Symmetry Medical Inc.
Form 10-Q
November 08, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 1, 2011

Commission File Number: 001-32374

SYMMETRY MEDICAL INC.
(Exact name of registrant as specified in its charter)

Delaware	35-1996126
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3724 North State Road 15, Warsaw, Indiana	46582
(Address of principal executive offices)	(Zip Code)

(574) 268-2252
(Registrant's telephone number, including area code)

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. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

þ Yes ¨ No

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

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

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

The number of shares outstanding of the registrant’s common stock as of November 8, 2011 was 36,316,066 shares.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION		
Item 1	Financial Statements:	
	Condensed Consolidated Balance Sheets: As of October 1, 2011 and January 1, 2011	4
	Condensed Consolidated Statements of Operations: Three and Nine Months Ended October 1, 2011 and October 2, 2010	5
	Condensed Consolidated Statements of Cash Flows: Nine Months Ended October 1, 2011 and October 2, 2010	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3	Quantitative and Qualitative Disclosures about Market Risk	15
Item 4	Controls and Procedures	15
PART II OTHER INFORMATION		
Item 1	Legal Proceedings	16
Item 1A	Risk Factors	16
Item 5	Other Information	
Item 6	Exhibits	16
Signatures		17

Cautionary Note Regarding Forward-Looking Statements

Throughout this Quarterly Report on Form 10-Q or in other reports or registration statements filed from time to time with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, or under the Securities Act of 1933, as well as in documents we incorporate by reference or in press releases or oral statements made by our officers or representative, we may make statements that express our opinions, expectations or projections regarding future events or future results, in contrast with statements that reflect historical facts. These predictive statements, which we generally precede or accompany by such typical conditional words such as “anticipate,” “intend,” “believe,” “estimate,” “plan,” “seek,” “project,” “potential,” or “expect,” or by the words “may,” “will,” “could,” or “should,” expressions or terminology are intended to operate as “forward-looking statements” of the kind permitted by the Private Securities Litigation Reform Act of 1995. That legislation protects such predictive statements by creating a “safe harbor” from liability in the event that a particular prediction does not turn out as anticipated.

Forward-looking statements convey our current expectations or forecast future events. While we always intend to express our best judgment when we make statements about what we believe will occur in the future, and although we base these statements on assumptions that we believe to be reasonable when made, these forward-looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. Forward-looking statements are subject to many uncertainties and other variable circumstances, many of which are outside of our control, that could cause our actual results and experience to differ materially from those we thought would occur.

We also refer you to and believe that you should carefully read the “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors” portions of our Annual Report for fiscal 2010 on Form 10-K, as well as in other reports which we file with the Securities and Exchange Commission, to better understand the risks and uncertainties that are inherent in our business and in owning our securities. These reports are available publicly on the SEC website, www.sec.gov, and on our website, www.symmetrymedical.com.

Any forward-looking statements which we make in this report or in any of the documents that are incorporated by reference herein speak only as of the date of such statement, and we undertake no ongoing obligation to update such statements. Comparisons of results between current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

PART I FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

SYMMETRY MEDICAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	October 1, 2011 (unaudited)	January 1, 2011
ASSETS:		
Current Assets:		
Cash and cash equivalents	$20,559	$15,067
Accounts receivable, net	48,313	50,457
Inventories	80,633	70,373
Refundable income taxes	4,804	1,911
Deferred income taxes	5,506	4,597
Other current assets	3,514	3,281
Total current assets	163,329	145,686
Property and equipment, net	105,140	107,879
Goodwill	157,530	154,218
Intangible assets, net of accumulated amortization	42,324	39,601
Other assets	3,607	2,570
Total Assets	$471,930	$449,954
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities:		
Accounts payable	$22,724	$23,097
Accrued wages and benefits	8,954	6,808
Other accrued expenses	5,516	3,881
Accrued income taxes	875	233
Deferred income taxes	41	-
Revolving line of credit	5,853	3,692
Current portion of capital lease obligations	490	454
Current portion of long-term debt	701	1,397
Total current liabilities	45,154	39,562
Accrued income taxes	6,664	6,564
Deferred income taxes	18,167	17,692
Capital lease obligations, less current portion	2,046	2,418
Long-term debt, less current portion	94,500	87,349
Total Liabilities	166,531	153,585
Shareholders' Equity:		
	4	4

Common Stock, $.0001 par value; 75,000 shares authorized; shares issued October 1, 2011--36,284; January 1, 2011--35,950		
Additional paid-in capital	281,860	279,592
Retained earnings	20,312	14,248
Accumulated other comprehensive income	3,223	2,525
Total Shareholders' Equity	305,399	296,369
Total Liabilities and Shareholders' Equity	$471,930	$449,954

See accompanying notes to condensed consolidated financial statements.

SYMMETRY MEDICAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except per Share Data; Unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Revenue	$84,039	$91,538	$274,538	$264,856
Cost of revenue	68,285	71,708	217,233	207,627
Gross profit	15,754	19,830	57,305	57,229
Selling, general and administrative expenses	13,839	12,248	42,469	37,124
Facility closure and severance costs	253	57	2,526	917
Operating Income	1,662	7,525	12,310	19,188
Other (income) expense:				
Interest expense	964	1,504	2,754	4,565
Derivatives valuation gain	-	(389)	-	(1,177)
Other	(160)	715	591	796
Income before income taxes	858	5,695	8,965	15,004
Income tax expense	331	2,123	2,901	5,322
Net income	$527	$3,572	$6,064	$9,682
Net income per share:				
Basic	$0.01	$0.10	$0.17	$0.27
Diluted	$0.01	$0.10	$0.17	$0.27
Weighted average common shares and equivalent shares outstanding:				
Basic	35,546	35,456	35,537	35,449
Diluted	36,021	35,870	36,000	35,802

See accompanying notes to condensed consolidated financial statements.

SYMMETRY MEDICAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(In Thousands; Unaudited)

	Nine Months Ended October 1, 2011	Nine Months Ended October 2, 2010
Operating activities		
Net income	$6,064	$9,682
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,811	13,576
Amortization	2,138	2,198
Net loss on sale of assets	77	103
Deferred income tax provision	(283)	666
Stock-based compensation	2,174	693
Derivative valuation gain	-	(1,177)
Foreign currency transaction (gain) loss	(1,474)	566
Change in operating assets and liabilities:		
Accounts receivable	2,873	(10,288)
Other assets	(1,246)	(506)
Inventories	(8,093)	(10,394)
Current income taxes	(2,215)	112
Accounts payable	(942)	9,093
Accrued expenses and other	5,314	(2,400)
Net cash provided by operating activities	18,198	11,924
Investing activities		
Purchases of property and equipment	(10,426)	(9,592)
Proceeds from the sale of property and equipment	113	611
Acquisition, net of cash received	(11,000)	-
Net cash used in investing activities	(21,313)	(8,981)
Financing activities		
Proceeds from revolving credit agreement borrowings	52,819	40,894
Payments on revolving credit agreement borrowings	(45,319)	(29,231)
Proceeds from (payments on) short term borrowings, net	2,441	(1,081)
Issuance of bank term loan	-	2,711
Payments on bank term loans and capital lease obligations	(1,432)	(16,383)
Proceeds from the issuance of common stock	79	99
Net cash provided by (used in) financing activities	8,588	(2,991)
Effect of exchange rate changes on cash	19	(302)
Net increase (decrease) in cash and cash equivalents	5,492	(350)

Cash and cash equivalents at beginning of period	15,067	14,219
Cash and cash equivalents at end of period	$20,559	$13,869
Supplemental disclosures:		
Cash paid for interest	$2,441	$4,018
Cash paid for income taxes	$5,316	$3,728

See accompanying notes to condensed consolidated financial statements.

SYMMETRY MEDICAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Data; Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Symmetry Medical Inc. and its wholly-owned subsidiaries (collectively referred to as the Corporation). The Corporation is a global supplier of integrated products consisting primarily of surgical implants, instruments and cases to orthopedic and other medical device companies.

The condensed consolidated financial statements of the Corporation have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments of a normal recurring nature considered necessary to present fairly the consolidated financial position of the Corporation, its results of operations and cash flows. The Corporation's results are subject to seasonal fluctuations. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements included herein should be read in conjunction with the fiscal year 2010 consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K for fiscal year 2010.

The Corporation's fiscal year is the 52 or 53 week period ending on the Saturday closest to December 31. Fiscal year 2011 is a 52 week year ending December 31, 2011. The Corporation's interim quarters for 2011 are 13 weeks long and quarter-end dates have been set as April 2, 2011, July 2, 2011 and October 1, 2011. Fiscal year 2010 was a 52 week year (ending January 1, 2011). The Corporation's interim quarters for 2010 were 13 weeks long, ending April 3, 2010, July 3, 2010 and October 2, 2010. References in these condensed consolidated financial statements to the three months ended refer to these financial periods, respectively. The Corporation has evaluated subsequent events for the quarter ended October 1, 2011, up through the date the financial statements were issued which corresponds to the time of filing with the SEC.

On August 15, 2011, the Corporation acquired the assets of PSC's Olsen Medical division for $11,000 in cash, subject to certain post-closing adjustments. Olsen Medical manufactures a full line of single-use and reusable bipolar and monopolar forceps, cords, electrosurgical pens/pencils, electrodes, and accessories. Olsen Medical's products are primarily sold in the United States and internationally through distributors. Refer to Note 11 for further discussion of this acquisition.

2. Inventories

Inventories consist of the following:

	October 1, 2011 (unaudited)	January 1, 2011
Raw material and supplies	$ 18,918	$ 14,407
Work-in-process	32,883	31,739
Finished goods	28,832	24,227

	$ 80,633	$ 70,373

3. Property and Equipment

Property and equipment, including depreciable lives, consists of the following:

	October 1, 2011 (unaudited)	January 1, 2011
Land	$ 6,423	$ 6,412
Buildings and improvements (20 to 40 years)	42,073	41,152
Machinery and equipment (5 to 15 years)	148,777	144,626
Office equipment (3 to 5 years)	16,642	13,959
Construction-in-progress	6,765	7,276
	220,681	213,425
Less accumulated depreciation	(115,541)	(105,546)
	$ 105,140	$ 107,879

4. Intangible Assets

Intangible assets were acquired in connection with our business combinations over the past several years. The increase in intangible assets from January 1, 2011 is due to the Corporation's acquisition of Olsen Medical in August 2011. As of October 1, 2011, the balances of intangible assets, other than goodwill, were as follows:

	Weighted-Average Amortization Period (unaudited)	Gross Intangible Assets (unaudited)	Accumulated Amortization (unaudited)	Net Intangible Assets (unaudited)
Acquired technology and patents	10 years	$ 2,326	$ (1,407)	$ 919
Acquired customers	18 years	45,552	(13,591)	31,961
Non-compete agreements	5 years	405	(349)	56
Intangible assets subject to amortization	18 years	48,283	(15,347)	32,936
Proprietary processes	Indefinite			3,530
In process research and development	Indefinite			610
Trademarks	Indefinite			5,248
Indefinite-lived intangible assets, other than goodwill				9,388
Total				$ 42,324

As of January 1, 2011, the balances of intangible assets, other than goodwill, were as follows:

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Acquired technology and patents	10 years	$ 2,324	$ (1,284)	$ 1,040
Acquired customers	18 years	42,503	(11,669)	30,834
Non-compete agreements	5 years	590	(442)	148
Intangible assets subject to amortization	17 years	45,417	(13,395)	32,022
Proprietary processes	Indefinite			3,525
Trademarks	Indefinite			4,054
Indefinite-lived intangible assets, other than goodwill				7,579
Total				$ 39,601

5. New Accounting Pronouncements

Presentation of Comprehensive Income: In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of

shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This standard will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on the Corporation's consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

6. Segment Reporting

The Corporation primarily designs, develops and manufactures implants and related surgical instruments and cases for orthopedic device companies and companies in other medical device markets such as arthroscopy, dental, laparoscopy, osteobiologic and endoscopy. The Corporation also sells products to the aerospace industry. The Corporation manages its business in multiple operating segments. Because of the similar economic characteristics of these operations, including the nature of the products, comparable level of FDA regulations, and same or similar customers, those operations have been aggregated for segment reporting purposes. The results of one segment which sells exclusively to aerospace customers has not been disclosed separately as it does not meet the quantitative disclosure requirements.

The Corporation is a multi-national Corporation with operations in the United States, United Kingdom, France, Ireland and Malaysia. As a result, the Corporation's financial results can be impacted by currency exchange rates in the foreign markets in which the Corporation sells its products. Revenues are attributed to geographic locations based on the location to which we ship our products.

6. Segment Reporting (Continued)

Revenue to External Customers:

	Three Months Ended		Nine Months Ended
	October 1,	50,417	
Accumulated amortization	(43,696)	(44,534)	
Net carrying value	$4,443	$ 5,883	

The weighted average remaining amortization periods and expected amortization expense for the next five years for our definite lived intangible assets are as follows:

	Weighted average remaining amortization period (years)	Expected Amortization Expense					
		Remainder of 2016	2017	2018	2019	2020	2021
		(in thousands)					
Noncompete agreements	1.5	$117	$80	$—	$—	$—	$ —
Trademarks	2.2	30	40	17	—	—	—
Customer relationships and contracts	3.4	929	989	431	341	230	—
Developed technology	4.0	237	316	316	243	127	—
Total expected intangible asset amortization expense		$1,313	$1,425	$764	$584	$357	$ —

Amortization expense for our intangible assets was $0.5 million and $0.8 million for the three months ended March 31, 2016 and 2015, respectively.

Table of Contents

NOTE 7. LONG-TERM DEBT

As of March 31, 2016 and December 31, 2015, the components of our long-term debt were as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
6.75% Senior Notes due 2021	$675,000	$ 675,000
Term Loan Facility due 2020	312,638	313,425
Senior Secured Credit Facility revolving loans due 2016	—	—
Debt issuance costs and unamortized premium (discount) on debt, net	(22,269)	(23,575)
Total	965,369	964,850
Less current portion	(10,650)	(3,150)
Long-term debt	$954,719	$ 961,700

6.75% Senior Notes due 2021

We have outstanding $675.0 million of 6.75% Senior Notes due 2021 (the "2021 Notes"). The 2021 Notes are general unsecured senior obligations and are effectively subordinated to all of our existing and future secured indebtedness. The 2021 Notes are or will be jointly and severally guaranteed on a senior unsecured basis by certain of our existing and future domestic subsidiaries. Interest on the 2021 Notes is payable on March 1 and September 1 of each year. The 2021 Notes mature on March 1, 2021.

