
Total operating gross margin excluding depreciation and amortization	85,979	27%	36,526	23 %	74,562	21 %
Depreciation and amortization	(40,720)		(25,102)		(83,205)	
Total operating gross margin	45,259		11,424		(8,643)	
General and administrative expense	(11,593)		(8,147)		(28,984)	
Loss on impairment	—		—		(43,990)	
Gain (loss) on disposition of assets, net	(145)		384		(126)	
Reorganization items	(1,173)		(92,977)		—	
Total operating income (loss)	\$ 32,348		\$ (89,316)		\$ (81,743)	

(1) Percentage amounts are calculated by dividing the operating gross margin excluding depreciation and amortization by revenue for the respective segment and business lines.

[Table of Contents](#)

Operating gross margin amounts are reconciled to Operating gross margin excluding depreciation and amortization as follows:

<i>Dollars in Thousands</i>	U.S. Rental Tools	International Rental Tools	U.S. (Lower 48) Drilling	International & Alaska Drilling	Total
Six months ended September 30, 2019 (Successor)					
Operating gross margin ⁽¹⁾ (Successor)	\$ 31,317	\$ 2,626	\$ 3,485	\$ 7,831	\$ 45,259
Depreciation and amortization (Successor)	20,095	4,129	3,009	13,487	40,720
Operating gross margin excluding depreciation and amortization (Successor)	<u>\$ 51,412</u>	<u>\$ 6,755</u>	<u>\$ 6,494</u>	<u>\$ 21,318</u>	<u>\$ 85,979</u>

<i>Dollars in Thousands</i>	U.S. Rental Tools	International Rental Tools	U.S. (Lower 48) Drilling	International & Alaska Drilling	Total
Three months ended March 31, 2019 (Predecessor)					
Operating gross margin ⁽¹⁾ (Predecessor)	\$ 17,289	\$ (3,581)	\$ (1,508)	\$ (776)	\$ 11,424
Depreciation and amortization (Predecessor)	11,715	4,115	808	8,464	25,102
Operating gross margin excluding depreciation and amortization (Predecessor)	<u>\$ 29,004</u>	<u>\$ 534</u>	<u>\$ (700)</u>	<u>\$ 7,688</u>	<u>\$ 36,526</u>

<i>Dollars in Thousands</i>	U.S. Rental Tools	International Rental Tools	U.S. (Lower 48) Drilling	International & Alaska Drilling	Total
Nine months ended September 30, 2018 (Predecessor)					
Operating gross margin ⁽¹⁾ (Predecessor)	\$ 30,903	\$ (9,402)	\$ (12,443)	\$ (17,701)	\$ (8,643)
Depreciation and amortization (Predecessor)	36,659	11,731	7,169	27,646	83,205
Operating gross margin excluding depreciation and amortization (Predecessor)	<u>\$ 67,562</u>	<u>\$ 2,329</u>	<u>\$ (5,274)</u>	<u>\$ 9,945</u>	<u>\$ 74,562</u>

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

Table of Contents

The following table presents our average utilization rates and rigs available for service for the six months ended September 30, 2019, the three months ended March 31, 2019, and nine months ended September 30, 2018, respectively:

	Successor	Predecessor	
	Six Months Ended September 30,	Three Months Ended March 31,	Nine Months Ended September 30,
	2019	2019	2018
U.S. (lower 48) drilling			
Rigs available for service ⁽¹⁾	10	13	13
Utilization rate of rigs available for service ⁽²⁾	18%	4%	11%
International & Alaska drilling			
Eastern hemisphere			
Rigs available for service ⁽¹⁾	10	10	10
Utilization rate of rigs available for service ⁽²⁾	46%	50%	45%
Latin America region			
Rigs available for service ⁽¹⁾	7	7	7
Utilization rate of rigs available for service ⁽²⁾	44%	29%	18%
Alaska			
Rigs available for service ⁽¹⁾	2	2	2
Utilization rate of rigs available for service ⁽²⁾	50%	50%	50%
Total International & Alaska drilling			
Rigs available for service ⁽¹⁾	19	19	19
Utilization rate of rigs available for service ⁽²⁾	46%	42%	36%

(1) The number of rigs available for service is determined by calculating the number of days each rig was in our fleet and was under contract or available for contract. For example, a rig under contract or available for contract for six months of a year is 0.5 rigs available for service during such year. Our method of computation of rigs available for service may not be comparable to other similarly titled measures of other companies.