The 2021 Notes are subject to redemption at any time and from time to time at our option, in whole or in part, at the redemption prices below (expressed as percentages of the principal amount redeemed), plus accrued and unpaid interest to the applicable redemption date, if redeemed during the twelve-month period beginning on March 1 of the years indicated below:

Year	Percentage
2016	103.375 %
2017	102.250 %
2018	101.125 %
2019 and thereafter	100.000 %

If we experience a change of control, subject to certain exceptions, we must give holders of the 2021 Notes the opportunity to sell to us their 2021 Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of purchase.

We are subject to certain negative covenants under the Indenture. The Indenture limits our ability to, among other things:

- incur additional indebtedness and issue preferred equity interests;
- pay dividends or make other distributions or repurchase or redeem equity interests;
- make loans and investments;
- enter into sale and leaseback transactions;
- sell, transfer or otherwise convey assets;
- create liens;
- enter into transactions with affiliates;
- enter into agreements restricting subsidiaries' ability to pay dividends;
- designate future subsidiaries as unrestricted subsidiaries; and
- consolidate, merge or sell all or substantially all of the applicable entities' assets.

These covenants are subject to certain exceptions and qualifications, and contain cross-default provisions relating to the covenants of our Facilities discussed below. Substantially all of the covenants will terminate before the 2021 Notes mature if one of two specified ratings agencies assigns the 2021 Notes an investment grade rating in the future and no events of default exist under the Indenture. As of March 31, 2016, the 2021 Notes were rated below investment grade. Any covenants that cease to apply to us as a result of achieving an investment grade rating will not be restored, even if the investment rating assigned to the 2021 Notes later falls below investment grade. We were in compliance

with these covenants as of March 31, 2016.

Table of Contents

ABL Facility

On June 1, 2015, the Company entered into a Loan and Security Agreement (the “ABL Facility”), among the Company and Key Energy Services, LLC, as the Borrowers (collectively, the “ABL Borrowers”), certain subsidiaries of the ABL Borrowers named as guarantors therein, the financial institutions party thereto from time to time as Lenders (collectively, the “ABL Lenders”), Bank of America, N.A., as Administrative Agent for the Lenders (the “ABL Administrative Agent”), and Bank of America, N.A. and Wells Fargo Bank, National Association, as Co-Collateral Agents for the Lenders. The ABL Facility provides for aggregate initial commitments from the ABL Lenders of $100 million (the “Commitments”) and matures on February 28, 2020.

The ABL Facility provides the ABL Borrowers with the ability to borrow up to an aggregate principal amount equal to the lesser of (i) the Commitments and (ii) the sum of (a) 85% of the value of eligible accounts receivable plus (b) 80% of the value of eligible unbilled accounts receivable, subject to a limit equal to the greater of (x) $35 million and (y) 25% of the Commitments plus (c) certain cash and cash equivalents deposited for the benefit of the ABL Lenders, subject to a limit of $15 million. The amount that may be borrowed under the ABL Facility is subject to reduction for certain reserves provided for by the ABL Facility. In addition, the percentages of accounts receivable and unbilled accounts receivable included in the calculation described above is subject to reduction to the extent of certain bad debt write-downs and similar amounts provided in the ABL Facility.

Borrowings under the ABL Facility bear interest, at the ABL Borrowers’ option, at a per annum rate equal to (i) LIBOR for 30, 60, 90, 180, or, with the consent of the ABL Lenders, 360 days, plus 4.5% or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the Federal Funds rate, plus 0.50% or (z) 30-day LIBOR, plus 1.0% plus (b) 3.5%. In addition, the ABL Facility provides for unused line fees of 1.00% to 1.25% per year, depending on utilization, letter of credit fees and certain other fees.

The ABL Facility is guaranteed by certain of the Company’s existing and future subsidiaries (the “ABL Guarantors,” and together with the ABL Borrowers, the “ABL Loan Parties”). To secure their obligations under the ABL Facility, each of the ABL Loan Parties has granted to the Administrative Agent a first-priority security interest for the benefit of the ABL Lenders in its present and future accounts receivable, inventory and related assets and proceeds of the foregoing (the “ABL Priority Collateral”). In addition, the obligations of the ABL Loan Parties under the ABL Facility are secured by second-priority liens on the Term Priority Collateral (as described below under “Term Loan Facility”).

The revolving loans under the ABL Facility may be voluntarily prepaid, in whole or in part, without premium or penalty, subject to breakage or similar costs.

The ABL Facility contains certain affirmative and negative covenants, including covenants that restrict the ability of the ABL Loan Parties to take certain actions without the permission of the ABL Lenders or as permitted under the ABL Facility including the incurrence of debt, the granting of liens, the making of investments, the payment of dividends and the sale of assets. The ABL Facility also contains a requirement that the ABL Borrowers comply with a minimum liquidity covenant, an asset coverage ratio and, during certain periods, a fixed charge coverage ratio.

Under the asset coverage ratio covenant, the ABL Borrowers must maintain an asset coverage ratio of at least 1.5 to 1.0. The asset coverage ratio is generally defined as the ratio of (i) the sum of (a) the value of the Term Priority Collateral plus (b) certain cash and cash equivalents in excess of $100 million held for the benefit of the Term Loan Lenders to (ii) the sum of (a) the amount outstanding under the Term Loan Facility and, following repayment of the Term Loan Facility, the amount outstanding under the ABL Facility, plus (b) the amount of any fine or settlement in respect of the FCPA Matter (as defined in the ABL Facility) that is secured by a lien on the ABL Priority Collateral or the Term Priority Collateral (the “Asset Coverage Ratio”).

Under the fixed charge coverage ratio covenant, the ABL Borrowers must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 during the period commencing on the day that availability under the ABL Facility is less than the greater of $20 million and 20% of the Commitments and continuing until the 90th day following the day that availability under the ABL Facility is greater than the greater of $20 million and 20% of the Commitments. The fixed charge coverage ratio is generally defined as the ratio of (i) EBITDA minus certain capital expenditures and cash taxes paid to (ii) the sum of cash interest expenses, scheduled principal payments on borrowed money and certain distributions. The ABL Facility permits the ABL Borrowers, in calculating EBITDA, to add back certain amounts in respect of the investigatory expenses associated with the FCPA Matter and amounts paid in settlement of the FCPA

Matter to the extent such amounts do not exceed net liquidity, defined as certain cash and cash equivalents minus the principal amount of loans outstanding under the ABL Facility.
Under the minimum liquidity covenant (the “Minimum Liquidity Covenant”), the ABL Borrowers must not permit Liquidity, defined as the sum of (i) availability under the ABL Facility plus (ii) certain unrestricted cash and cash equivalents, to be less than $100.0 million as of the last day of any fiscal quarter or immediately after any cash payment of a settlement of, or fine in connection with, the FCPA Matter.

Table of Contents

The ABL Facility contains customary representations and warranties and conditions to borrowing, including the absence of any default or event of default, the accuracy in all material respects of the representations and warranties of the ABL Loan Parties contained in the ABL Facility and the absence of any event or circumstance that has or could reasonably be expected to have a material adverse effect.

The ABL Facility contains customary events of default, the occurrence of which entitle the ABL Lenders to accelerate the maturity of amounts outstanding under the ABL Facility and exercise other customary remedies including an event of default that is triggered if, immediately after any cash payment of a settlement of the FCPA Matter (and after any cash or borrowings under the ABL Facility are used to fund such payment), (i) the Company shall fail to be in compliance with the Minimum Liquidity Covenant or (ii) if any loans under the ABL Facility are outstanding on the date of such cash payment, availability under the ABL Facility is less than 33% of the borrowing base in effect on such date.

As of March 31, 2016, we have no borrowings outstanding under the ABL Facility and $45.8 million of letters of credit outstanding with borrowing capacity of $25.9 million available subject to covenant constraints under our ABL Facility.

Term Loan Facility

On June 1, 2015, the Company entered into a Term Loan and Security Agreement (the “Term Loan Facility”), among the Company, as Borrower, certain subsidiaries of the Company named as guarantors therein, the financial institutions party thereto from time to time as Lenders (collectively, the “Term Loan Lenders”), Cortland Capital Market Services LLC, as Agent for the Lenders(the “Term Loan Administrative Agent”), and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Bookrunner.

On June 1, 2015, the Company and other parties thereto closed on the Term Loan Facility, the Company borrowed $315 million (prior to giving effect to an upfront discount of 3% which resulted in net proceeds to the Company, prior to expenses, of approximately $305.5 million), and the Company used a portion of such proceeds to repay its prior credit facility. The Term Loan Facility provides for an incremental facility which, subject to the agreement of one or more Term Loan Lenders or other institutional lenders agreeing to provide the additional loans and the satisfaction of certain terms and conditions, would enable the Company to borrow additional amounts under the Term Loan Facility as long as the aggregate outstanding amount of all borrowings thereunder does not exceed $400 million. The Term Loan Facility will mature on June 1, 2020, although such maturity date may, at the Company’s request, be extended by one or more of the Term Loan Lenders pursuant to the terms of the Term Loan Facility.

Borrowings under the Term Loan Facility bear interest, at the Company’s option, at a per annum rate equal to (i) LIBOR for one, two, three, six, or, with the consent of the Term Loan Lenders, 12 months, plus 9.25% or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the Federal Funds rate, plus 0.50% and (z) 30-day LIBOR, plus 1.0% plus (b) 8.25%.

The Term Loan Facility is guaranteed by certain of the Company’s existing and future subsidiaries (the “Term Loan Guarantors,” and together with the Company, the “Term Loan Parties”). To secure their obligations under the Term Loan Facility, each of the Term Loan Parties has granted to the Agent a first-priority security interest for the benefit of the Term Loan Lenders in substantially all of each Term Loan Party’s assets other than certain excluded assets and the ABL Priority Collateral (the “Term Priority Collateral”). In addition, the obligations of the Term Loan Parties under the Term Loan Facility are secured by second-priority liens on the ABL Priority Collateral (as described above under “ABL Facility”).

The loans under the Term Loan Facility may be prepaid at the Company’s option, subject to the payment of a prepayment premium in certain circumstances as provided in the Term Loan Facility. The Company is required to make principal payments in the amount of $787,500 per quarter commencing with the quarter ended September 30, 2015. In addition, pursuant to the Term Loan Facility, the Company must offer to prepay term loans out of the Net Cash Proceeds (as defined in the Term Loan Facility) of certain asset sales and, for each fiscal year beginning with the Company’s fiscal year ending December 31, 2015, the Company must offer to prepay term loans in an aggregate principal amount equal to 50% of the Company’s Excess Cash Flow (as defined in the Term Loan Facility) for such fiscal year. Within 30 days following any Change of Control (as defined in the Term Loan Facility), the Company must offer to prepay all term loans (i) at a price of 101% of the amount thereof if, after giving effect to such Change of

Control, the Asset Coverage Ratio is at least 1.5 to 1.0 or (ii) at a price equal to the greater of 101% of the amount thereof and the applicable prepayment premium provided for in the Term Loan Facility if, after giving effect to such Change of Control, the Asset Coverage Ratio is less than 1.5 to 1.0.

The Term Loan Facility contains customary representations and warranties and certain affirmative and negative covenants, including covenants that restrict the ability of the Term Loan Parties to take certain actions without the permission of the Term Loan Lenders or as permitted under the Term Loan Facility including the incurrence of debt, the granting of liens, the making of investments, the payment of dividends and the sale of assets. The Term Loan Facility also contains financial covenants requiring that the Company maintain an Asset Coverage Ratio of at least 1.5 to 1.0 and that Liquidity (as defined in

Table of Contents

the Term Loan Facility) must not be less than $100 million as of the last day of any fiscal quarter or immediately after any cash payment of a settlement of, or fine in connection with, the FCPA Matter.
The Term Loan Facility contains events of default, the occurrence of which entitle the Term Loan Lenders to accelerate the maturity of amounts outstanding under the Term Loan Facility and exercise other customary remedies.

Covenant Compliance

As of March 31, 2016, we were in compliance with the covenants under the indenture governing the 2021 Notes and under the ABL Facility and the Term Loan Facility (collectively, the “Facilities”), subject to the matter described below.
In calculating the Asset Coverage Ratio under the Term Loan Facility and the ABL Facility, the value of certain of the Term Priority Collateral used in calculating the Asset Coverage Ratio is determined pursuant to an appraisal required to be obtained by the Company and provided to the Term Loan Administrative Agent and the ABL Administrative Agent (collectively, the “Administrative Agents”) in connection with the delivery to the Administrative Agents of the Company’s year-end and June 30 financial statements. In addition, the Term Loan Lenders are permitted to request an additional appraisal once each fiscal year.
Based on the appraisal obtained by the Company and delivered to the Administrative Agents with our financial statements for the year ended December 31, 2015, we were in compliance with the Asset Coverage Ratio as of March 31, 2016. However, during the first quarter of 2016, certain of the Term Loan Lenders requested a new appraisal from a different appraiser, and, based on that appraisal, certain of the Term Loan Lenders have alleged that we were not in compliance with the Asset Coverage Ratio as of March 31, 2016. Although the Company disagrees with the validity of the appraisal commissioned by the Term Loan Lenders, and has reserved certain of its rights to contest such appraisal, we entered into a Forbearance Agreement dated as of May 11, 2016 (the “Forbearance Agreement”) with certain of the Term Loan Lenders pursuant to which such lenders agreed that, subject to the terms and conditions of the Forbearance Agreement, they would forbear through June 6, 2016 from exercising remedies available to them under the Term Loan Facility as a result of our alleged non-compliance with the Asset Coverage Ratio under the Term Loan Facility. As consideration for the Term Loan Lenders’ forbearance, we prepaid $7.5 million in principal and accrued interest under the Term Loan Facility. We also entered into a Limited Consent and Forbearance Agreement dated May 11, 2016 (the “Limited Consent”) with certain of the ABL Lenders pursuant to which such lenders consented to the prepayment we made under the Term Loan Facility and agreed to a substantially similar forbearance.The forbearance provided by the Term Loan Lenders and the ABL Lenders is subject to termination under certain circumstances, including if a default or event of default occurs under the Term Loan Facility or, in the case of the Term Loan Agreement, if we terminate discussions with the Term Loan Lenders related to the negotiation and implementation of an amendment and/or restatement of the Term Loan Facility.
In addition to entering into the Forbearance Agreement and the Limited Consent, we included additional collateral that was omitted from the Term Loan Lenders’ appraisal, and we believe that the inclusion of this additional collateral, together with the $7.5 million prepayment made to the Term Loan Lenders, results in the cure of the alleged default, as contemplated in each facility, and our being in compliance with the Asset Coverage Ratio under both Facilities as of March 31, 2016.

Liquidity and Capital Resources

Our ability to fund our operations, pay the principal and interest on our long-term debt and satisfy our other obligations will depend upon our available liquidity and the amount of cash flows we are able to generate from our operations. Cash used in operations was $22.4 million during 2015 and $30.1 million during the quarter ended March 31, 2016, and, if industry conditions do not improve, we are likely to continue to have significant negative cash flows from operations during the remainder of 2016.
We believe that our current reserves of cash and availability under our ABL facility are sufficient to finance our cash requirements for current and future operations, budgeted capital expenditures, debt service and other obligations for the next twelve months. However, in light of the current conditions in our industry, our significant negative cash flow, our high level of indebtedness and diminishing liquidity and the risk that we may be unable to remain in compliance with the financial ratios in our Facilities, we continue to analyze a variety of transactions and alternatives designed to reduce our debt and improve our liquidity, and we are in active discussions with our lenders and noteholders regarding such transactions and alternatives. No assurance can be given, however, that we will be able to implement any such

transaction or alternative, if necessary, on commercially reasonable terms or at all, and, even if we are successful in implementing a strategic transaction or alternative, such transaction or alternative may not be successful in allowing us to meet our debt obligations and improving our liquidity.

If we breach the covenants under our debt agreements or otherwise default under those agreements or if we lack sufficient liquidity to satisfy our debt or other obligations, then, in the absence of a strategic transaction or alternative, our creditors could potentially force us into bankruptcy or we could be forced to seek bankruptcy protection to restructure our business and capital structure, in which case we could be forced to liquidate our assets and may receive less than the value at which those assets are carried on our financial statements. Even if we are able to implement a strategic transaction or alternative,

Table of Contents

such transaction or alternative may impose onerous terms on us. Additionally, we have a significant amount of secured indebtedness that is senior to our unsecured indebtedness and a significant amount of total indebtedness that is senior to our existing common stock in our capital structure. As a result, implementation of a strategic transaction or alternative or a bankruptcy proceeding could result in a limited recovery for unsecured noteholders, if any, and place equity holders at significant risk of losing all of their interests in the Company.

Additionally, if we default under one or more of our debt agreements, the ABL Lenders will no longer be obligated to extend credit to us. Finally, access to the liquidity provided by our ABL Facility is predicated upon the absence of a default under the ABL Facility and our other debt agreements and on our ability to satisfy the conditions to borrowing, which among other things require that the representations and warranties under the ABL Facility, including representations and warranties related to our solvency and the absence of a material adverse effect, remain true and correct and that we not be in violation of any of the covenants in the ABL Facility.

The weighted average interest rates on the outstanding borrowings under the ABL Facility and Term Loan Facility for the three months ended March 31, 2016 were as follows:

	Three Months Ended March 31, 2016 (in thousands)	
ABL Facility	—	%
Term Loan Facility	10.25	%

Letter of Credit Facility

On November 7, 2013, we entered into an uncommitted, unsecured $15.0 million letter of credit facility to be used solely for the issuances of performance letters of credit. As of March 31, 2016, $2.0 million of letters of credit were outstanding under the facility.

NOTE 8. OTHER (INCOME) LOSS

The table below presents comparative detailed information about our other income and expense, shown on the condensed consolidated statements of operations as “other (income) loss, net” for the periods indicated:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Interest income	$(132)	$(15)
Foreign exchange (gain) loss	(252)	1,260
Allowance for collectibility of notes receivable	—	3,950
Other, net	(847)	(763)
Total	$(1,231)	$4,432

Table of Contents

NOTE 9. INCOME TAXES

We are subject to U.S. federal income tax as well as income taxes in multiple state and foreign jurisdictions. Our effective tax rates for the three months ended March 31, 2016 and 2015 were 0.3% and 34.5%, respectively. Our effective tax rate varies due to the mix of pre-tax profit between the U.S. and international taxing jurisdictions with varying statutory rates, the impact of permanent differences, including goodwill impairment expense, and discrete tax adjustments, such as valuation allowances against deferred tax assets and tax expense or benefit recognized for uncertain tax positions. The variance between our effective rate and the U.S. statutory rate reflects international profits and losses subject to varying statutory rates, the impact of permanent items, including goodwill impairment expense and expenses subject to statutorily imposed limitations such as meals and entertainment expenses, plus the impact of state income taxes and discrete tax adjustments, such as valuation allowances against deferred tax assets and tax expense or benefit recognized for uncertain tax positions.

The Company assesses the realizability of its deferred tax assets each period by considering whether it is more likely than not that all or a portion of the deferred tax assets will not be realized. In 2015, due to the history of losses in recent years and the current downturn in the oil and gas industry, management has determined it is more likely than not that we will not be able to realize a substantial portion of our net deferred tax assets.

As of March 31, 2016 and December 31, 2015, we had $0.4 million of unrecognized tax benefits, net of federal tax benefit, which, if recognized, would impact our effective tax rate. We recognized a tax expense of less than $0.1 million for the three months ended March 31, 2016 and 2015, related to these items. We have substantially concluded all U.S. federal and state tax matters through the year ended December 31, 2012.

We record interest and penalties related to unrecognized tax benefits as income tax expense. We have accrued a liability of less than $0.1 million for the payment of interest and penalties as of March 31, 2016 and December 31, 2015. We believe that it is reasonably possible that $0.1 million of our currently remaining unrecognized tax positions, each of which is individually insignificant, may be recognized in the next twelve months as a result of a lapse of statute of limitations and settlement of ongoing audits. No release of our deferred tax asset valuation allowance was made during the three months ended March 31, 2016 and 2015.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Litigation

Various suits and claims arising in the ordinary course of business are pending against us. We conduct business throughout the continental United States and may be subject to jury verdicts or arbitrations that result in outcomes in favor of the plaintiffs. We are also exposed to various claims abroad. We continually assess our contingent liabilities, including potential litigation liabilities, as well as the adequacy of our accruals and our need for the disclosure of these items, if any. We establish a provision for a contingent liability when it is probable that a liability has been incurred and the amount is reasonably estimable. We have $1.7 million of other liabilities related to litigation that is deemed probable and reasonably estimable as of March 31, 2016. We do not believe that the disposition of any of these matters will result in an additional loss materially in excess of amounts that have been recorded.

Since January 2014, the Company has been cooperating with investigations by the Department of Justice and the Securities and Exchange Commission into possible violations by the Company of the Foreign Corrupt Practices Act (“FCPA”). On April 28, 2016, the Company announced that the Department of Justice had closed its investigation and that the Department had decided to decline prosecution of the Company. In addition, the Company has been engaged in negotiations with the staff of the Division of Enforcement of the SEC in an effort to reach a resolution of the staff’s investigation related to these same matters. the Company has reached an agreement in principle with the staff on the terms of a proposed offer of settlement, which must be presented to the Commission for approval. While there is no assurance that the offer of settlement will be accepted by the Commission, the Company is optimistic that the proposed resolution will become final in the second quarter of 2016. In connection with the offer of settlement, the Company has accrued a liability in the amount of $5 million.

Between May of 2013 and June of 2014, five lawsuits (four class actions and one enforcement action) were filed in California involving alleged violations of California’s wage and hour laws. In general, the lawsuits allege failure to pay wages, including overtime and minimum wages, failure to pay final wages upon employment terminations in a timely manner, failure to reimburse reasonable and necessary business expenses, failure to provide wage statements

consistent with California law, and violations of the California meal and break period laws, among other claims. Two of the five cases have been consolidated in United States District Court for the Central District of California. On December 22, 2015, that court issued an order granting in part and denying in part a class certification motion. The court certified a class of hourly paid, non-exempt oilfield employees who allege they did not receive reimbursement for all business expenses and allege they did not receive all rest breaks required by California law. The court did not determine whether Key is liable to any of the class members. Plaintiffs have moved to reconsider the class certification ruling, and the Court has taken that motion under submission. In addition, the

18

Table of Contents

parties are working on scheduling a mediation. The court in one of the remaining cases that had been stayed pending the outcome of the class certification motion recently issued an order lifting the stay, and the parties have agreed to an amended complaint. No date has been set for class certification. The fourth case is waiting for a decision regarding whether it will move forward in California state court or in federal court. The fifth case is an enforcement action for civil penalties based on California's Private Attorneys General Act, which is pending in California state court. We have investigated the claims in all five lawsuits, and intend to vigorously defend them. Because these cases are at an early stage, we cannot estimate any possible loss or range of loss.

In August 2014, two class action lawsuits were filed in the U.S. District Court, Southern District of Texas, Houston Division, individually and on behalf of all other persons similarly situated against the Company and certain officers of the Company, alleging violations of federal securities laws, specifically, violations of Section 10(b) thereunder, and Rule 10(b)-5 thereunder, and Section 20(a) of the Securities Exchange Act of 1934. Those lawsuits were styled as follows: Sean Cady, Individually and on Behalf of All Other Persons Similarly Situated v. Key Energy Services, Inc., Richard J. Alario, and J. Marshall Dodson, No. 4:14-cv-2368, filed on August 15, 2014; and Ian W. Davidson, Individually and on Behalf of All Other Persons Similarly Situated v. Key Energy Services, Inc., Richard J. Alario, and J. Marshall Dodson, No. 4.14-cv-2403, filed on August 21, 2014. On December 11, 2014, the Court entered an order that consolidated the two lawsuits into one action, along with any future filed tag-along actions brought on behalf of purchasers of Key Energy Services, Inc. common stock. The order also appointed Inter-Local Pension Fund as the lead plaintiff in the class action and approved the law firm of Spector Roseman Kodroff & Willis, P.C. as lead counsel for the consolidated class and Kendall Law Group, LLP, as local counsel for the consolidated class. The lead plaintiff filed the consolidated amended complaint on February 13, 2015. Among other changes, the consolidated amended complaint added Taylor M. Whichard III and Newton W. Wilson III as defendants, and sought to represent a class of purchasers of the Company's stock between September 4, 2012 and July 17, 2014. Defendants Key Energy Services, Inc., Richard J. Alario, J. Marshall Dodson and Newton W. Wilson III filed a Motion to Dismiss on April 14, 2015. Defendant Taylor M. Whichard III filed a Joinder in Motion and Motion to Dismiss on the same date. Lead plaintiff filed an opposition to that motion, and all defendants filed reply briefs in support of the motion. On April 1, 2016, the Court issued its Opinion and Order granting the defendants' Motion to Dismiss. The Court allowed the lead plaintiff 20 days to file another amended complaint or to inform the Court that it no longer wishes to proceed with the suit. On April 20, 2016, the lead plaintiff notified the Court that it did not intend to amend its complaint. On April 26, 2016, the Court entered a final judgment dismissing the case. The deadline for the lead plaintiff to appeal the dismissal of its suit has not yet expired. Accordingly, we cannot estimate any possible loss or range of loss.

In addition, in a letter dated September 4, 2014, a purported shareholder of the Company demanded that the Board commence an independent internal investigation into and legal proceedings against each member of the Board, a former member of the Board and certain officers of the Company for alleged violations of Maryland and/or federal law. The letter alleges that the Board and senior officers breached their fiduciary duties to the Company, including the duty of loyalty and due care, by (i) improperly accounting for goodwill, (ii) causing the Company to potentially violate the FCPA, resulting in an investigation by the SEC, (iii) causing the Company to engage in improper conduct related to the Company's Russia operations; and (iv) making false statements regarding, and failing to properly account for, certain contracts with Pemex. As described in the letter, the purported shareholder believes that the legal proceedings should seek recovery of damages in an unspecified amount allegedly sustained by the Company. The Board of Directors referred the demand letter to a special committee of the Board. We cannot predict the outcome of this matter.

In March 2015, two collective action lawsuits were filed in the Southern District of Texas, Corpus Christi Division, individually and on behalf of all others similarly situated, alleging violations of the Fair Labor Standards Act of 1938 ("FLSA"). We agreed to conditional certification in the first lawsuit and notice of the case issued to 56 putative class members. Roughly 20% of the eligible putative class members timely filed a notice of consent to join the lawsuit. We will soon begin merit-based discovery in the first lawsuit, which we expect to last at least six months. We also agreed to conditional certification in the second lawsuit and notice of the case recently issued to 14 putative class members. Nine putative class members, including the named plaintiff, have filed a notice of consent to join the lawsuit and the deadline to join expired on April 4, 2016. The parties will begin merit-based discovery in the second case soon.

Because merit based discovery has not commenced, we cannot predict the outcome of these cases at this time. Accordingly, we cannot estimate any possible loss or range of loss for either case.

In May 2015, a class and collective action lawsuit was filed in the Southern District of Texas, Houston Division, individually and on behalf of all others similarly situated, alleging violations of the FLSA and the New Mexico Minimum Wage Act. We agreed to conditional certification of a putative class and notice issued to 174 putative class members. The notice period closed in early February and roughly 15% of eligible putative class members timely filed consents to join the lawsuit. The parties will soon begin merit-based discovery in this case, which will likely last six to nine months. Because merit based discovery has not begun, we cannot predict the outcome at this time. Accordingly, we cannot estimate any possible loss or range of loss for this case.

Table of Contents

In November 2015, the Santa Barbara County District Attorney filed a criminal complaint against two former employees and Key, specifically alleging three counts of violations of California Labor Code section 6425(a) against Key. The complaint seeks unspecified penalties against Key related to an October 12, 2013 accident which resulted in the death of one Key employee at a drilling site near Santa Maria, California. An arraignment was held on February 10, 2016, where Key and its former employees pleaded not guilty to all charges. Because the matter is in early stages, we cannot predict the outcome at this time. Accordingly, we cannot estimate any possible loss or range of loss.

On or about November 23, 2015, the North Dakota Industrial Commission ("NDIC") filed a notice in the county of Burleigh County, ND alleging statutory violations by Key Energy Services, LLC, as operator of two salt water disposal wells in the state of North Dakota. The NDIC has pled for approximately $888,000 in fines and costs. The Company is currently in discussions with the NDIC and is not able to estimate any possible loss or range of loss at this time.