(2) Rig utilization rates are based on a weighted average basis assuming total days availability for all rigs available for service. Rigs acquired or disposed of are treated as added to or removed from the rig fleet as of the date of acquisition or disposal. Rigs that are in operation or fully or partially staffed and on a revenue-producing standby status are considered to be utilized. Rigs under contract that generate revenues during moves between locations or during mobilization or demobilization are also considered to be utilized. Our method of computation of rig utilization may not be comparable to other similarly titled measures of other companies.

Rental Tools Services Business

U.S. Rental Tools

U.S. rental tools segment revenues were \$102.2 million and \$52.6 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and were \$127.8 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by customer activity in U.S. land and offshore rentals.

U.S. rental tools segment operating gross margin excluding depreciation and amortization was \$51.4 million and \$29.0 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and was \$67.6 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by revenues discussed above.

International Rental Tools

International rental tools segment revenues were \$46.2 million and \$21.1 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and were \$57.6 million for the nine months ended September 30, 2018.

[Table of Contents](#)

30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by well construction, well intervention services, and surface and tubular services.

International rental tools segment operating gross margin excluding depreciation and amortization was \$6.8 million and \$0.5 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$2.3 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by revenues discussed above.

Drilling Services Business

U.S. (Lower 48) Drilling

U.S. (lower 48) drilling segment revenues were \$27.0 million and \$6.6 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$9.2 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by our inland barge rig fleet and O&M revenue.

U.S. (lower 48) drilling segment operating gross margin excluding depreciation and amortization was a gain of \$6.5 million and a loss of \$0.7 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and a loss of \$5.3 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by revenues discussed above.

International & Alaska Drilling

International & Alaska drilling segment revenues were \$140.7 million and \$77.1 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$157.2 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by O&M revenue and revenue from Company-owned rigs in Canada, Kuwait, Indonesia, Sakhalin Island, Russia, Mexico, Kazakhstan, Alaska and the Kurdistan region of Iraq.

International & Alaska drilling segment operating gross margin excluding depreciation and amortization was \$21.3 million and \$7.7 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$9.9 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by revenues discussed above.

Other Financial Data

General and Administrative Expense

General and administrative expense was \$11.6 million and \$8.1 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$29.0 million for the nine months ended September 30, 2018. The results for the six months ended September 30, 2019, and the three months ended March 31, 2019, were primarily driven by compensation expense and professional fees.

Loss on impairment

There was no loss on impairment for the six months ended September 30, 2019 or, the three months ended March 31, 2019. Loss on impairment was \$44.0 million for the nine months ended September 30, 2018, which consisted of \$34.2 million for Gulf of Mexico inland barge asset group and \$9.8 million for International barge asset group.

Gain (Loss) on Disposition of Assets, Net

Gain (loss) on disposition of assets, net was a loss of \$0.1 million and a gain of \$0.4 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and a loss of \$0.1 million for the nine months ended September 30, 2018. We periodically sell equipment deemed to be excess, obsolete, or not currently required for operations.

Reorganization Items

Reorganization items were \$1.2 million and \$93.0 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively. The reorganization items for the three months ended March 31, 2019, primarily consisted of gain on settlement of liabilities subject to compromise, loss from fresh start valuation adjustments, professional fees and backstop premium on rights offering in the amount of \$191.1 million, \$242.6 million, \$30.1 million and \$11.0 million, respectively, related to the Chapter 11 Cases. The reorganization items for the six months ended September 30, 2019, primarily consisted of professional fees in the amount of \$1.2 million, related to the Chapter 11 Cases. There were no reorganization items for the nine months ended September 30, 2018.