Self-Insurance Reserves

We maintain reserves for workers' compensation and vehicle liability on our balance sheet based on our judgment and estimates using an actuarial method based on claims incurred. We estimate general liability claims on a case-by-case basis. We maintain insurance policies for workers' compensation, vehicle liability and general liability claims. These insurance policies carry self-insured retention limits or deductibles on a per occurrence basis. The retention limits or deductibles are accounted for in our accrual process for all workers' compensation, vehicular liability and general liability claims. As of March 31, 2016 and December 31, 2015, we have recorded $54.0 million and $56.4 million, respectively, of self-insurance reserves related to workers' compensation, vehicular liabilities and general liability claims. Partially offsetting these liabilities, we had $16.9 million and $17.3 million of insurance receivables as of March 31, 2016 and December 31, 2015, respectively. We believe that the liabilities we have recorded are appropriate based on the known facts and circumstances and do not expect further losses materially in excess of the amounts already accrued for existing claims.

Environmental Remediation Liabilities

For environmental reserve matters, including remediation efforts for current locations and those relating to previously disposed properties, we record liabilities when our remediation efforts are probable and the costs to conduct such remediation efforts can be reasonably estimated. As of March 31, 2016 and December 31, 2015, we have recorded $4.9 million and $5.5 million, respectively, for our environmental remediation liabilities. We believe that the liabilities we have recorded are appropriate based on the known facts and circumstances and do not expect further losses materially in excess of the amounts already accrued.

NOTE 11. LOSS PER SHARE

Basic loss per share is determined by dividing net loss attributable to Key by the weighted average number of common shares actually outstanding during the period. Diluted loss per common share is based on the increased number of shares that would be outstanding assuming conversion of potentially dilutive outstanding securities using the treasury stock and "as if converted" methods.

The components of our loss per share are as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share amounts)	
Basic and Diluted EPS Calculation:		
Numerator		
Net loss	$ (81,614)	$ (59,676)
Denominator		
Weighted average shares outstanding	160,047	154,816
Basic and diluted loss per share	$ (0.51)	$ (0.39)

Stock options and stock appreciation rights ("SARs") are included in the computation of diluted loss per share using the treasury stock method. Restricted stock awards are legally considered issued and outstanding when granted and are

included in basic weighted average shares outstanding.

Table of Contents

The company has issued potentially dilutive instruments such as stock options and SARs. However, the company did not include these instruments in its calculation of diluted loss per share during the periods presented, because to include them would be anti-dilutive. The following shows potentially dilutive instruments:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Stock options	812	1,319
SARs	240	315

No events occurred after March 31, 2016 that would materially affect the number of weighted average shares outstanding.

NOTE 12. SHARE-BASED COMPENSATION

We recognized employee share-based compensation expense of $2.4 million and $4.1 million during the three months ended March 31, 2016 and 2015, respectively. We did not capitalize any share-based compensation during the three months ended March 31, 2016 and 2015.

The unrecognized compensation cost related to our unvested restricted stock as of March 31, 2016 is estimated to be $4.4 million and is expected to be recognized over a weighted-average period of 1.6 years. All outstanding stock options are vested and there are no unrecognized cost related to our stock options as of March 31, 2016.

In January 2015, we issued 2.1 million performance units to our executive officers under the 2014 Plan with such material terms as set forth in the 2014 PU Award Agreement. In February 2015, we issued 0.4 million performance units to certain other employees under the 2015 PU Plan. The performance units are measured based on one three-year performance period from January 1, 2015 to December 31, 2017. The number of performance units that may be earned by a participant is determined at the end of the performance period based on the relative placement of Key’s total stockholder return for that period within the peer group, as follows:

Company Placement for the Performance Period	Performance Units Earned as a Percentage of Target	
First	200	%
Second	180	%
Third	160	%
Fourth	140	%
Fifth	120	%
Sixth	100	%
Seventh	0	%
Eighth	0	%
Ninth	0	%
Tenth	0	%
Eleventh	0	%
Twelfth	0	%

If any performance units vest for a given performance period, the award holder will be paid a cash amount equal to the vested percentage of the performance units multiplied by the closing stock price of our common stock on the last trading day of the performance period. We account for the performance units as a liability-type award as they are settled in cash. As of March 31, 2016, the fair value of outstanding performance units was $0.2 million, and is being accreted to compensation expense over the vesting terms of the awards. As of March 31, 2016, the unrecognized compensation cost related to our unvested performance units is estimated to be $0.1 million and is expected to be recognized over a weighted-average period of 2.8 years.

21

Table of Contents

NOTE 13. TRANSACTIONS WITH RELATED PARTIES

Board of Director Relationships

A member of our board of directors is the Executive Vice President, General Counsel and Chief Administrative Officer of Anadarko Petroleum Corporation (“Anadarko”), which is one of our customers. Sales to Anadarko were approximately $1.8 million and $5.1 million for the three months ended March 31, 2016 and 2015, respectively. Receivables outstanding from Anadarko were approximately $0.6 million and $0.9 million as of March 31, 2016 and December 31, 2015, respectively. Transactions with Anadarko for our services are made on terms consistent with other customers.

NOTE 14. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a summary of the carrying amounts and estimated fair values of our financial instruments as of March 31, 2016 and December 31, 2015.

Cash, cash equivalents, accounts receivable, accounts payable and accrued liabilities. These carrying amounts approximate fair value because of the short maturity of the instruments or because the carrying value is equal to the fair value of those instruments on the balance sheet date.

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Financial liabilities:				
6.75% Senior Notes due 2021	$675,000	$136,755	$675,000	$175,568
Term Loan Facility due 2020	312,638	312,638	313,425	313,425

6.75% Senior Notes due 2021. The fair value of these notes are based upon the quoted market prices for those securities as of the dates indicated. The carrying value of these notes as of March 31, 2016 was $675.0 million, and the fair value was $136.8 million (20.3% of carrying value).

Term Loan Facility due 2020. Because the variable interest rates of these loans approximate current market rates, the fair values of the loans borrowed under this facility approximate their carrying values.

NOTE 15. SEGMENT INFORMATION

Our reportable business segments are U.S. Rig Services, Fluid Management Services, Coiled Tubing Services, Fishing and Rental Services and International. We also have a “Functional Support” segment associated with overhead and other costs in support of our reportable segments. Our U.S. Rig Services, Fluid Management Services, Coiled Tubing Services, Fishing and Rental Services operate geographically within the United States. The International reportable segment includes our operations in Mexico and Russia and our Canadian subsidiary. During the second half of 2015, we ceased operations in Colombia, Ecuador and the Middle East. We evaluate the performance of our segments based on gross margin measures. All inter-segment sales pricing is based on current market conditions.

U.S. Rig Services

Our U.S. Rig Services include the completion of newly drilled wells, workover and recompletion of existing oil and natural gas wells, well maintenance, and the plugging and abandonment of wells at the end of their useful lives. We also provide specialty drilling services to oil and natural gas producers with certain of our larger rigs that are capable of providing conventional and horizontal drilling services. Our rigs encompass various sizes and capabilities, allowing us to service all types of wells with depths up to 20,000 feet. Many of our rigs are outfitted with our proprietary KeyView® technology, which captures and reports well site operating data and provides safety control systems. We believe that this technology allows our customers and our crews to better monitor well site operations, improves efficiency and safety, and adds value to the services that we offer.

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

The workover services that we provide are designed to enhance the production of existing wells and generally are more complex and time consuming than normal maintenance services. Workover services can include deepening or extending wellbores into new formations by drilling horizontal or lateral wellbores, sealing off depleted production zones and accessing previously bypassed production zones, converting former production wells into injection wells for enhanced recovery operations

Table of Contents

and conducting major subsurface repairs due to equipment failures. Workover services may last from a few days to several weeks, depending on the complexity of the workover.

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

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

Fluid Management Services

We provide transportation and well-site storage services for various fluids utilized in connection with drilling, completions, workover and maintenance activities. We also provide disposal services for fluids produced subsequent to well completion. These fluids are removed from the well site and transported for disposal in saltwater disposal wells owned by us or a third party. In addition, we operate a fleet of hot oilers capable of pumping heated fluids used to clear soluble restrictions in a wellbore. Demand and pricing for these services generally correspond to demand for our well service rigs.

Coiled Tubing Services

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

Fishing and Rental Services

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

Demand for our fishing and rental services is closely related to capital spending by oil and natural gas producers, which is generally a function of oil and natural gas prices.

International

Our International segment includes operations in Mexico and Russia. During the second half of 2015, we ceased operations in Colombia, Ecuador and the Middle East. We provide rig-based services such as the maintenance, workover, recompletion of existing oil wells, completion of newly-drilled wells and plugging and abandonment of wells at the end of their useful lives in each of our international markets. In addition, in Mexico we provide drilling, coiled tubing, wireline and project management and consulting services. Our work in Mexico also requires us to provide third-party services, which vary in scope by project. We also have a technology development and control systems business based in Canada which is focused on the development of hardware and software related to oilfield service equipment controls, data acquisition and digital information flow.

In April 2015, we announced our decision to exit markets in which we participate outside of North America. Our strategy is to sell or relocate the assets of the businesses operating in these markets. As of December 31, 2015, we sold our subsidiary in Bahrain and certain assets in Oman, Ecuador and Colombia and are no longer operating in these markets. We are currently in discussions to sell our subsidiary in Russia.

Functional Support

Our Functional Support segment includes unallocated overhead costs associated with administrative support for our U.S. and International reporting segments.

23

Table of Contents

Financial Summary

The following tables set forth our unaudited segment information as of and for the three months ended March 31, 2016 and 2015 (in thousands):

As of and for the three months ended March 31, 2016

	U.S. Rig Services	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support(2)	Reconciling Eliminations	Total
Revenues from external customers	$58,988	$22,670	$9,531	$16,283	$3,616	$—	$—	$111,088
Intersegment revenues	245	309	40	987	140	—	(1,721)	—
Depreciation and amortization	14,905	5,880	2,986	7,182	2,237	2,562	—	35,752
Other operating expenses	50,449	23,062	12,694	13,113	6,439	31,086	—	136,843
Operating loss	(6,366)	(6,272)	(6,149)	(4,012)	(5,060)	(33,648)	—	(61,507)
Interest expense, net of amounts capitalized	—	—	—	—	—	21,584	—	21,584
Loss before income taxes	(6,362)	(6,268)	(6,076)	(4,014)	(4,497)	(54,643)	—	(81,860)
Long-lived assets(1)	482,588	123,400	52,113	120,984	53,894	174,785	(135,972)	871,792
Total assets	1,323,797	262,688	131,421	482,133	175,044	(737,293)	(411,744)	1,226,046
Capital expenditures	140	820	101	1,084	364	192	—	2,701

As of and for the three months ended March 31, 2015

	U.S. Rig Services	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support(2)	Reconciling Eliminations	Total
Revenues from external customers	$120,822	$50,755	$31,017	$42,690	$22,515	$—	$—	$267,799
Intersegment revenues	263	308	—	1,802	1,367	542	(4,282)	—
Depreciation and amortization	14,710	7,722	5,767	8,964	6,829	3,219	—	47,211
Impairment expense	—	—	21,700	—	—	—	—	21,700
Other operating expenses	98,112	41,557	27,372	33,782	25,297	46,054	—	272,174
Operating income (loss)	8,000	1,476	(23,822)	(56)	(9,611)	(49,273)	—	(73,286)
Interest expense, net of amounts capitalized	—	—	—	—	—	13,342	—	13,342
Income (loss) before income taxes	8,032	1,524	(23,820)	(226)	(10,631)	(65,939)	—	(91,060)
Long-lived assets(1)	796,710	177,308	170,972	324,197	256,741	269,613	(153,366)	1,842,175
Total assets	1,609,337	297,450	257,599	664,370	390,886	(606,273)	(390,969)	2,222,400
Capital expenditures	9,661	1,294	2,114	3,495	1,366	1,065	—	18,995

(1) Long-lived assets include fixed assets, goodwill, intangibles and other non-current assets.

(2) Functional Support is geographically located in the United States.

Table of Contents

NOTE 16. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Our 2021 Notes, ABL Facility and Term Loan Facility are guaranteed by virtually all our domestic subsidiaries, all of which are wholly owned. The guarantees are joint and several, full, complete and unconditional. There are no restrictions on the ability of subsidiary guarantors to transfer funds to the parent company.

As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial information pursuant to SEC Regulation S-X Rule 3-10, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.”

CONDENSED CONSOLIDATING UNAUDITED BALANCE SHEETS

	March 31, 2016				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Assets:					
Current assets	$159,025	$132,720	$ 62,509	$—	$ 354,254
Property and equipment, net	—	829,364	25,212	—	854,576
Intercompany notes and accounts receivable and investment in subsidiaries	2,061,038	1,426,173	23,085	(3,510,296)	—
Other assets	—	14,261	2,955	—	17,216
TOTAL ASSETS	$2,220,063	$2,402,518	$ 113,761	$(3,510,296)	$ 1,226,046
Liabilities and equity:					
Current liabilities	$31,403	$70,193	$ 38,906	$—	$ 140,502
Long-term debt	954,719	—	—	—	954,719
Intercompany notes and accounts payable	1,162,648	2,671,057	272,137	(4,105,842)	—
Deferred tax liabilities	6,166	—	7,865	—	14,031
Other long-term liabilities	6,273	51,087	564	—	57,924
Equity	58,854	(389,819)	(205,711)	595,546	58,870
TOTAL LIABILITIES AND EQUITY	$2,220,063	$2,402,518	$ 113,761	$(3,510,296)	$ 1,226,046

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEETS

	December 31, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Assets:					
Current assets	$202,688	$192,083	$ 25,655	$—	$420,426
Property and equipment, net	—	869,150	10,882	—	880,032
Intercompany notes and accounts receivable and investment in subsidiaries	2,107,092	1,226,433	87,435	(3,420,960)	—
Other assets	—	16,885	10,455	—	27,340
TOTAL ASSETS	$2,309,780	$2,304,551	$ 134,427	$(3,420,960)	$1,327,798
Liabilities and equity:					
Current liabilities	$35,233	$101,594	$ 17,656	$—	$154,483
Long-term debt	961,700	—	—	—	961,700
Intercompany notes and accounts payable	1,162,648	2,731,926	125,565	(4,020,139)	—
Deferred tax liabilities	3,658	15,159	(4,565)	—	14,252
Other long-term liabilities	6,267	50,229	577	—	57,073
Equity	140,274	(594,357)	(4,806)	599,179	140,290
TOTAL LIABILITIES AND EQUITY	$2,309,780	$2,304,551	$ 134,427	$(3,420,960)	$1,327,798

CONDENSED CONSOLIDATING UNAUDITED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2016				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenues	$—	$ 107,472	$ 3,756	$ (140)	$ 111,088
Direct operating expense	—	86,807	3,923	(132)	90,598
Depreciation and amortization expense	—	34,534	1,218	—	35,752
General and administrative expense	193	43,598	2,454	—	46,245
Operating loss	(193)	(57,467)	(3,839)	(8)	(61,507)
Interest expense, net of amounts capitalized	21,584	—	—	—	21,584
Other income, net	(645)	(143)	(558)	115	(1,231)
Loss before income taxes	(21,132)	(57,324)	(3,281)	(123)	(81,860)
Income tax (expense) benefit	(6)	—	252	—	246
Net loss	$(21,138)	$(57,324)	$ (3,029)	$ (123)	$ (81,614)

Table of Contents

CONDENSED CONSOLIDATING UNAUDITED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenues	$—	$ 249,407	$ 22,951	$ (4,559)	$ 267,799
Direct operating expense	—	189,626	17,295	(2,391)	204,530
Depreciation and amortization expense	—	44,439	2,772	—	47,211
General and administrative expense	221	65,635	3,951	(2,163)	67,644
Impairment expense	—	21,700	—	—	21,700
Operating loss	(221)	(71,993)	(1,067)	(5)	(73,286)
Interest expense, net of amounts capitalized	13,342	—	—	—	13,342
Other (income) loss, net	(318)	4,041	709	—	4,432
Loss before income taxes	(13,245)	(76,034)	(1,776)	(5)	(91,060)
Income tax benefit	30,862	77	445	—	31,384
Net income (loss)	$ 17,617	$ (75,957)	$ (1,331)	$ (5)	$ (59,676)

CONDENSED CONSOLIDATING UNAUDITED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2016				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net cash provided by (used in) operating activities	$—	$ (31,902)	$ 1,838	$ —	$ (30,064)
Cash flows from investing activities:					
Capital expenditures	—	(2,701)	—	—	(2,701)
Intercompany notes and accounts	—	21,596	—	(21,596)	—
Other investing activities, net	—	7,435	—	—	7,435
Net cash provided by investing activities	—	26,330	—	(21,596)	4,734
Cash flows from financing activities:					
Repayments of long-term debt	(787)	—	—	—	(787)
Restricted stock	(18,605)	—	—	—	(18,605)
Repurchases of common stock	(143)	—	—	—	(143)
Intercompany notes and accounts	(21,596)	—	—	21,596	—
Other financing activities, net	(2,508)	—	—	—	(2,508)
Net cash used in financing activities	(43,639)	—	—	21,596	(22,043)
Effect of changes in exchange rates on cash	—	—	(1,277)	—	(1,277)
Net increase (decrease) in cash and cash equivalents	(43,639)	(5,572)	561	—	(48,650)
Cash and cash equivalents at beginning of period	191,065	10,024	3,265	—	204,354
Cash and cash equivalents at end of period	$ 147,426	$ 4,452	$ 3,826	$ —	$ 155,704

Table of Contents

CONDENSED CONSOLIDATING UNAUDITED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net cash used in operating activities	$—	$ (1,409)	$ (1,255)	$ —	$ (2,664)
Cash flows from investing activities:					
Capital expenditures	—	(18,327)	(668)	—	(18,995)
Intercompany notes and accounts	—	16,132	—	(16,132)	—
Other investing activities, net	—	3,290	—	—	3,290
Net cash provided by (used in) investing activities	—	1,095	(668)	(16,132)	(15,705)
Cash flows from financing activities:					
Proceeds from borrowings on revolving credit facility	91,000	—	—	—	91,000
Repayments on revolving credit facility	(61,000)	—	—	—	(61,000)
Payment of deferred financing costs	(125)	—	—	—	(125)
Repurchases of common stock	(210)	—	—	—	(210)
Intercompany notes and accounts	(16,132)	—	—	16,132	—
Other financing activities, net	(2,840)	—	—	—	(2,840)
Net cash provided by financing activities	10,693	—	—	16,132	26,825
Effect of changes in exchange rates on cash	—	—	159	—	159
Net increase (decrease) in cash and cash equivalents	10,693	(314)	(1,764)	—	8,615
Cash and cash equivalents at beginning of period	19,949	450	6,905	—	27,304
Cash and cash equivalents at end of period	$30,642	$ 136	$ 5,141	$ —	$ 35,919

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Key Energy Services, Inc., and its wholly owned subsidiaries (collectively, "Key," the "Company," "we," "us," "its," and "our") provide a full range of well services to major oil companies, foreign national oil companies and independent oil and natural gas production companies. Our services include rig-based and coiled tubing-based well maintenance and workover services, well completion and recompletion services, fluid management services, fishing and rental services, and other ancillary oilfield services. Additionally, certain rigs are capable of specialty drilling applications. We operate in most major oil and natural gas producing regions of the continental United States and have operations in Mexico and Russia. In addition, we have a technology development and control systems business based in Canada.

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of and for the three months ended March 31, 2016 and 2015, included elsewhere herein, and the audited consolidated financial statements and notes thereto included in our 2015 Form 10-K and Part 1A. Risk Factors of our 2015 Form 10-K.

We operate in five business segments; U.S. Rig Services, Fluid Management Services, Coiled Tubing Services, Fishing and Rental Services and International. We also have a "Functional Support" segment associated with managing our U.S. and International business segments. See "Note 15. Segment Information" in "Item 1. Financial Statements" of Part I of this report for a summary of our business segments.

PERFORMANCE MEASURES

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

	WTI Cushing Oil(1)	NYMEX Henry Hub Natural Gas(1)	Average Baker Hughes U.S. Land Drilling Rigs(2)
2016:			
First Quarter	$ 33.35	$ 1.99	524
2015:			
First Quarter	$ 48.49	$ 2.90	1,353
Second Quarter	$ 57.85	$ 2.75	876
Third Quarter	$ 46.49	$ 2.76	833
Fourth Quarter	$ 41.94	$ 2.12	744

(1) Represents the average of the monthly average prices for each of the periods presented. Source: EIA and Bloomberg

(2) Source: www.bakerhughes.com

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

Table of Contents

In the U.S., our rig activity occurs primarily on weekdays during daylight hours. Accordingly, we track U.S. rig activity on a "per U.S. working day" basis. Key's U.S. working days per quarter, which exclude national holidays, are indicated in the table below. Our international rig activity and domestic trucking activity tend to occur on a 24/7 basis. Accordingly, we track our international rig activity and our domestic trucking activity on a "per calendar day" basis. The following table presents our quarterly rig and trucking hours from 2015 through the first quarter of 2016:

	Rig Hours			Trucking Hours	Key's U.S. Working Days(1)
2016:	U.S.	International	Total		
First Quarter	153,417	5,715	159,132	217,429	63
Total 2016	153,417	5,715	159,132	217,429	63
2015:					
First Quarter	271,005	36,950	307,955	418,032	62
Second Quarter	232,169	25,555	257,724	342,271	63
Third Quarter	226,953	13,330	240,283	309,601	64
Fourth Quarter	203,252	8,279	211,531	247,979	62
Total 2015	933,379	84,114	1,017,493	1,317,883	251

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

MARKET CONDITIONS AND OUTLOOK

Market and Business Conditions — Quarter Ended March 31, 2016

Our core businesses depend on our customers' willingness to make expenditures to produce, develop and explore for oil and natural gas. Industry conditions are influenced by numerous factors, such as the supply of and demand for oil and natural gas, domestic and worldwide economic conditions, and political instability in oil producing countries.

Oil and natural gas prices began a rapid and substantial decline in the fourth quarter of 2014. Depressed commodity price conditions persisted and worsened during 2015 and that trend has continued into 2016. As a result, the rig count and demand for our products and services has declined substantially, and the prices we are able to charge our customers for our products and services have also declined substantially.

Further deterioration in oil prices early in the first quarter drove another sequential decline in oilfield services activity. While we have sought to anticipate incremental activity declines and have undertaken to reshape our organizational and cost structure to mitigate the negative impact of these declines, we have continued to experience negative operating results and cash flows from operations. During the first quarter of 2016, we recorded a net loss of $81.6 million and had negative cash flows from operating activities of $30.1 million. If industry conditions do not improve, we are likely to continue to suffer net losses and negative cash flows from operations.

Additionally, our liquidity declined by approximately $50 million during the first quarter of 2016 as we made two interest payments on our outstanding debt instruments totaling approximately $32 million and placed approximately $19 million of cash into restricted cash in order to maintain the borrowing base under our asset-based credit facility.

Market and Business Outlook

Although oil prices have improved more recently, we have not experienced an uptick in activity levels commensurate with that of oil prices. We believe that our customers need some level of confidence that oil will stay in a reasonably economic range in order to materially resume activity. We believe that as activity picks up in the oilfield, our production services businesses will benefit from the backlog of deferred maintenance on existing wells. However, each of our customers will act independently, with different economics thresholds and spending cycles, so the timing associated with a material activity improvement is difficult to predict.

As a result, in light of the current conditions in our industry, our significant negative cash flow, our levels of indebtedness and liquidity and the risk that we may be unable to remain in compliance with the financial ratios in our Facilities, we continue to analyze a variety of transactions and alternatives designed to reduce our debt and improve our liquidity, and we are in active discussions with our lenders and noteholders regarding transactions and alternatives to address our level of indebtedness and liquidity. These matters are discussed more fully below under "Liquidity and

Capital Resources."

Table of Contents

RESULTS OF OPERATIONS

The following table shows our consolidated results of operations for the three months ended March 31, 2016 and 2015, respectively (in thousands):

	Three Months Ended March 31,	
	2016	2015
REVENUES	$111,088	$267,799
COSTS AND EXPENSES:		
Direct operating expenses	90,598	204,530
Depreciation and amortization expense	35,752	47,211
General and administrative expenses	46,245	67,644
Impairment expense	—	21,700
Operating loss	(61,507)	(73,286)
Interest expense, net of amounts capitalized	21,584	13,342
Other (income) loss, net	(1,231)	4,432
Loss before income taxes	(81,860)	(91,060)
Income tax benefit	246	31,384
NET LOSS	$(81,614)	$(59,676)

Consolidated Results of Operations — Three Months Ended March 31, 2016 and 2015

Revenues

Our revenues for the three months ended March 31, 2016 decreased $156.7 million, or 58.5%, to $111.1 million from $267.8 million for the three months ended March 31, 2015, due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services. Internationally, we had lower revenue as a result of reduced customer activity in Russia and the exit of operations in the Middle East and South America. See “Segment Operating Results — Three Months Ended March 31, 2016 and 2015” below for a more detailed discussion of the change in our revenues.

Direct Operating Expenses

Our direct operating expenses decreased $113.9 million, to $90.6 million (81.6% of revenues), for the three months ended March 31, 2016, compared to $204.5 million (76.4% of revenues) for the three months ended March 31, 2015. The decrease is primarily related to a decrease in employee compensation costs, fuel expense and repair and maintenance expense as we sought to reduce our cost structure and as a result of lower activity levels.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased $11.5 million, or 24.3%, to $35.8 million during the three months ended March 31, 2016, compared to $47.2 million for the three months ended March 31, 2015. The decrease is primarily attributable to the impairment of certain fixed assets and decreases in capital expenditures.

General and Administrative Expenses

General and administrative expenses decreased $21.4 million, to $46.2 million (41.6% of revenues), for the three months ended March 31, 2016, compared to $67.6 million (25.3% of revenues) for the three months ended March 31, 2015. The decrease is primarily due to lower employee compensation costs due to reduced staffing levels and reduction in wages and a decrease in expenses related to FCPA investigations.

Impairment Expense

No impairment was recorded during the three months ended March 31, 2016. During the three months ended March 31, 2015, we recorded a $21.7 million impairment of goodwill in our Coiled Tubing Services segment related to the finalization of our 2014 goodwill impairment testing.

Interest Expense, Net of Amounts Capitalized

Interest expense increased $8.2 million, or 61.8%, to $21.6 million for the three months ended March 31, 2016, compared to $13.3 million for the same period in 2015. The increase is primarily related to increased borrowings and interest rate under the new Term Loan Facility for the three months ended March 31, 2016 compared to the same period in 2015.

31

Table of Contents

Other (Income) Loss, Net

During the three months ended March 31, 2016, we recognized other income, net, of $1.2 million, compared to other loss, net, of $4.4 million for the three months ended March 31, 2015. A $4.0 million allowance for the collectibility of our notes receivable related to the sale of our operations in Argentina was recorded in the first quarter of 2015. Our foreign exchange (gain) loss relates to U.S. dollar-denominated transactions in our foreign locations and fluctuations in exchange rates between local currencies and the U.S. dollar.

The following table summarizes the components of other (income) loss, net for the periods indicated:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Interest income	$(132)	$(15)
Foreign exchange (gain) loss	(252)	1,260
Allowance for collectibility of notes receivable	—	3,950
Other, net	(847)	(763)
Total	$(1,231)	$4,432

Income Tax Benefit

We recorded an income tax benefit of $0.2 million on a pre-tax loss of $81.9 million for the three months ended March 31, 2016, compared to an income tax benefit of $31.4 million on a pre-tax loss of $91.1 million for the same period in 2015. Our effective tax rate was 0.3% for the three months ended March 31, 2016, compared to 34.5% for the three months ended March 31, 2015. Our effective tax rates for such periods differ from the U.S. statutory rate of 35% due to a number of factors, including the mix of profit and loss between domestic and international taxing jurisdictions and the impact of permanent items, including goodwill impairment expense and expenses subject to statutorily imposed limitations such as meals and entertainment expenses, that affect book income but do not affect taxable income and discrete tax adjustments, such as valuation allowances against deferred tax assets and tax expense or benefit recognized for uncertain tax positions.