Interest Expense and Income

Interest expense was \$14.8 million and \$0.3 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$33.8 million for the nine months ended September 30, 2018. The company emerged from bankruptcy at the end of the first quarter of 2019, which resulted in a decrease in overall debt balance. Interest income was \$0.7 million and nominal for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively. Interest income was \$0.1 million for the nine months ended September 30, 2018. We earn interest income on our cash balances.

Other

Other income and expense was an expense of \$0.9 million and nominal for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and an expense of \$1.6 million for the nine months ended September 30, 2018. Activity in all periods primarily included the impact of foreign currency fluctuations.

Income Tax Expense

Income tax expense was \$8.8 million and \$0.7 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$5.6 million during the nine months ended September 30, 2018. We recognized income tax expense due to the jurisdictional mix of income and loss during the period, along with our continued inability to recognize the benefits associated with certain losses as a result of valuation allowances, changes in uncertain tax positions, and the income tax impacts of adjustments made as part of Fresh Start Accounting.

[Table of Contents](#)

Backlog

Backlog is our estimate of the dollar amount of revenues we expect to realize in the future as a result of executed drilling contracts. The Company's backlog of firm orders was approximately \$327.1 million at September 30, 2019 and \$238.9 million at September 30, 2018. The backlog is primarily attributable to the International & Alaska drilling segment of our drilling services business. We estimate that, as of September 30, 2019, 10.8 percent of our backlog will be recognized as revenues within the fiscal year.

The amount of actual revenues earned and the actual periods during which revenues are earned could be different from amounts disclosed in our backlog calculations due to a lack of predictability of various factors, including unscheduled repairs, maintenance requirements, weather delays, contract terminations or renegotiations, new contracts and other factors. See "Our backlog of contracted revenue may not be fully realized and may reduce significantly in the future, which may have a material adverse effect on our balance sheets, statement of operations or cash flows" in Item 1A. Risk Factors of our 2018 Form 10-K.

Liquidity and Capital Resources

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of expansion plans, operational and other cash needs. To meet our short-term liquidity requirements we primarily rely on our cash on hand and cash from operations. We also have access to cash through the Credit Facility. We expect that these sources of liquidity will be sufficient to provide us the ability to fund our current operations and required capital expenditures. We may need to fund expansion capital expenditures, acquisitions, debt principal payments, or pursuits of business opportunities that support our strategy, through additional borrowings or the issuance of additional Successor Common Stock or other forms of equity. Our credit agreements limit the payment of dividends. In the past we have not paid dividends on our Predecessor Common Stock and we have no present intention to pay dividends on our Successor Common Stock in the foreseeable future.

Liquidity

The following table provides a summary of our total liquidity:

	Successor
	September 30, 2019
<i>Dollars in thousands</i>	
Cash and cash equivalents on hand ⁽¹⁾	\$ 101,106
Availability under Credit Facility ⁽²⁾	24,665
Total liquidity	<u>\$ 125,771</u>

(1) As of September 30, 2019, approximately \$39.5 million of the \$101.1 million of cash and cash equivalents was held by our foreign subsidiaries.

(2) As of September 30, 2019, the borrowing base availability under the Credit Facility was \$87.7 million, allowing full access to the \$50.0 million in aggregate commitments, which was further reduced by \$15.0 million of restricted availability due to the minimum liquidity covenant and \$10.3 million in supporting letters of credit outstanding, resulting in availability under the Credit Facility of \$24.7 million.

If the Amended and Restated Credit Agreement were executed on or before September 30, 2019, the borrowing base availability would have been \$41.7 million and, after deducting \$10.3 million in letters of credit, would have resulted in net availability of \$31.3 million, an increase of \$6.7 million under the Credit Facility.

The earnings of foreign subsidiaries as of September 30, 2019 were reinvested to fund our international operations. If in the future we decide to repatriate earnings, the Company may be required to pay taxes on those amounts, which could reduce the liquidity of the Company at that time.

We do not have any unconsolidated special-purpose entities, off-balance sheet financing arrangements or guarantees of third-party financial obligations. As of September 30, 2019, we have no energy, commodity, or foreign currency derivative contracts.