Segment Operating Results — Three Months Ended March 31, 2016 and 2015

The following table shows operating results for each of our segments for the three months ended March 31, 2016 and 2015 (in thousands):

For the three months ended March 31, 2016

	U.S. Rig Services	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support	Total
Revenues from external customers	$58,988	$ 22,670	$9,531	$16,283	$ 3,616	$ —	$111,088
Operating expenses	65,354	28,942	15,680	20,295	8,676	33,648	172,595
Operating loss	(6,366)	(6,272)	(6,149)	(4,012)	(5,060)	(33,648)	(61,507)

For the three months ended March 31, 2015

	U.S. Rig Services	Fluid Management Services	Coiled Tubing Services	Fishing and Rental Services	International	Functional Support	Total
Revenues from external customers	$120,822	$ 50,755	$31,017	$42,690	$ 22,515	$ —	$267,799
Operating expenses	112,822	49,279	54,839	42,746	32,126	49,273	341,085
Operating income (loss)	8,000	1,476	(23,822)	(56)	(9,611)	(49,273)	(73,286)

U.S. Rig Services

Revenues for our U.S. Rig Services segment decreased $61.8 million, or 51.2%, to $59.0 million for the three months ended March 31, 2016, compared to $120.8 million for the three months ended March 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market

conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our U.S. Rig Services segment were $65.4 million for the three months ended March 31, 2016, which represented a decrease of $47.5 million, or 42.1%, compared to $112.8 million for the same period in 2015. These

Table of Contents

expenses decreased primarily as a result of a decrease in employee compensation costs and equipment expense as we sought to reduce our cost structure and as a result of lower activity levels.

Fluid Management Services

Revenues for our Fluid Management Services segment decreased $28.1 million, or 55.3%, to $22.7 million for the three months ended March 31, 2016, compared to $50.8 million for the three months ended March 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Fluid Management Services segment were $28.9 million for the three months ended March 31, 2016, which represented a decrease of $20.3 million, or 41.3%, compared to $49.3 million for the same period in 2015. These expenses decreased primarily as a result of a decrease in equipment expense and employee compensation costs as we sought to reduce our cost structure and as a result of lower activity levels.

Coiled Tubing Services

Revenues for our Coiled Tubing Services segment decreased $21.5 million, or 69.3%, to $9.5 million for the three months ended March 31, 2016, compared to $31.0 million for the three months ended March 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Coiled Tubing Services segment were $15.7 million for the three months ended March 31, 2016, which represented a decrease of $39.2 million, or 71.4%, compared to $54.8 million for the same period in 2015. These expenses decreased primarily as a result of a decrease in employee compensation costs, repair and maintenance expense and fuel costs as we sought to reduce our cost structure and as a result of lower activity levels and no impairment expense compared to a $21.7 million impairment in 2015.

Fishing and Rental Services

Revenues for our Fishing and Rental Services segment decreased $26.4 million, or 61.9%, to $16.3 million for the three months ended March 31, 2016, compared to $42.7 million for the three months ended March 31, 2015. The decrease for this segment is primarily due to lower spending from our customers as a result of lower oil prices. These market conditions resulted in reduced customer activity and a reduction in the price received for our services.

Operating expenses for our Fishing and Rental Services segment were $20.3 million for the three months ended March 31, 2016, which represented a decrease of $22.5 million, or 52.5%, compared to $42.7 million for the same period in 2015. These expenses decreased primarily as a result of a decrease in employee compensation costs, repair and maintenance expense and fuel costs as we sought to reduce our cost structure and as a result of lower activity levels.

International

Revenues for our International segment decreased $18.9 million, or 83.9%, to $3.6 million for the three months ended March 31, 2016, compared to $22.5 million for the three months ended March 31, 2015. The decrease was primarily attributable to lower customer activity in Russia and the exit of operations in the Middle East and South America.

Operating expenses for our International segment decreased $23.5 million, or 73.0%, to $8.7 million for the three months ended March 31, 2016, compared to $32.1 million for the three months ended March 31, 2015. These expenses decreased primarily as a result of a decrease in employee compensation costs and equipment expense, primarily due to lower activity.

Functional Support

Operating expenses for Functional Support, which represent expenses associated with managing our U.S. and International reporting segments, decreased $15.6 million, or 31.7%, to $33.6 million (30.3% of consolidated revenues) for the three months ended March 31, 2016 compared to $49.3 million (18.4% of consolidated revenues) for the same period in 2015. The decrease is primarily due to lower employee compensation costs due to reduced staffing levels and a decrease in legal expenses related to the FCPA investigations.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Current Financial Condition and Liquidity

As of March 31, 2016, we had cash and cash equivalents of $155.7 million compared to $204.4 million as of December 31, 2015. Our working capital was $213.8 million as of March 31, 2016, compared to $265.9 million as of December 31, 2015. Our working capital decreased from the prior year end primarily as a result of a decrease in cash and cash equivalents and accounts receivable partially offset by a decrease in accounts payable and increase in restricted cash. Our cash balance declined by $48.7 million during the first quarter of 2016 primarily as a result of our making two interest payments on our outstanding debt instruments totaling $31.7 million and moving approximately $18.6 million to restricted cash in order to maintain the borrowing base under our ABL Facility. As of March 31, 2016, we had no borrowings outstanding and $45.8 million in committed letters of credit outstanding under our ABL Facility with borrowing capacity of $25.9 million available subject to covenant constraints under that facility.

The following table summarizes our cash flows for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Net cash used in operating activities	$(30,064)	$(2,664)
Cash paid for capital expenditures	(2,701)	(18,995)
Proceeds received from sale of fixed assets	7,435	2,890
Proceeds from notes receivable	—	400
Repayments of long-term debt	(787)	—
Restricted cash	(18,605)	—
Proceeds from borrowings on revolving credit facility	—	91,000
Repayments on revolving credit facility	—	(61,000)
Payment of deferred financing costs	—	(125)
Other financing activities, net	(2,651)	(3,050)
Effect of exchange rates on cash	(1,277)	159
Net increase (decrease) in cash and cash equivalents	$(48,650)	$8,615

Cash used in operating activities was $30.1 million for the three months ended March 31, 2016 compared to cash used in operating activities of $2.7 million for the three months ended March 31, 2015. Cash used by operating activities for the three months ended March 31, 2016 was primarily related to net loss adjusted for noncash items. Cash used by operating activities for the three months ended March 31, 2015 was primarily related to decrease in deferred tax liabilities partially offset by net loss adjusted for noncash items.

Cash provided by investing activities was $4.7 million for three months ended March 31, 2016 compared to cash used in investing activities of $15.7 million for three months ended March 31, 2015. Cash inflows during these periods consisted primarily of proceeds from sales of fixed assets. Cash outflows during these periods consisted primarily of capital expenditures. Our capital expenditures through March 31, 2016 primarily relate to maintenance of our equipment.

Cash used in financing activities was $22.0 million for the three months ended March 31, 2016 compared to cash provided by financing activities of $26.8 million for the three months ended March 31, 2015. Overall financing cash outflows for 2016 primarily relate to the increase in restricted cash. Overall financing cash inflows for 2015 primarily relate to net proceeds from the borrowings under our prior revolving credit facility.

Sources of Liquidity and Capital Resources

Our sources of liquidity include our current cash and cash equivalents, availability under our ABL Facility, and internally generated cash flows from operations. However, as discussed above, we had negative cash from operating activities of $22.4 million during 2015 and $30.1 million during the first quarter of 2016, and, if industry conditions do not improve or worsen, we expect to continue to experience negative cash from operations for the foreseeable future.

As of March 31, 2016, our total outstanding debt of was $965.4 million. We have no significant maturities of debt until 2020. Interest to be paid for the remainder of 2016 related to our 2021 Notes is approximately $23 million and is due on September 1, 2016. Mandatory principal payments for the remainder of 2016 related to our Term Loan Facility, assuming we make no optional principal payments and without giving effect to the prepayment described below under “-Covenant Compliance,”, is approximately $2.4 million. Interest on our Term Loan Facility is due each quarter and, assuming we make no

Table of Contents

optional principal payments on the Term Loan Facility, quarterly interest payments are expected to be approximately $8 million.

At March 31, 2016, our annual debt maturities for our 2021 Notes and Term Loan Facility were as follows:

Year	Principal Payments (in thousands)
2016	$ 2,363
2017	3,150
2018	3,150
2019	3,150
2020 and thereafter	975,825
Total principal payments	$ 987,638

Covenant Compliance

As of March 31, 2016, we were in compliance with the covenants under the indenture governing the 2021 Notes and under the ABL Facility and the Term Loan Facility (collectively, the "Facilities"), subject to the matter described below.

In calculating the Asset Coverage Ratio under the Term Loan Facility and the ABL Facility, the value of certain of the Term Priority Collateral used in calculating the Asset Coverage Ratio is determined pursuant to an appraisal required to be obtained by the Company and provided to the Term Loan Administrative Agent and the ABL Administrative Agent (collectively, the "Administrative Agents") in connection with the delivery to the Administrative Agents of the Company's year-end and June 30 financial statements. In addition, the Term Loan Lenders are permitted to request an additional appraisal once each fiscal year.

Based on the appraisal obtained by the Company and delivered to the Administrative Agents with our financial statements for the year ended December 31, 2015, we were in compliance with the Asset Coverage Ratio as of March 31, 2016. However, during the first quarter of 2016, certain of the Term Loan Lenders requested a new appraisal from a different appraiser, and, based on that appraisal, certain of the Term Loan Lenders have alleged that we were not in compliance with the Asset Coverage Ratio as of March 31, 2016. Although the Company disagrees with the validity of the appraisal commissioned by the Term Loan Lenders, and has reserved certain of its rights to contest such appraisal, we entered into a Forbearance Agreement dated as of May 11, 2016 (the "Forbearance Agreement") with certain of the Term Loan Lenders pursuant to which such lenders agreed that, subject to the terms and conditions of the Forbearance Agreement, they would forbear through June 6, 2016 from exercising remedies available to them under the Term Loan Facility as a result of our alleged non-compliance with the Asset Coverage Ratio under the Term Loan Facility. As consideration for the Term Loan Lenders' forbearance, we prepaid $7.5 million in principal and accrued interest under the Term Loan Facility. We also entered into a Limited Consent and Forbearance Agreement dated May 11, 2016 (the "Limited Consent") with certain of the ABL Lenders pursuant to which such lenders consented to the prepayment we made under the Term Loan Facility and agreed to a substantially similar forbearance.

In addition to entering into the Forbearance Agreement and the Limited Consent, we included additional collateral that was omitted from the Term Loan Lenders' appraisal, and we believe that the inclusion of this additional collateral, together with the $7.5 million prepayment made to the Term Loan Lenders, results in the cure of the alleged default, as contemplated in each facility, and our being in compliance with the Asset Coverage Ratio under both Facilities as of March 31, 2016.

The forbearance provided by the Term Loan Lenders and the ABL Lenders is subject to termination under certain circumstances, including if a default or event of default occurs under the Term Loan Facility or, in the case of the Term Loan Agreement, if we terminate discussions with the Term Loan Lenders related to the negotiation and implementation of an amendment and/or restatement of the Term Loan Facility. The Forbearance Agreement and Limited Consent are filed as exhibits 10.3 and 10.4, respectively, to this Current Report on Form 10-Q and reference is hereby made to such exhibits for their complete terms.

For more information, please read "-Liquidity Outlook" below.

6.75% Senior Notes due 2021

We have outstanding $675.0 million of 6.75% Senior Notes due 2021 (the “2021 Notes”). The 2021 Notes are general unsecured senior obligations and are effectively subordinated to all of our existing and future secured indebtedness. The 2021 Notes are or will be jointly and severally guaranteed on a senior unsecured basis by certain of our existing and future domestic subsidiaries. Interest on the 2021 Notes is payable on March 1 and September 1 of each year. The 2021 Notes mature on March 1, 2021.

Table of Contents

The 2021 Notes are subject to redemption at any time and from time to time at our option, in whole or in part, at the redemption prices below (expressed as percentages of the principal amount redeemed), plus accrued and unpaid interest to the applicable redemption date, if redeemed during the twelve-month period beginning on March 1 of the years indicated below:

Year	Percentage
2016	103.375 %
2017	102.250 %
2018	101.125 %
2019 and thereafter	100.000 %

If we experience a change of control, subject to certain exceptions, we must give holders of the 2021 Notes the opportunity to sell to us their 2021 Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of purchase.

We are subject to certain negative covenants under the Indenture. The Indenture limits our ability to, among other things:

- incur additional indebtedness and issue preferred equity interests;
- pay dividends or make other distributions or repurchase or redeem equity interests;
- make loans and investments;
- enter into sale and leaseback transactions;
- sell, transfer or otherwise convey assets;
- create liens;
- enter into transactions with affiliates;
- enter into agreements restricting subsidiaries' ability to pay dividends;
- designate future subsidiaries as unrestricted subsidiaries; and
- consolidate, merge or sell all or substantially all of the applicable entities' assets.

These covenants are subject to certain exceptions and qualifications, and contain cross-default provisions relating to the covenants of our Facilities discussed below. Substantially all of the covenants will terminate before the 2021 Notes mature if one of two specified ratings agencies assigns the 2021 Notes an investment grade rating in the future and no events of default exist under the Indenture. As of March 31, 2016, the 2021 Notes were rated below investment grade. Any covenants that cease to apply to us as a result of achieving an investment grade rating will not be restored, even if the investment rating assigned to the 2021 Notes later falls below investment grade. We were in compliance with these covenants as of March 31, 2016.

ABL Facility

On June 1, 2015, the Company entered into a Loan and Security Agreement (the "ABL Facility"), among the Company and Key Energy Services, LLC, as the Borrowers (collectively, the "ABL Borrowers"), certain subsidiaries of the ABL Borrowers named as guarantors therein, the financial institutions party thereto from time to time as Lenders (collectively, the "ABL Lenders"), Bank of America, N.A., as Administrative Agent for the Lenders (the "ABL Administrative Agent"), and Bank of America, N.A. and Wells Fargo Bank, National Association, as Co-Collateral Agents for the Lenders. The ABL Facility provides for aggregate initial commitments from the ABL Lenders of $100 million (the "Commitments") and matures on February 28, 2020.

The ABL Facility provides the ABL Borrowers with the ability to borrow up to an aggregate principal amount equal to the lesser of (i) the Commitments and (ii) the sum of (a) 85% of the value of eligible accounts receivable plus (b) 80% of the value of eligible unbilled accounts receivable, subject to a limit equal to the greater of (x) $35 million and (y) 25% of the Commitments plus (c) certain cash and cash equivalents deposited for the benefit of the ABL Lenders, subject to a limit of $15 million. The amount that may be borrowed under the ABL Facility is subject to reduction for certain reserves provided for by the ABL Facility. In addition, the percentages of accounts receivable and unbilled accounts receivable included in the calculation described above is subject to reduction to the extent of certain bad debt write-downs and similar amounts provided in the ABL Facility.

Borrowings under the ABL Facility bear interest, at the ABL Borrowers' option, at a per annum rate equal to (i) LIBOR for 30, 60, 90, 180, or, with the consent of the ABL Lenders, 360 days, plus 4.5% or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the Federal Funds rate, plus 0.50% or (z) 30-day LIBOR, plus 1.0% plus (b) 3.5%. In addition, the ABL Facility provides for unused line fees of 1.00% to 1.25% per year, depending on utilization, letter of credit fees and certain other fees.

The ABL Facility is guaranteed by certain of the Company's existing and future subsidiaries (the "ABL Guarantors," and together with the ABL Borrowers, the "ABL Loan Parties"). To secure their obligations under the ABL Facility, each of the ABL Loan Parties has granted to the Administrative Agent a first-priority security interest for the benefit of the ABL Lenders in

Table of Contents

its present and future accounts receivable, inventory and related assets and proceeds of the foregoing (the "ABL Priority Collateral"). In addition, the obligations of the ABL Loan Parties under the ABL Facility are secured by second-priority liens on the Term Priority Collateral (as described below under "Term Loan Facility").

The revolving loans under the ABL Facility may be voluntarily prepaid, in whole or in part, without premium or penalty, subject to breakage or similar costs.

The ABL Facility contains certain affirmative and negative covenants, including covenants that restrict the ability of the ABL Loan Parties to take certain actions without the permission of the ABL Lenders or as permitted under the ABL Facility including the incurrence of debt, the granting of liens, the making of investments, the payment of dividends and the sale of assets. The ABL Facility also contains a requirement that the ABL Borrowers comply with a minimum liquidity covenant, an asset coverage ratio and, during certain periods, a fixed charge coverage ratio.

Under the asset coverage ratio covenant, the ABL Borrowers must maintain an asset coverage ratio of at least 1.5 to 1.0. The asset coverage ratio is generally defined as the ratio of (i) the sum of (a) the value of the Term Priority Collateral plus (b) certain cash and cash equivalents in excess of $100 million held for the benefit of the Term Loan Lenders to (ii) the sum of (a) the amount outstanding under the Term Loan Facility and, following repayment of the Term Loan Facility, the amount outstanding under the ABL Facility, plus (b) the amount of any fine or settlement in respect of the FCPA Matter (as defined in the ABL Facility) that is secured by a lien on the ABL Priority Collateral or the Term Priority Collateral (the "Asset Coverage Ratio").

Under the fixed charge coverage ratio covenant, the ABL Borrowers must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 during the period commencing on the day that availability under the ABL Facility is less than the greater of $20 million and 20% of the Commitments and continuing until the 90th day following the day that availability under the ABL Facility is greater than the greater of $20 million and 20% of the Commitments. The fixed charge coverage ratio is generally defined as the ratio of (i) EBITDA minus certain capital expenditures and cash taxes paid to (ii) the sum of cash interest expenses, scheduled principal payments on borrowed money and certain distributions. The ABL Facility permits the ABL Borrowers, in calculating EBITDA, to add back certain amounts in respect of the investigatory expenses associated with the FCPA Matter and amounts paid in settlement of the FCPA Matter to the extent such amounts do not exceed net liquidity, defined as certain cash and cash equivalents minus the principal amount of loans outstanding under the ABL Facility.

Under the minimum liquidity covenant (the "Minimum Liquidity Covenant"), the ABL Borrowers must not permit Liquidity, defined as the sum of (i) availability under the ABL Facility plus (ii) certain unrestricted cash and cash equivalents, to be less than $100.0 million as of the last day of any fiscal quarter or immediately after any cash payment of a settlement of, or fine in connection with, the FCPA Matter.

The ABL Facility contains customary representations and warranties and conditions to borrowing, including the absence of any default or event of default, the accuracy in all material respects of the representations and warranties of the ABL Loan Parties contained in the ABL Facility and the absence of any event or circumstance that has or could reasonably be expected to have a material adverse effect.

The ABL Facility contains customary events of default, the occurrence of which entitle the ABL Lenders to accelerate the maturity of amounts outstanding under the ABL Facility and exercise other customary remedies including an event of default that is triggered if, immediately after any cash payment of a settlement of the FCPA Matter (and after any cash or borrowings under the ABL Facility are used to fund such payment), (i) the Company shall fail to be in compliance with the Minimum Liquidity Covenant or (ii) if any loans under the ABL Facility are outstanding on the date of such cash payment, availability under the ABL Facility is less than 33% of the borrowing base in effect on such date.

Term Loan Facility

On June 1, 2015, the Company entered into a Term Loan and Security Agreement (the "Term Loan Facility"), among the Company, as Borrower, certain subsidiaries of the Company named as guarantors therein, the financial institutions party thereto from time to time as Lenders (collectively, the "Term Loan Lenders"), Cortland Capital Market Services LLC, as Agent for the Lenders (the "Term Loan Administrative Agent"), and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Bookrunner.

On June 1, 2015, the Company and other parties thereto closed on the Term Loan Facility, the Company borrowed $315 million (prior to giving effect to an upfront discount of 3% which resulted in net proceeds to the Company, prior to expenses, of approximately $305.5 million), and the Company used a portion of such proceeds to repay its prior credit facility. The Term Loan Facility provides for an incremental facility which, subject to the agreement of one or more Term Loan Lenders or other institutional lenders agreeing to provide the additional loans and the satisfaction of certain terms and conditions, would enable the Company to borrow additional amounts under the Term Loan Facility as long as the aggregate outstanding amount of all borrowings thereunder does not exceed $400 million. The Term Loan Facility will mature on June 1, 2020, although such

maturity date may, at the Company's request, be extended by one or more of the Term Loan Lenders pursuant to the terms of the Term Loan Facility.

Borrowings under the Term Loan Facility bear interest, at the Company's option, at a per annum rate equal to (i) LIBOR for one, two, three, six, or, with the consent of the Term Loan Lenders, 12 months, plus 9.25% or (ii) a base rate equal to the sum of (a) the greatest of (x) the prime rate, (y) the Federal Funds rate, plus 0.50% and (z) 30-day LIBOR, plus 1.0% plus (b) 8.25%.

The Term Loan Facility is guaranteed by certain of the Company's existing and future subsidiaries (the "Term Loan Guarantors," and together with the Company, the "Term Loan Parties"). To secure their obligations under the Term Loan Facility, each of the Term Loan Parties has granted to the Agent a first-priority security interest for the benefit of the Term Loan Lenders in substantially all of each Term Loan Party's assets other than certain excluded assets and the ABL Priority Collateral (the "Term Priority Collateral"). In addition, the obligations of the Term Loan Parties under the Term Loan Facility are secured by second-priority liens on the ABL Priority Collateral (as described above under "ABL Facility").

The loans under the Term Loan Facility may be prepaid at the Company's option, subject to the payment of a prepayment premium in certain circumstances as provided in the Term Loan Facility. The Company is required to make principal payments in the amount of $787,500 per quarter commencing with the quarter ended September 30, 2015. In addition, pursuant to the Term Loan Facility, the Company must offer to prepay term loans out of the Net Cash Proceeds (as defined in the Term Loan Facility) of certain asset sales and, for each fiscal year beginning with the Company's fiscal year ending December 31, 2015, the Company must offer to prepay term loans in an aggregate principal amount equal to 50% of the Company's Excess Cash Flow (as defined in the Term Loan Facility) for such fiscal year. Within 30 days following any Change of Control (as defined in the Term Loan Facility), the Company must offer to prepay all term loans (i) at a price of 101% of the amount thereof if, after giving effect to such Change of Control, the Asset Coverage Ratio is at least 1.5 to 1.0 or (ii) at a price equal to the greater of 101% of the amount thereof and the applicable prepayment premium provided for in the Term Loan Facility if, after giving effect to such Change of Control, the Asset Coverage Ratio is less than 1.5 to 1.0.

The Term Loan Facility contains customary representations and warranties and certain affirmative and negative covenants, including covenants that restrict the ability of the Term Loan Parties to take certain actions without the permission of the Term Loan Lenders or as permitted under the Term Loan Facility including the incurrence of debt, the granting of liens, the making of investments, the payment of dividends and the sale of assets. The Term Loan Facility also contains financial covenants requiring that the Company maintain an Asset Coverage Ratio of at least 1.5 to 1.0 and that Liquidity (as defined in the Term Loan Facility) must not be less than $100 million as of the last day of any fiscal quarter or immediately after any cash payment of a settlement of, or fine in connection with, the FCPA Matter.

The Term Loan Facility contains events of default, the occurrence of which entitle the Term Loan Lenders to accelerate the maturity of amounts outstanding under the Term Loan Facility and exercise other customary remedies.

We were in compliance with covenants of the Facilities as of March 31, 2016. As of March 31, 2016, we have no borrowings outstanding and $45.8 million of letters of credit outstanding with borrowing capacity of $25.9 million available subject to covenant constraints under our ABL Facility.

Letter of Credit Facility

On November 7, 2013, we entered into an uncommitted, unsecured $15.0 million letter of credit facility to be used solely for the issuances of performance letters of credit. As of March 31, 2016, $2.0 million of letters of credit were outstanding under the facility.

Liquidity Outlook

As of March 31, 2016, we had cash and cash equivalents of $155.7 million and borrowing capacity of $25.9 million, subject to covenant constraints under the ABL Facility. During the first quarter, we utilized existing cash balances to fund the Company's operations as our cash flow from operations was negative $30.1 million. Our ability to fund our operations, pay the principal and interest on our long-term debt and satisfy our other obligations will depend upon our available liquidity and the amount of cash flows we are able to generate from our operations. If industry conditions do not improve, we are likely to continue to have significant negative cash flows from operations during the remainder of

2016.

We believe that our current reserves of cash and availability under our ABL facility are sufficient to finance our cash requirements for current and future operations, budgeted capital expenditures, debt service and other obligations for the next twelve months. However, we have had negative cash flows from operations in recent fiscal periods, conditions in our industry remain depressed and our ability to generate cash from operations and maintain availability of cash and other sources of liquidity can be affected by events beyond our control, including commodity prices, demand for our services, the valuation of our assets, costs incurred in connection with resolving our FCPA investigation and other obligations as well as prevailing economic, financial and industry conditions. Additionally, and as more fully described below, each of our

Table of Contents

Facilities and our Indenture contain affirmative and negative covenants, including financial ratios and tests, and if we fail to remain in compliance with those covenants, our lenders and note holders may declare us to be in default and exercise a variety of remedies against us. These covenants include, among others, covenants that restrict our ability to take certain actions without the permission of the holders of our indebtedness, including the incurrence of debt, the granting of liens, the making of investments, the payment of dividends and the sale of assets, and the financial ratios and tests include, among others, a requirement that we comply with a Minimum Liquidity Covenant, an Asset Coverage Ratio and, during certain periods, a fixed charge coverage ratio.

Our ability to satisfy required financial covenants, ratios and tests in our debt agreements can be affected by events beyond our control, including commodity prices, demand for our services, the valuation of our assets, costs incurred in connection with resolving our FCPA investigation and other obligations as well as prevailing economic, financial and industry conditions, and we can offer no assurance that we will be able to comply with such covenants or that the holders of our indebtedness will not seek to assert that we are not in compliance with our covenants. For example, as described above under "-Covenant Compliance," certain of the Term Loan Lenders have asserted that we were not in compliance with the Asset Coverage Ratio under the Term Loan Facility as of March 31, 2016. In addition to contesting the appraisal used by certain of the Term Loan Lenders as the basis for such assertion, we believe that we have cured the alleged defaults and achieved compliance with such covenant, as contemplated by the applicable agreements, through prepaying $7.5 million under the Term Loan Facility and including collateral that was omitted from the appraisal used by such lenders to make such assertion. Additionally, such lenders and certain of the lenders under the ABL Facility have agreed to forbear exercising remedies against us related to this alleged non-compliance through June 6, 2016.

Even though we believe we were in compliance with the Asset Coverage Ratio as of March 31, 2016, we may have difficulty complying with this and other financial ratios and tests in future periods. For example, the Term Priority Collateral includes substantially all of our operating assets, and the value of these assets is susceptible to decline during periods of low activity. If the appraised value of these assets further declines and we are unable to repay amounts outstanding under the Term Loan Facility and/or provide additional Term Priority Collateral, we may be unable to comply with the Asset Coverage Ratio in the Facilities. Likewise, we are required to maintain Liquidity (as defined in the Facilities) of not less than $100 million as of the last day of any fiscal quarter or immediately after any cash payment of a settlement of, or fine in connection with, the FCPA matter. If we continue to experience negative cash from operations or are required to expend cash to repay additional amounts under the Term Loan Facility or to discharge other obligations, we may be unable to maintain compliance with the Minimum Liquidity Covenant under the Facilities.

Finally, under our ABL Facility, we must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 during the period commencing on the day that availability under the ABL Facility is less than the greater of $20 million and 20% of the Commitments under the ABL Facility. The fixed charge coverage ratio is generally defined as the ratio of (i) EBITDA minus certain capital expenditures and cash taxes paid to (ii) the sum of cash interest expenses, scheduled principal payments on borrowed money and certain distributions. We have generated negative EBITDA in recent fiscal periods and therefore believe that, in the absence of a significant improvement in the conditions in our industry, we would not be in compliance with the fixed charge coverage ratio if our availability were to decrease to a level that resulted in such covenant becoming applicable. Availability under the ABL Facility is influenced primarily by our use of the facility and by the level of our accounts receivable. As of March 31, 2016, we had no borrowings outstanding but had $45.8 million of committed letters of credit outstanding, resulting in availability under the ABL Facility of $25.9 million subject to covenant constraints under that facility. Our accounts receivable have been decreasing as a result of the conditions in our industry, and, although we have been taking steps to seek to maintain the availability under our ABL Facility, such as by depositing cash with the ABL Lenders and seeking to cash collateralize certain letters of credit, we may not be able to maintain sufficient availability to avoid the application, and a potential breach, of the fixed charge coverage ratio. A breach of any of these covenants, ratios or tests would result in a default under our indebtedness. If we default, lenders under our ABL Facility will no longer be obligated to extend credit to us and they, as well as the trustee for the 2021 Notes and the Term Loan Administrative Agent, could declare all amounts of outstanding debt together with accrued interest, to be immediately due and payable. The results of such actions would

have a significant negative impact on our financial position and liquidity, and absent strategic alternatives such as refinancing or restructuring our indebtedness or capital structure, we would not have sufficient liquidity to repay all of our outstanding indebtedness.