[Table of Contents](#)

Cash Flow Activity

We had cash, cash equivalents, and restricted cash of \$101.1 million and \$59.0 million at September 30, 2019 and December 31, 2018, respectively. The following table provides a summary of our cash flow activity:

	Successor	Predecessor	
	Six Months Ended September 30,	Three Months Ended March 31,	Nine Months Ended September 30,
<i>Dollars in thousands</i>	2019	2019	2018
Operating activities	\$ 33,618	\$ 14,914	\$ (3,516)
Investing activities	(46,364)	(9,130)	(50,989)
Financing activities	(35,433)	84,510	(5,316)
Net change in cash and cash equivalents	\$ (48,179)	\$ 90,294	\$ (59,821)

Operating Activities

Cash flows from operating activities were a source of cash of \$33.6 million and \$14.9 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and a use of cash of \$3.5 million for the nine months ended September 30, 2018. Cash flows from operating activities in each period were largely impacted by our operating results and changes in working capital. Changes in working capital were a use of cash of \$27.3 million and a source of cash of \$17.1 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and a use of cash of \$12.2 million for the nine months ended September 30, 2018.

It is our intention to utilize our operating cash flows to fund maintenance and growth of our rental tool assets and drilling rigs. Given the oil and natural gas services market over the past few years, our short-term focus is to preserve liquidity by managing our costs and capital expenditures. While the overall market for oilfield services remains challenging, we are beginning to see a market recovery that is expected to increase our earnings, working capital and capital spending as we pursue attractive investment opportunities.

Investing Activities

Cash flows from investing activities were a use of cash of \$46.4 million and \$9.1 million for the six months ended September 30, 2019, and the three months ended March 31, 2019, respectively, and \$51.0 million for the nine months ended September 30, 2018. Cash flows used in investing activities during the six months ended September 30, 2019, and the three months ended March 31, 2019, included capital expenditures of \$46.7 million and \$9.2 million, respectively, and \$52.0 million for the nine months ended September 30, 2018, which were primarily used for tubular and other products for our rental tools services business and rig-related maintenance.

Financing Activities

Cash flows from financing activities were a use of cash of \$35.4 million for the six months ended September 30, 2019, primarily related to the prepayment of the Term Loan (as defined below). Cash flows from financing activities were a source of cash of \$84.5 million for the three months ended March 31, 2019, primarily related to proceeds from the rights offering of \$95.0 million offset by the payment of amounts borrowed under debtor in possession financing of \$10.0 million. Cash flows from financing activities were a use of cash of \$5.3 million for the nine months ended September 30, 2018, primarily related to dividends of \$3.6 million on our Predecessor Preferred Stock and debt issuance costs of \$1.4 million.

Debt Summary

As of September 30, 2019 our principal amount of debt was related to the \$177.0 million Term Loan, due 2024.

Successor Credit Facility

On March 26, 2019, pursuant to the terms of the Plan, we and certain of our subsidiaries, entered into a credit agreement with the lenders party thereto (the "Credit Facility Lenders"), Bank of America, N.A., as administrative agent and Bank of America, N.A. and Deutsche Bank Securities Inc. as joint lead arrangers and joint bookrunners, providing for a revolving credit facility (the "Credit Facility") with initial aggregate commitments in the amount of \$50.0 million, guaranteed by certain of our subsidiaries. Availability under the Credit Facility is subject to a monthly borrowing base calculation based on eligible domestic rental equipment and eligible domestic accounts receivable and requires us to maintain minimum liquidity of \$25.0 million, defined as cash in our liquidity account not to exceed \$10.0 million and availability under the borrowing base. The Credit Facility allows for an increase

Table of Contents

to the aggregate commitments by up to an additional \$75.0 million, subject to certain conditions. The Credit Facility provides for a \$30.0 million sublimit of the aggregate commitments that is available for the issuance of letters of credit. The Credit Facility matures on March 26, 2023. Debt issuance costs of \$1.3 million (\$1.1 million, net of amortization as of September 30, 2019) are being amortized over the term of the Credit Facility on a straight-line basis.

As of September 30, 2019, the borrowing base availability under the Credit Facility was \$87.7 million, allowing full access to the \$50.0 million in aggregate commitments, which was further reduced by \$15.0 million of restricted availability due to the minimum liquidity covenant and \$10.3 million in supporting letters of credit outstanding, resulting in availability under the Credit Facility of \$24.7 million.