As a result, in light of the current conditions in our industry, our significant negative cash flow, our high level of indebtedness and diminishing liquidity and the risk that we may be unable to remain in compliance with the financial ratios in our Facilities, we continue to analyze a variety of transactions and alternatives designed to reduce our debt and improve our liquidity, and we are in active discussions with our lenders and noteholders regarding such transactions and alternatives.

No assurance can be given, however, that we will be able to implement any such transaction or alternative, if necessary, on commercially reasonable terms or at all, and, even if we are successful in implementing a strategic transaction or alternative, such transaction or alternative may not be successful in allowing us to meet our debt obligations and improving our

liquidity. If we breach the covenants under our debt agreements or if we are lack sufficient liquidity to satisfy our debt or other obligations, then, in the absence of, a strategic transaction or alternative, our creditors could potentially force us into bankruptcy or we could be forced to seek bankruptcy protection to restructure our business and capital structure, in which case we could be forced to liquidate our assets and may receive less than the value at which those assets are carried on our financial statements. Even if we are able to implement a strategic transaction or alternative, such transaction or alternative may impose onerous terms on us. Additionally, we have a significant amount of secured indebtedness that is senior to our unsecured indebtedness and a significant amount of total indebtedness that is senior to our existing common stock in our capital structure. As a result, we believe that implementation of a strategic transaction or alternative or a bankruptcy proceeding could result in a limited recovery for unsecured noteholders, if any, and place equity holders at significant risk of losing all of their interests in our company.

In addition, access to the liquidity provided by our ABL Facility is predicated upon the absence of a default under the ABL Facility and our other debt agreements and on our ability to satisfy the conditions to borrowing, which, among other things, require that the representations and warranties under the facility, including representations and warranties related to our solvency and the absence of a material adverse effect, remain true and correct and that we not be in violation of any of the covenants in the ABL Facility.

Future Capital Requirements

During the three months ended March 31, 2016, our capital expenditures totaled $2.7 million, primarily related to the ongoing replacement to our rig service fleet, coiled tubing units, fluid transportation equipment and rental equipment. Our capital expenditure plan for 2016 contemplates spending up to approximately $20.0 million, subject to market conditions. This is primarily related to equipment maintenance needs. Our capital expenditure program for 2016 is subject to market conditions, including activity levels, commodity prices, industry capacity and specific customer needs. Our focus for 2016 has been and continues to be the maximization of our current equipment fleet, but we may choose to increase our capital expenditures in 2016 to increase market share or expand our presence into a new market. We may also incur capital expenditures for strategic investments and acquisitions. We currently anticipate funding our 2016 capital expenditures through a combination of cash on hand, operating cash flow, and borrowings under our ABL Facility. Should our operating cash flows or activity levels prove to be insufficient to fund our currently planned capital spending levels, management expects it will adjust our capital spending plans accordingly. We may also incur capital expenditures for strategic investments and acquisitions.

Off-Balance Sheet Arrangements

At March 31, 2016 we did not, and we currently do not, have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our quantitative and qualitative disclosures about market risk from those disclosed in our 2015 Form 10-K. More detailed information concerning market risk can be found in “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” in our 2015 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, management performed, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on this evaluation, management concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the first quarter of 2016 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
We are subject to various suits and claims that have arisen in the ordinary course of business. We do not believe that the disposition of any of our ordinary course litigation will result in a material adverse effect on our consolidated financial position, results of operations or cash flows. For additional information on legal proceedings, see "Note 10. Commitments and Contingencies" in "Item 1. Financial Statements" of Part I of this report, which is incorporated herein by reference.
Since January 2014, the Company has been cooperating with investigations by the Department of Justice and the Securities and Exchange Commission into possible violations by the Company of the Foreign Corrupt Practices Act ("FCPA"). On April 28, 2016, the Company announced that the Department of Justice had closed its investigation and that the Department had decided to decline prosecution of the Company. In addition, the Company has been engaged in negotiations with the staff of the Division of Enforcement of the SEC in an effort to reach a resolution of the staff's investigation related to these same matters. the Company has reached an agreement in principle with the staff on the terms of a proposed offer of settlement, which must be presented to the Commission for approval. While there is no assurance that the offer of settlement will be accepted by the Commission, the Company is optimistic that the proposed resolution will become final in the second quarter of 2016. In connection with the offer of settlement, the Company has accrued a liability in the amount of $5 million.
Between May of 2013 and June of 2014, five lawsuits (four class actions and one enforcement action) were filed in California involving alleged violations of California's wage and hour laws. In general, the lawsuits allege failure to pay wages, including overtime and minimum wages, failure to pay final wages upon employment terminations in a timely manner, failure to reimburse reasonable and necessary business expenses, failure to provide wage statements consistent with California law, and violations of the California meal and break period laws, among other claims. Two of the five cases have been consolidated in United States District Court for the Central District of California. On December 22, 2015, that court issued an order granting in part and denying in part a class certification motion. The court certified a class of hourly paid, non-exempt oilfield employees who allege they did not receive reimbursement for all business expenses and allege they did not receive all rest breaks required by California law. The court did not determine whether Key is liable to any of the class members. Plaintiffs have moved to reconsider the class certification ruling, and the Court has taken that motion under submission. In addition, the parties are working on scheduling a mediation. The court in one of the remaining cases that had been stayed pending the outcome of the class certification motion recently issued an order lifting the stay, and the parties have agreed to an amended complaint. No date has been set for class certification. The fourth case is waiting for a decision regarding whether it will move forward in California state court or in federal court. The fifth case is an enforcement action for civil penalties based on California's Private Attorneys General Act, which is pending in California state court. We have investigated the claims in all five lawsuits, and intend to vigorously defend them. Because these cases are at an early stage, we cannot estimate any possible loss or range of loss.
In August 2014, two class action lawsuits were filed in the U.S. District Court, Southern District of Texas, Houston Division, individually and on behalf of all other persons similarly situated against the Company and certain officers of the Company, alleging violations of federal securities laws, specifically, violations of Section 10(b) thereunder, and Rule 10(b)-5 thereunder, and Section 20(a) of the Securities Exchange Act of 1934. Those lawsuits were styled as follows: Sean Cady, Individually and on Behalf of All Other Persons Similarly Situated v. Key Energy Services, Inc., Richard J. Alario, and J. Marshall Dodson, No. 4:14-cv-2368, filed on August 15, 2014; and Ian W. Davidson, Individually and on Behalf of All Other Persons Similarly Situated v. Key Energy Services, Inc., Richard J. Alario, and J. Marshall Dodson, No. 4.14-cv-2403, filed on August 21, 2014. On December 11, 2014, the Court entered an order that consolidated the two lawsuits into one action, along with any future filed tag-along actions brought on behalf of purchasers of Key Energy Services, Inc. common stock. The order also appointed Inter-Local Pension Fund as the lead plaintiff in the class action and approved the law firm of Spector Roseman Kodroff & Willis, P.C. as lead counsel for the consolidated class and Kendall Law Group, LLP, as local counsel for the consolidated class. The lead plaintiff filed the consolidated amended complaint on February 13, 2015. Among other changes, the consolidated amended complaint added Taylor M. Whichard III and Newton W. Wilson III as defendants, and sought to represent a

class of purchasers of the Company's stock between September 4, 2012 and July 17, 2014. Defendants Key Energy Services, Inc., Richard J. Alario, J. Marshall Dodson and Newton W. Wilson III filed a Motion to Dismiss on April 14, 2015. Defendant Taylor M. Whichard III filed a Joinder in Motion and Motion to Dismiss on the same date. Lead plaintiff filed an opposition to that motion, and all defendants filed reply briefs in support of the motion. On April 1, 2016, the Court issued its Opinion and Order granting the defendants' Motion to Dismiss. The Court allowed the lead plaintiff 20 days to file another amended complaint or to inform the Court that it no longer wishes to proceed with the suit. On April 20, 2016, the lead plaintiff notified the Court that it did not intend to amend its complaint. On April 26, 2016, the Court entered a final judgment dismissing the case. The deadline for the lead plaintiff to appeal the dismissal of its suit has not yet expired. Accordingly, we cannot estimate any possible loss or range of loss.

Table of Contents

In addition, in a letter dated September 4, 2014, a purported shareholder of the Company demanded that the Board commence an independent internal investigation into and legal proceedings against each member of the Board, a former member of the Board and certain officers of the Company for alleged violations of Maryland and/or federal law. The letter alleges that the Board and senior officers breached their fiduciary duties to the Company, including the duty of loyalty and due care, by (i) improperly accounting for goodwill, (ii) causing the Company to potentially violate the FCPA, resulting in an investigation by the SEC, (iii) causing the Company to engage in improper conduct related to the Company's Russia operations; and (iv) making false statements regarding, and failing to properly account for, certain contracts with Pemex. As described in the letter, the purported shareholder believes that the legal proceedings should seek recovery of damages in an unspecified amount allegedly sustained by the Company. The Board of Directors referred the demand letter to a special committee of the Board. We cannot predict the outcome of this matter.

In March 2015, two collective action lawsuits were filed in the Southern District of Texas, Corpus Christi Division, individually and on behalf of all others similarly situated, alleging violations of the Fair Labor Standards Act of 1938 ("FLSA"). We agreed to conditional certification in the first lawsuit and notice of the case issued to 56 putative class members. Roughly 20% of the eligible putative class members timely filed a notice of consent to join the lawsuit. We will soon begin merit-based discovery in the first lawsuit, which we expect to last at least six months. We also agreed to conditional certification in the second lawsuit and notice of the case recently issued to 14 putative class members. Nine putative class members, including the named plaintiff, have filed a notice of consent to join the lawsuit and the deadline to join expired on April 4, 2016. The parties will begin merit-based discovery in the second case soon. Because merit based discovery has not commenced, we cannot predict the outcome of these cases at this time. Accordingly, we cannot estimate any possible loss or range of loss for either case.

In May 2015, a class and collective action lawsuit was filed in the Southern District of Texas, Houston Division, individually and on behalf of all others similarly situated, alleging violations of the FLSA and the New Mexico Minimum Wage Act. We agreed to conditional certification of a putative class and notice issued to 174 putative class members. The notice period closed in early February and roughly 15% of eligible putative class members timely filed consents to join the lawsuit. The parties will soon begin merit-based discovery in this case, which will likely last six to nine months. Because merit based discovery has not begun, we cannot predict the outcome at this time. Accordingly, we cannot estimate any possible loss or range of loss for this case.

In November 2015, the Santa Barbara County District Attorney filed a criminal complaint against two former employees and Key, specifically alleging three counts of violations of California Labor Code section 6425(a) against Key. The complaint seeks unspecified penalties against Key related to an October 12, 2013 accident which resulted in the death of one Key employee at a drilling site near Santa Maria, California. An arraignment was held on February 10, 2016, where Key and its former employees pleaded not guilty to all charges. Because the matter is in early stages, we cannot predict the outcome at this time. Accordingly, we cannot estimate any possible loss or range of loss.

On or about November 23, 2015, the North Dakota Industrial Commission ("NDIC") filed a notice in the county of Burleigh County, ND alleging statutory violations by Key Energy Services, LLC, as operator of two salt water disposal wells in the state of North Dakota. The NDIC has pled for approximately $888,000 in fines and costs. The Company is currently in discussions with the NDIC and is not able to estimate any possible loss or range of loss at this time.

ITEM 1A. RISK FACTORS

Reference is made to Part I, Item 1A. Risk Factors of the 2015 Form 10-K for information concerning risk factors.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

During the three months ended March 31, 2016, we repurchased the shares shown in the table below to satisfy tax withholding obligations upon the vesting of restricted stock awarded to certain of our employees:

Period	Number of Shares Purchased	Average Price Paid per Share(1)
January 1, 2016 to January 31, 2016	150,128	$ 0.32
February 1 2016 to February 29, 2016	168,576	0.26
March 1, 2016 to March 31, 2016	130,335	0.39
Total	449,039	$ 0.32

(1) The price paid per share with respect to the tax withholding repurchases was determined using the closing prices on the applicable vesting date, as quoted on the NYSE.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The Exhibit Index, which follows the signature pages to this report and is incorporated by reference herein, sets forth a list of exhibits to this report.

Table of Contents

SIGNATURE

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.

Date:	May 13, 2016	By:	/s/ J. MARSHALL DODSON
			J. Marshall Dodson
			Senior Vice President and Chief Financial Officer
			(As duly authorized officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Restatement of Key Energy Services, Inc. (Incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 001-08038).
3.2	Unanimous consent of the Board of Directors of Key Energy Services, Inc. dated January 11, 2000, limiting the designation of the additional authorized shares to common stock. (Incorporated by reference to Exhibit 3.2 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, File No. 001-08038).
3.3	Ninth Amended and Restated By-laws of Key Energy Services, Inc. as amended through August 21, 2015. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on August 24, 2015, File No. 001-08038).
10.1†	Promotion Bonus Agreement (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on February 18, 2016, File No. 001-08038).
10.2†*	Robert Drummond Amended and Restated Employment Agreement.
10.3*	Forbearance Agreement dated as of May 11, 2016, among Key Energy Services, Inc., each of the guarantors party thereto, each of the Lenders party thereto and Cortland Capital Market Services LLC, as administrative agent for the Lenders.
10.4*	Limited Consent to Loan Agreement and Forbearance Agreement, Dated May 11, 2016, among Key Energy Services, Inc., Key Energy Services, LLC, certain subsidiaries of the Borrowers as Guarantors, Lenders and Co-Collateral Agents party thereto and Bank of America, N.A., as administrative agent for the Lenders.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive Data File.

† Indicates a management contract or compensatory plan, contract or arrangement in which any Director or any Executive Officer participates.

* Filed herewith

** Furnished herewith