The Credit Facility bears interest either at a rate equal to:

- LIBOR plus an applicable margin that varies from 2.25 percent to 2.75 percent per annum or
- a base rate plus an applicable margin that varies from 1.25 percent to 1.75 percent per annum.

We are required to pay a commitment fee of 0.5 percent per annum on the actual daily unused portion of the current aggregate commitments under the Credit Facility. We are also required to pay customary letter of credit and fronting fees.

The Credit Facility also contains customary affirmative and negative covenants, including, among other things, as to compliance with laws (including environmental laws and anti-corruption laws), delivery of quarterly and annual consolidated financial statements and monthly borrowing base certificates, conduct of business, maintenance of property, maintenance of insurance, restrictions on the incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments, and other customary covenants. Additionally, the Credit Facility contains customary events of default and remedies for credit facilities of this nature. If we do not comply with the financial and other covenants in the Credit Facility, the Credit Facility Lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Credit Facility, and any outstanding unfunded commitments may be terminated. As of September 30, 2019, we were in compliance with all the financial covenants under the Credit Facility.

On October 8, 2019, we entered into an amended and restated credit agreement (the “Amended and Restated Credit Agreement”), which amended and restated the Credit Facility. The Amended and Restated Credit Agreement:

- (1) matures on October 8, 2024, subject to certain restrictions, including the refinancing of the Company’s Term Loan Agreement,
- (2) reduced our annual borrowing costs by reducing
 - the interest rate to LIBOR plus a range of 1.75 percent to 2.25 percent (based on availability) and
 - the unused commitment fee to a range of 0.25 percent to 0.375 percent (based on utilization),
- (3) replaced a \$25 million liquidity covenant with a minimum fixed charge coverage ratio requirement of 1.0x when excess availability is less than the greater of
 - 20.0 percent of the lesser of commitments and the borrowing base and
 - \$10.0 million,
- (4) allowed an additional borrower to be included in the borrowing base upon completion of a field examination,
- (5) revised the calculation of the borrowing base by, among other things, excluding eligible domestic rental equipment and including 90 percent of investment grade eligible domestic accounts receivable, and
- (6) allowed the Company to grant a second priority lien on non-working capital assets in the event of a refinancing of the Term Loan Agreement (as defined below).

As described below, the Amended and Restated Credit Agreement also permitted us to make a voluntary prepayment of \$35.0 million on our Term Loan (as defined below) without such prepayment being included in the calculation of our fixed coverage ratio.

If the Amended and Restated Credit Agreement were executed on or before September 30, 2019, the borrowing base availability would have been \$41.7 million and, after deducting \$10.3 million in letters of credit, would have resulted in net availability of \$31.3 million, an increase of \$6.7 million under the Credit Facility.

Successor Term Loan, Due March 2024

On March 26, 2019, pursuant to the terms of the Plan, we and certain of our subsidiaries entered into a second lien term loan credit agreement (the “Term Loan Agreement”) with the lenders party thereto (the “Term Loan Lenders”) and UMB Bank, N.A., as administrative agent, providing for term loans (the “Term Loan”) in the amount of \$210.0 million, guaranteed by certain of our subsidiaries. The Term Loan matures on March 26, 2024.

The Term Loan bears interest at a rate of 13.0 percent per annum, payable quarterly on the first day of each January, April, July, and October, beginning July 1, 2019, with 11.0 percent paid in cash and 2.0 percent paid in kind and capitalized by adding such amount to the outstanding principal.

We may voluntarily prepay all or a part of the Term Loan and, under certain conditions we are required to prepay all or a part of the Term Loan, in each case, at a premium (1) on or prior to 6 months after the closing date of 0 percent; (2) from 6 months and on or prior to two years after the closing date of 6.50 percent; (3) from two years and on or prior to three years after the closing date of 3.25 percent; and (4) from three years after the closing date and thereafter of 0 percent.

On September 20, 2019, we made a voluntary prepayment on the Term Loan of \$35.0 million in principal, plus \$1.0 million in interest associated with the principal payment. Since the prepayment occurred within the first six months from the closing date, no premium was applicable on the prepayment. As of September 30, 2019, the Term Loan balance was \$177.0 million.

The Term Loan is subject to mandatory prepayments and customary reinvestment rights. The mandatory prepayments include prepayment requirements with respect to a change of control, asset sales and debt issuances, in each case subject to certain exceptions or conditions. The Term Loan Agreement also contains customary affirmative and negative covenants, including as to compliance with laws (including environmental laws and anti-corruption laws), delivery of quarterly and annual financial statements, conduct of business, maintenance of property, maintenance of insurance, restrictions on the incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments and other customary covenants. Additionally, the Term Loan Agreement contains customary events of default and remedies for facilities of this nature. If we do not comply with the covenants in the Term Loan Agreement, the Term Loan Lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Term Loan Agreement. As of September 30, 2019, we were in compliance with all the financial covenants under the Term Loan Agreement.

Predecessor 6.75% Senior Notes, Due July 2022

On January 22, 2014, we issued \$360.0 million aggregate principal amount of the 6.75% Notes pursuant to the 6.75% Notes Indenture. The 6.75% Notes were general unsecured obligations of the Company and ranked equal in right of payment with all of our existing and future senior unsecured indebtedness. The 6.75% Notes were jointly and severally guaranteed by all of our subsidiaries that guaranteed indebtedness under the Second Amended and Restated Senior Secured Credit Agreement, as amended from time-to-time (“2015 Secured Credit Agreement”) and our 7.50% Notes. Interest on the 6.75% Notes was payable on January 15 and July 15 of each year, beginning July 15, 2014. Debt issuance costs related to the 6.75% Notes were approximately \$7.6 million. After the commencement of the Chapter 11 Cases, the carrying amount of debt was adjusted to the claim amount and all unamortized debt issuance costs prior to the commencement of the Chapter 11 Cases were fully expensed.

Predecessor 7.50% Senior Notes, Due August 2020

On July 30, 2013, we issued \$225.0 million aggregate principal amount of the 7.50% Notes pursuant to the 7.50% Notes Indenture. The 7.50% Notes were general unsecured obligations of the Company and ranked equal in right of payment with all of our existing and future senior unsecured indebtedness. The 7.50% Notes were jointly and severally guaranteed by all of our subsidiaries that guaranteed indebtedness under the 2015 Secured Credit Agreement and the 6.75% Notes. Interest on the 7.50% Notes was payable on February 1 and August 1 of each year, beginning February 1, 2014. Debt issuance costs related to the 7.50% Notes were approximately \$5.6 million. After the commencement of the Chapter 11 Cases, the carrying amount of debt was adjusted to the claim amount and all unamortized debt issuance costs prior to the commencement of the Chapter 11 Cases were fully expensed.

The commencement of the Chapter 11 Cases constituted an event of default that accelerated the Company’s obligations under the indentures governing the 6.75% Notes and the 7.50% Notes. However, any efforts to enforce such payment obligations were automatically stayed under the provisions of the Bankruptcy Code. The principal balance on the 6.75% Notes and 7.50% Notes of \$360.0 million and \$225.0 million, respectively, had been reclassified from long-term debt to liabilities subject to compromise as of December 31, 2018. See also Note 2 - Chapter 11 Emergence for further details.

As previously disclosed in our Current Report on Form 8-K filed with the SEC on March 26, 2019, our obligations with respect to the Senior Notes as well as our subsidiaries’ obligations under their respective guarantees under the 6.75% Notes

Table of Contents

Indenture and the 7.50% Notes Indenture (and the Senior Notes) were cancelled and extinguished as provided in the Plan. From and after March 26, 2019, neither the Company nor its subsidiaries have any continuing obligations under the 6.75% Notes Indenture and 7.50% Notes Indenture or with respect to the Senior Notes or the guarantees related thereto except to the extent specifically provided in the Plan.

Predecessor 2015 Secured Credit Agreement

On January 26, 2015, we entered into the 2015 Secured Credit Agreement. The 2015 Secured Credit Agreement was originally comprised of a \$200.0 million revolving credit facility (the “Revolver”). The 2015 Secured Credit Agreement formerly included financial maintenance covenants, including a leverage ratio, consolidated interest coverage ratio, senior secured leverage ratio, and asset coverage ratio, many of which were suspended beginning in September 2015.

We executed various amendments which, among other things: (1) modified the credit facility to an asset-based lending structure, (2) reduced the size of the Revolver to \$80.0 million, (3) eliminated the financial maintenance covenants previously in effect and replaced them with a minimum liquidity covenant of \$30.0 million and a monthly borrowing base calculation, (4) allowed for the refinancing of our existing Senior Notes with either secured or unsecured debt, (5) added the ability for the Company to designate certain of its subsidiaries as “Designated Borrowers”, and (6) permitted the Company to make restricted payments in the form of certain equity interests.

On October 25, 2018, we entered into a Consent Agreement and a Cash Collateral Agreement, whereby we could open bank accounts not subject to the 2015 Secured Credit Agreement for the purpose of depositing cash to secure certain letters of credit. On October 30, 2018, we deposited \$10.0 million into a cash collateral account to support the letters of credit outstanding, which is included in the restricted cash balance on the consolidated balance sheet as of December 31, 2018.

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

All of the Company’s obligations under the 2015 Secured Credit Agreement were paid prior to the commencement of the Chapter 11 Cases, and the 2015 Secured Credit Agreement, including the Revolver thereunder, was terminated concurrently with the commencement of the Chapter 11 Cases. See also Note 2 - Chapter 11 Emergence for further details. Unamortized debt issuance costs were fully expensed upon termination of the 2015 Secured Credit Agreement.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”). All statements contained in this Form 10-Q, other than statements of historical facts, are forward-looking statements for purposes of these provisions. In some cases, you can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “outlook,” “may,” “should,” “plan,” “seek,” “forecast,” “target,” “will,” and “would” or similar words. Forward-looking statements are based on certain assumptions and analyses we make in light of our experience and perception of historical trends, current conditions, expected future developments, and other factors we believe are relevant. Although we believe our assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside our control. Each forward-looking statement speaks only as of the date of this Form 10-Q, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. You should be aware that certain events could have a material adverse effect on our business, results of operations, financial condition, and cash flows. For more information about such events, see “Risk Factors” described in Item 1A. of the Company’s Annual Report filed on Form 10-K, and this Form 10-Q, along with additional risk factors described from time to time in our SEC filings.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the market risk faced by us from that reported in our 2018 Form 10-K. For more information on market risk, see Part II, Item 7A in our 2018 Form 10-K.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of September 30, 2019, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (1) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure and is (2) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding legal proceedings, see Note 9 - Commitments and Contingencies in Item 1 of Part I of this quarterly report on Form 10-Q, which information is incorporated into this item by reference.

Item 1A. Risk Factors

We recently emerged from bankruptcy, which may adversely affect our business and relationships.

It is possible that our having filed for bankruptcy and our recent emergence from bankruptcy may adversely affect our business and relationships with customers, vendors, contractors, employees or suppliers. Due to uncertainties, many risks exist, including the following:

- key suppliers, vendors or other contract counterparties may terminate their relationships with us or require additional financial assurances or enhanced performance from us;
- our ability to renew existing contracts and compete for new business may be adversely affected;
- our ability to attract, motivate and/or retain key executives may be adversely affected; and
- competitors may take business away from us, and our ability to attract and retain customers may be negatively impacted.

The occurrence of one or more of these events could have a material and adverse effect on our operations, financial condition and reputation. We cannot assure you that having been subject to bankruptcy protection will not adversely affect our operations in the future.

Our actual financial results after emergence from bankruptcy may not be comparable to our historical financial information as a result of the implementation of the Plan and the transactions contemplated thereby.

In connection with the disclosure statement we filed with the Bankruptcy Court, and the hearing to consider confirmation of the Plan, we prepared projected financial information to demonstrate to the Bankruptcy Court the feasibility of the Plan and our ability to continue operations upon our emergence from bankruptcy. Those projections were prepared solely for the purpose of bankruptcy proceedings and have not been, and will not be, updated on an ongoing basis and should not be relied upon by investors. At the time they were prepared, the projections reflected numerous assumptions concerning our anticipated future performance with respect to prevailing and anticipated market and economic conditions that were and remain beyond our control and that may not materialize. Projections are inherently subject to substantial and numerous uncertainties and to a wide variety of significant business, economic and competitive risks and the assumptions underlying the projections and/or valuation estimates may prove to be wrong in material respects. Actual results may vary significantly from those contemplated by the projections. As a result, investors should not rely on these projections.

Upon our emergence from bankruptcy, the composition of our board of directors changed significantly.

Pursuant to the Plan, the composition of our board of directors (the "Board") changed significantly. Upon emergence, our Board consists of seven directors, only two of whom, including our Chief Executive Officer, served on the Board prior to our emergence from bankruptcy. The new directors have different backgrounds, experiences and perspectives from those individuals who previously served on our Board and, thus, may have different views on the issues that will determine our future. There is no guarantee that our new Board will pursue, or will pursue in the same manner, our current strategic plans. As a result, the future strategy and our plans may differ materially from those of the past.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of the Company's equity securities during the three months ended September 30, 2019 that were not otherwise disclosed in a Current Report on Form 8-K. The Company currently has no active share repurchase programs.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

The following exhibits are filed or furnished as a part of this report:

<u>Exhibit Number</u>	<u>Description</u>
<u>3.1</u>	— <u>Amended and Restated Certificate of Incorporation of the Company, as amended and restated on March 26, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 26, 2019).</u>
<u>3.2</u>	— <u>Amended and Restated By-laws of the Company, as amended and restated as of March 26, 2019 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on March 26, 2019).</u>
<u>10.1</u>	— <u>Transition and Separation Agreement by and between Parker Drilling Company, Parker Drilling Management Services Ltd., and Gary Rich, dated July 11, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 15, 2019).</u>
<u>10.2</u>	— <u>Amended and Restated Credit Agreement, dated as of October 8, 2019, among Parker Drilling Company, as borrower, and Bank of America, N.A., as administrative agent, and the lenders and other parties party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 15, 2019).</u>
<u>31.1</u>	— <u>Gary G. Rich, President and Chief Executive Officer, Rule 13a-14(a)/15d-14(a) Certification.</u>
<u>31.2</u>	— <u>Michael W. Sumruld, Senior Vice President and Chief Financial Officer, Rule 13a-14(a)/15d-14(a) Certification.</u>
<u>32.1</u>	— <u>Gary G. Rich, President and Chief Executive Officer, 18 U.S.C. Section 1350 Certification.</u>
<u>32.2</u>	— <u>Michael W. Sumruld, Senior Vice President and Chief Financial Officer, 18 U.S.C. Section 1350 Certification.</u>
101.INS	— XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	— XBRL Taxonomy Schema Document.
101.CAL	— XBRL Calculation Linkbase Document.
101.LAB	— XBRL Label Linkbase Document.
101.PRE	— XBRL Presentation Linkbase Document.
101.DEF	— XBRL Definition Linkbase Document.

SIGNATURES

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

PARKER DRILLING COMPANY

Date: November 6, 2019

By: /s/ Gary G. Rich
Gary G. Rich
President and Chief Executive Officer

By: /s/ Michael W. Sumruld
Michael W. Sumruld
Senior Vice President and Chief Financial Officer

PARKER DRILLING COMPANY
RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Gary G. Rich, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2019, of Parker Drilling Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Gary G. Rich

Gary G. Rich
President and Chief Executive Officer

PARKER DRILLING COMPANY
RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Michael W. Sumruld, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2019, of Parker Drilling Company (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Michael W. Sumruld

Michael W. Sumruld
Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Parker Drilling Company (the Company) hereby certifies, to such officer's knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the Report) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2019

/s/ Gary G. Rich

Gary G. Rich
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Parker Drilling Company (the Company) hereby certifies, to such officer's knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the Report) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2019

/s/ Michael W. Sumruld

Michael W. Sumruld
Senior Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement.