

Edgar Filing: Independence Contract Drilling, Inc. - Form 10-K

Independence Contract Drilling, Inc.
Form 10-K
February 26, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

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

For the transition period from _____ to _____
Commission file number 001-36590
INDEPENDENCE CONTRACT DRILLING, INC.
(Exact name of registrant as specified in its charter)
Delaware 37-1653648
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
11601 North Galayda Street
Houston, Texas 77086
(Address of principal executive offices) (Zip code)
(281) 598-1230
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Emerging growth company

Edgar Filing: Independence Contract Drilling, Inc. - Form 10-K

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$113,958,200 as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter (based on a closing price of \$3.89 per share as reported on the New York Stock Exchange and 29,295,167 shares held by non-affiliates).

There were 38,098,248 shares of the registrant's common stock outstanding as of February 20, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2018 Annual Meeting of Stockholders (to be filed within 120 days of the close of the registrant's fiscal year) are incorporated by reference into Part III of this Annual Report on Form 10-K.

INDEPENDENCE CONTRACT DRILLING, INC.

Index to Form 10-K

<u>Part I</u>	<u>4</u>
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>13</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>27</u>
<u>Item 2. Properties</u>	<u>27</u>
<u>Item 3. Legal Proceedings</u>	<u>27</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>27</u>
<u>Part II</u>	<u>28</u>
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>28</u>
<u>Item 6. Selected Financial Data</u>	<u>31</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>49</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>71</u>
<u>Item 9A. Controls and Procedures</u>	<u>71</u>
<u>Item 9B. Other Information</u>	<u>71</u>
<u>Part III</u>	<u>72</u>
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>72</u>
<u>Item 11. Executive Compensation</u>	<u>72</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters</u>	<u>72</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>72</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>72</u>
<u>Part IV</u>	<u>73</u>
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>73</u>
<u>Item 16. Form 10-K Summary</u>	<u>73</u>
<u>Signatures</u>	<u>74</u>

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this Annual Report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as “estimate,” “project,” “predict,” “believe,” “expect,” “anticipate,” “potential,” “plan,” “goal,” “will” or other words that convey the uncertainty of future events or outcomes. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, contingencies and uncertainties include, but are not limited to, the following:

- a decline in or substantial volatility of crude oil and natural gas commodity prices;
- a sustained decrease in domestic spending by the oil and natural gas exploration and production industry;
- our inability to implement our business and growth strategy;
- fluctuation of our operating results and volatility of our industry;
- inability to maintain or increase pricing of our contract drilling services, or early termination of any term contract for which early termination compensation is not paid;
- our backlog of term contracts declining rapidly;
 - the loss of any of our customers, financial distress or management changes of potential customers or failure to obtain contract renewals and additional customer contracts for our drilling services;
- overcapacity and competition in our industry;
- an increase in interest rates and deterioration in the credit markets;
- our inability to comply with the financial and other covenants in debt agreements that we may enter into as a result of reduced revenues and financial performance;
- a substantial reduction in borrowing base under our credit facility as a result of a decline in the appraised value of our drilling rigs or reduction in the number of rigs operating;
- unanticipated costs, delays and other difficulties in executing our long-term growth strategy;
- the loss of key management personnel;
- new technology that may cause our drilling methods or equipment to become less competitive;
- labor costs or shortages of skilled workers;
 - the loss of or interruption in operations of one or more key vendors;
- the effect of operating hazards and severe weather on our rigs, facilities, business, operations and financial results, and limitations on our insurance coverage;
- increased regulation of drilling in unconventional formations;
- the incurrence of significant costs and liabilities in the future resulting from our failure to comply with new or existing environmental regulations or an accidental release of hazardous substances into the environment; and
- the potential failure by us to establish and maintain effective internal control over financial reporting.

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations, and, therefore, you are cautioned not to place undue reliance on such statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Annual Report on Form 10-K, including those described in (1) Part I, “Item 1A. Risk Factors” and (2) Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

Overview

Except as expressly stated or the context otherwise requires, the terms “we,” “us,” “our,” the “Company” and “ICD” refer to Independence Contract Drilling, Inc.

We provide land-based contract drilling services for oil and natural gas producers targeting unconventional resource plays in the United States. We construct, own and operate a premium land rig fleet comprised entirely of technologically advanced, custom designed ShaleDriller® rigs that are specifically engineered and designed to optimize the development of our customers’ most technically demanding oil and natural gas properties. We are focused on creating stockholder and customer value through our commitment to operational excellence and our focus on safety.

Our standardized fleet consists of 14 premium 200 Series ShaleDriller rigs, all of which are equipped with our integrated omni-directional walking system that is specifically designed to optimize pad drilling for our customers. Every rig in our fleet is a 1500-hp, AC programmable rig (“AC rig”) designed to be fast-moving between drilling sites and is equipped with 7500 psi mud systems, top drives, automated tubular handling systems and blowout preventer (“BOP”) handling systems. All of our rigs are equipped with bi-fuel capabilities that enable the rig to operate on either diesel or a natural gas-diesel blend.

Our first rig commenced drilling in May 2012. We currently focus our operations on unconventional resource plays located in geographic regions that we can efficiently support from our Houston, Texas facilities in order to maximize economies of scale. Currently, our rigs are operating in the Permian Basin, Eagle Ford Shale and the Haynesville Shale. Our rigs have previously operated in the Mid-Continent and Eaglebine regions.

Our business depends on the level of exploration and production activity by oil and natural gas companies operating in the United States, and in particular, the regions where we actively market our contract drilling services. The oil and natural gas exploration and production industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. Oil and natural gas prices and market expectations of potential changes in those prices significantly affect the levels of those activities. Worldwide political, regulatory, economic, and military events, as well as natural disasters have contributed to oil and natural gas price volatility historically, and are likely to continue to do so in the future. Any prolonged reduction in the overall level of exploration and development activities in the United States and the regions where we market our contract drilling services, whether resulting from changes in oil and natural gas prices or otherwise, could materially and adversely affect our business.

Industry Trends

Land Rig Replacement Cycle

The increase in horizontal drilling in the United States over the past ten years has resulted in an ongoing land-rig replacement cycle in which the contract drilling industry is systematically upgrading its legacy fleets of electrical silicon-controlled rectifier (“SCR”) rigs and mechanical rigs with modern AC rigs that are specifically designed to optimize this type of drilling activity. Additionally, a growing focus on horizontal drilling of longer-reach lateral wells from multi-well pads is driving a further delineation in the United States land rig fleet between pad-optimal rigs specifically designed and engineered for such applications and AC and legacy rigs not specifically engineered for such applications.

The following describes the three different types of rig drives:

Mechanical Rigs. Mechanical rigs were not designed and are not well suited for the demanding requirements of drilling horizontal wells. A mechanical rig powers its systems through a combination of belts, chains and transmissions. This arrangement requires the rig to be rigged up with precise alignment of the belts and chains, which requires substantial time during a rig move. In addition, mechanical power loading of key rig systems, including drawworks, pumps and rotating equipment results in very imprecise control of system parameters, causing lower drill bit life, lower rate of penetration and difficulty maintaining wellbore trajectory.

SCR Rigs. In contrast to mechanical rigs, SCR rigs rely on direct current, or DC, to power the key rig systems. Load is changed by adjusting the amperage supplied to electric motors powering key rig systems. While a substantial

improvement over mechanical belts and chains, SCR control is imprecise, and DC power levels normally drift resulting in fluctuations in pump speed and pressure, bit rotation speed, and weight on bit. These fluctuations can cause wellbore deviation, shorter bit life and less optimal rates of penetration. In addition, SCR equipment is heavy and energy inefficient.

AC Rigs. Compared to SCR and mechanical rigs, AC rigs are ideally suited for drilling horizontal wells. The first AC rigs were introduced into the United States land market in the early 2000s, and since that time their use has grown significantly as the use of horizontal drilling has increased. AC rigs use a computer-controlled variable frequency drive ("VFD") to precisely adjust key rig operating parameters and systems allowing for optimization of the rate of penetration, extended bit life and improved control of wellbore trajectory. These factors reduce the amount of time a wellbore is "open hole," or uncased. Shorter open hole times dramatically reduce adjacent formation damage that can be caused by shale hydration or drilling fluid invasion and enhance the operator's ability to optimally run and cement casing to complete the drilled well. In addition, when compared to SCR and mechanical rigs, AC rigs are electrically more efficient, produce more torque, utilize regenerative braking, and have digital controls. AC motors are also smaller, lighter and require less maintenance than DC motors.

Shift to Manufacturing Wellbore Model

Following their significant investments made in unconventional resource plays, many exploration and production ("E&P") companies are now focused on developing these investments in a systematic manner. Efficient development of these resource plays involves drilling programs that drill large numbers of wells in succession, as opposed to a single or a few wells designed to delineate a field or hold a lease. We view this as analogous to a manufacturing process that requires an engineered program and is focused on economies of scale to reduce overall field development costs. Cost effective development drilling requires more complex well designs, shorter cycle times, and the use of innovative technology in order to reduce an E&P company's overall field development costs.

One method in which an E&P operator may reduce overall field development costs is through the use of a multi-well pad development program. Pad drilling involves the drilling of multiple wells from a single location, which provides benefits to the E&P company in the form of per well cost savings and accelerated cash flows as compared to non-pad developments. These cost savings result from reduced time required to move the rig between wells, centralized hydraulic fracturing operations and the efficient installation of central production facilities and pipelines. In addition, by performing drilling operations on one well with simultaneous completion operations on a second well, operators do not have to wait until the entire pad is complete to begin earning a return on their investment. Pad drilling promotes "manufacturing" efficiencies by enabling "batch" drilling, whereby an operator drills all of the wells' surface holes as the first batch, then drills all of the intermediate sections as the second batch, and concludes with the drilling all of the laterals as the final batch. Efficiencies are created because hole sizes change less frequently, and operators use the same mud system and tools repeatedly. We believe as operators have shifted over time to horizontal drilling, they have implemented pad drilling in order to maximize economics and optimize development plans. In order to maximize the efficiencies gained from pad drilling, a rig must be capable of moving quickly from one well to another and able to address the complexities associated with the growing number of wells per pad. In addition to quickly moving from well to well, omni-directional walking systems are ideally suited for pad drilling because they are capable of efficiently addressing situations on a pad in which wellbores are not precisely aligned or when level variations exist on the pad, which becomes increasingly likely as pads become larger and more complex.

Another method utilized by operators to increase efficiencies and maximize well economics is the drilling of longer lateral horizontal wells. Operators in our target areas have continued to increase the lateral length of their horizontal wells. Longer laterals provide greater production zones as the portion of the wellbore that passes through the target formation increases, optimizing the impact of hydraulic fracturing and stimulation. The drilling of longer laterals necessitates the use of increased horsepower drawworks and top drive systems, which provide maximum torque and rotational control and allows the operator to maintain the integrity of its drilling plan throughout the wellbore.

Additionally, higher pressure mud pumps are required to pump fluids through significantly longer wellbores. The competitive advantage of higher pressure mud pumps grows as the lateral length increases, as only high pressure pumps can effectively address the severe pressure drop, while providing the required hydraulic horsepower at the bit face and sufficient flow to remove drill cuttings and keep the hole clean.

Pad Optimal Equipment

Cost effective development drilling in a manufacturing wellbore model requires more complex well designs, shorter cycle times, and the use of innovative technology in order to reduce an E&P company's overall field development costs. Drilling rigs that are designed to maximize drilling efficiency, reduce cycle times, maximize energy efficiency,

increase penetration rates while drilling, and drill longer-reach horizontal wells will reduce an E&P company's overall field development costs and provide them with greater optionality when designing their field development program. As a result, we believe that E&P companies drilling horizontal wells are going to increasingly demand not only AC rigs that are optimal for horizontal drilling, but premium AC rigs such as our ShaleDriller rig that are "pad optimal" and include the following equipment and design features:

• AC Programmable. AC rigs use a variable frequency drive that allows precise computer control of motor speed during operations. This greater control of motor speed provides more precise drilling of the wellbore. Among other attributes,

when compared to electrical SCR rigs and mechanical rigs, AC rigs are electrically more efficient, produce consistent torque, utilize regenerative braking, and have digital controls and AC motors that require less maintenance. AC rigs allow our customers to drill faster, which, in general, eliminates reservoir permeability damage, and to drill wellbores that more precisely track planned trajectories without doglegs. This, in turn, minimizes open hole time and enables our customers to more effectively and efficiently run casing, cement and successfully complete their wells.

- Pad Optimized, Omni-Directional Walking System. Our omni-directional walking system is engineered and designed as an integrated part of our ShaleDriller rig's substructure to optimize pad drilling economics for our customers. Pad drilling involves the drilling of multiple wells from a single location, which provides benefits to the E&P company in the form of cost savings and accelerated cash flows. Our walking system allows our rigs to move in any direction quickly between wellheads, rapidly and efficiently adjust to misaligned wellbores, walk over raised wellheads, and increase operational safety due to fewer required rig up and rig down movements.

- Bi-Fuel Capable. All of our ShaleDriller rigs are bi-fuel capable. Bi-fuel operations offer a reduction in carbon emissions and provide significant fuel cost savings for our customers.

Efficient Mobilization Between Drilling Sites. A rig that can rapidly move between drilling sites has become increasingly desired by, and impactful to, E&P companies because it reduces cycle times allowing them to drill more wells in the same period of time. In addition to being specifically designed for moving between wells on a pad, our ShaleDriller rig is designed to move rapidly on conventional rig moves between drilling sites. Our custom designed substructure moves in a single semi-trailer load and allows for automated and rapid rig up and rig down without the use of cranes. This significantly reduces overall move time compared to a traditional substructure design, provides cost savings to our customers, and enables a safer rig up and rig down process.

- 1500-hp Drawworks. All of our rigs are powered with 1500-hp drawworks and are well suited for the development of the vast majority of our customers' unconventional resource assets. Compared to a 1000-hp or smaller rig, a 1500-hp rig has superior capability to handle extended drill string lengths required to drill long horizontal wells, which are becoming more common in the markets we serve.

7500psi Mud Systems. The drilling of longer laterals necessitates the use of higher pressure mud pumps to pump fluids through significantly longer wellbores. The competitive advantage of higher pressure mud pumps grows as the lateral length gets longer, as only high pressure pumps can effectively address the severe pressure drop while providing the required hydraulic horsepower at the bit face and sufficient flow to remove drill cuttings and keep the hole clean.

Oil and Natural Gas Prices and Drilling Activity

Both oil and natural gas prices began to decline in the second half of 2014, declined further during 2015 and remained low in 2016. The closing price of oil was as high as \$106.06 per barrel during the third quarter of 2014, was \$37.13 per barrel on December 31, 2015 and reached a low of \$26.19 on February 11, 2016 (West Texas Intermediate - Cushing, Oklahoma ("WTI") spot price as reported by the United States Energy Information Administration (the "EIA")). Similarly, natural gas prices (as measured at Henry Hub) declined from an average of \$4.37 per MMBtu in 2014, to \$2.62 per MMBtu in 2015, \$2.52 per MMBtu in 2016. As a result, our industry experienced an exceptional downturn and market conditions have only begun to stabilize and slowly recover.

In November 2016, Organization of Petroleum Exporting Countries ("OPEC") members formally agreed to reduce their production quotas, starting January 1, 2017. These production cuts significantly reduced the overhang of global oil supplies. OPEC members met in December 2017 and agreed to extend the freeze into 2018, and are expected to meet again in June 2018 to review market conditions and the impact of their freeze on global supplies. In addition to OPEC members, certain non-OPEC producers such as Russia have agreed to production cuts, which has also supported crude oil and related energy commodity prices.

As a result of these supply cuts and positive demand trends, crude oil prices recovered to the \$45 to \$55 per barrel range, with WTI oil prices reaching a three-year high of \$66.27 on January 26, 2018. Similarly, natural gas prices at Henry Hub averaged \$2.99 per MMBtu in 2017, and have averaged \$3.41 per MMBtu in 2018, as of February 20, 2018. While this continued recovery in pricing is promising, there are no indications at this time that oil and natural gas prices and rig counts will recover to their previous highs experienced in 2014.

Due to this deterioration and stabilization of commodity prices well below previous highs, our customers are principally focused on their most economic wells, and driving cost and production efficiencies that deliver the most economic wells with the lowest capital costs. As a result of this drive towards production and cost efficiencies, operators are focusing more of their capital spending on horizontal drilling programs compared to vertical drilling, and are more focused on utilizing drilling equipment and techniques that optimize costs and efficiency. Thus, we believe the rapid market deterioration and stabilization of oil prices well below historical highs has significantly accelerated the pace of the ongoing land rig replacement cycle and continued shift to horizontal drilling from multi-well pads utilizing “pad optimal” rig technology.

As market conditions have improved from trough levels in 2016 and begun to stabilize higher, demand for our ShaleDriller rigs has improved. At December 31, 2017, all of our rigs were under contract and operating. In addition to improving utilization, contract tenors improved with customers signing term contracts of six to twelve months or longer, and at higher dayrates compared to trough levels, with the potential to move higher if market conditions continue to improve. However, if oil prices were to fall below \$45 per barrel for any sustained period of time, market conditions and demand for our products and services could deteriorate.

Customer Contracts and Backlog

Drilling contracts are obtained through competitive bidding or as a result of negotiations with customers, and may cover multi-well and multi-year projects. Each of our rigs operates under a separate drilling contract or drilling order subject to a master drilling contract. We perform drilling services on a “daywork” contract basis, under which we charge a specified rate per day. The dayrate under each of our contracts is a negotiated price determined by the location, depth and complexity of the wells to be drilled, operating conditions, the duration of the contract, and market conditions. We have not accepted any, and do not anticipate entering into, any “turn-key” (fixed sum to deliver a hole to a stated depth) or “footage” (fixed rate per foot of hole drilled) contracts. The duration of land drilling contracts can vary from “well-to-well” or to a fixed term ranging from a few months to several years. The revenue generated by a rig in a given year is the product of the dayrate fee and the number of days the rig is earning this fee based on activity and the terms of the contract, referred to as utilization. “Well-to-well” contracts are typically cancelable at the option of either party upon the completion of drilling at a particular site. Fixed-term contracts customarily provide for termination at the election of the customer, with an “early termination payment” to be paid to the drilling contractor if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, the drilling contractor’s bankruptcy, sustained unacceptable performance by the drilling contractor or delivery of a rig beyond certain grace and/or liquidated damage periods, no early termination payment would be paid to the drilling contractor. Drilling contracts also contain provisions regarding indemnification against certain types of claims involving injury to persons, property and for acts of pollution, which are subject to negotiation on a contract-by-contract basis.

Under a typical daywork contract, we earn a dayrate fee while the rig is operating, and we earn a moving rate fee while the rig is moving between wells or drilling locations under the contract. If the rig is on standby or is not drilling due to a force majeure event unrelated to damage to the rig, contracts typically provide that we earn a rate during this period of time, which rate may be equal to or less than the operating rate.

Mobilization rates are determined by market conditions and are generally reimbursed by the customer. In most instances, contracts typically provide for additional payments associated with this initial mobilization of a drilling rig and that we receive a demobilization fee at the end of the contract term in certain circumstances equal to the estimated cost to transport the rig from the final drilling location and to compensate us for the estimated demobilization time.

Drilling contracts typically provide that the contractor continues to earn the operating dayrate while a rig is not operating but under repair or maintenance, so long as the non-operating time due to repair and maintenance does not exceed a specified number of hours in a given day or calendar month.

Prior to the significant decline in market conditions that began in late 2014, we were able to regularly obtain long-term contracts with terms between one and three years. Throughout 2015 and 2016, the vast majority of new rig contracts were short-term well-to-well contracts or contracts with terms less than six months. As a result, our contract drilling backlog, or the expected future revenue from executed contracts with original terms of six months or greater, declined significantly from \$152.8 million as of December 31, 2014, to \$74.4 million as of December 31, 2015 and to \$42.5 million as of December 31, 2016. During 2017, as a result of the current stabilization in the market, the majority of our contracts were from six to twelve months. As of December 31, 2017, our backlog was \$51.5 million, prior to four contract extensions signed in the first quarter of 2018. Approximately \$47.6 million of our backlog at December 31, 2017 is expected to be realized during 2018. Our backlog does not include potential reductions in rates for unscheduled standby during periods in which the rig is moving, on standby or incurring maintenance and repair time in excess of contractually allowed downtime. In addition, rigs under term contracts may realize revenue on a standby-without-crew basis, which allows us to preserve our expected cash margins from the contract but reduces our overall top line revenue. To the extent that we have rigs under term contracts operating on a standby or standby-without-crew basis, our top line revenues will be less than our reported backlog from term contracts. The following chart summarizes the weighted average number of rigs as of December 31, 2017 that we have operating under term contracts through 2018 and 2019.

	Quarter Ending March 31, 2018	Quarter Ending June 30, 2018	Quarter Ending September 30, 2018	Quarter Ending December 31, 2018	Year Ending 2019
Weighted Average Number of Rigs (1)	13.5	8.2	3.4	2.2	0.6

(1) Weighted average number of rigs calculated based upon the aggregate number of expected revenue days to be realized during the period from term contracts divided by the number of days in the applicable period. Term contracts include all contracts with original terms of 6 months or greater, and exclude well-to-well or short-term contracts. Since the end of 2017, we have successfully signed new extensions on four contracts. As a result, our backlog as of December 31, 2017, adjusted to include these new extensions signed through February 15, 2018, is \$74.5 million, of which \$65.4 million is expected to be realized during 2018.

The following chart summarizes the weighted average number of rigs as of February 15, 2018 that we have operating under term contracts through 2018 and 2019.

	Quarter Ending March 31, 2018	Quarter Ending June 30, 2018	Quarter Ending September 30, 2018	Quarter Ending December 31, 2018	Year Ending 2019
Weighted Average Number of Rigs (1)	14.0	11.1	7.2	4.8	1.3

(1) Weighted average number of rigs calculated based upon the aggregate number of expected revenue days to be realized during the period from term contracts divided by the number of days in the applicable period. Term contracts include all contracts with original terms of 6 months or greater, and exclude well-to-well or short-term contracts.

Our Customers

Customers for contract drilling services in the United States include major oil and natural gas companies, independent oil and natural gas companies, as well as numerous small to mid-sized publicly-traded and privately held oil and natural gas companies. We market our contract drilling services to all such customers. During 2017, our customers representing more than 10% of our revenues were GeoSouthern Energy Corporation, Devon Energy, RSP Permian, LLC, and Pioneer Natural Resources USA, Inc. While we would attempt to remarket our rigs if we lost any material customer, given current market conditions, the terms of such new contract, if any were found, may be less favorable than the terms of our current contracts. Therefore, the loss of any material customer could have an adverse effect on our business.

Industry/Competition

To a large degree, our business depends on the level of capital spending by oil and natural gas companies for exploration, development and production activities. A sustained increase or decrease in the price of oil and natural gas could have a material impact on the exploration, development and production activities of our customers and could materially affect our financial position, results of operations and cash flows.

The contract drilling industry is highly competitive and has become even more so under current market conditions. The price for contract drilling services is a key competitive factor in the United States land contract drilling markets, in part because equipment used in our businesses can be moved from one area to another in response to market conditions. In addition to price, we believe the principal competitive factors in our markets are availability and condition of equipment, efficiency of equipment, quality of personnel, service quality, experience and safety record. Many of our competitors are larger, publicly-held corporations with significantly greater resources and longer operating histories than us. Our largest competitors for high-end AC land drilling contract services are Helmerich & Payne, Inc., Precision Drilling Corporation, Nabors Industries, Ltd. and Patterson-UTI Energy, Inc. Many of our larger competitors are able to offer ancillary products and services with their contract drilling services, and recently, some of our larger competitors have begun integrating and offering contract drilling services in connection with directional drilling and other services that we do not offer.

Government and Environmental Regulation

All of our operations and facilities are subject to numerous federal, state and local laws, rules and regulations related to various aspects of our business, including:

- drilling of oil and natural gas wells;
- the relationships with our employees;
- containment and disposal of hazardous materials, oilfield waste, other waste materials and acids; and
- use of underground storage tanks.

To date, we do not believe applicable environmental laws and regulations in the United States have required the expenditure by the contract drilling industry of significant resources outside the ordinary course of business. However, compliance costs under existing laws or under any new requirements could become material, and we could incur liability in any instance of noncompliance.

Our business is generally affected by political developments and by federal, state and local laws and regulations that relate to the oil and natural gas industry. The adoption of laws and regulations affecting the oil and natural gas industry for economic, environmental and other policy reasons could increase costs relating to drilling and production, and otherwise have an adverse effect on our operations. Federal, state and local environmental laws and regulations currently apply to our operations and may become more stringent in the future. Any suspension or moratorium of the services we provide, whether or not short-term in nature, by a federal, state or local governmental authority, could have a material adverse effect on our business, financial condition and results of operation.

In the United States, the federal Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (“CERCLA”), and comparable state statutes impose liability, without regard to fault or legality of conduct, on classes of persons considered to be responsible for the release of a “hazardous substance” into the environment. These persons include:

- current and past owners and operators of the site where the release occurred, and
- persons who disposed of or arranged for the disposal of “hazardous substances” released at the site.

Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The federal Resource Conservation and Recovery Act (“RCRA”), as amended, and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Although CERCLA currently excludes petroleum from the definition of “hazardous substances,” and RCRA excludes certain classes of exploration and production wastes from regulation as hazardous waste under Subtitle C of RCRA, such exemptions by Congress under both CERCLA and RCRA may be deleted, limited, or modified in the future. If such changes are made to CERCLA and/or RCRA, we could be required to remove and remediate previously disposed of materials (including materials disposed of or released by prior owners or operators) from properties (including ground water contaminated with hydrocarbons) and to perform removal or remedial actions to prevent future

contamination.

The federal Water Pollution Control Act, as amended, also known as the Clean Water Act, and the Oil Pollution Act of 1990, as amended (the "Oil Pollution Act"), and analogous state laws and their respective implementing regulations govern:

9

the prevention of discharges of pollutants, including oil and produced water spills, into waters of the United States; and

liability for drainage into waters of the United States.

The Oil Pollution Act imposes strict liability for a comprehensive and expansive list of damages from an oil spill into waters from facilities. Liability may be imposed for oil removal costs and a variety of public and private damages. Administrative, civil or criminal penalties may also be imposed for violation of federal safety, construction and operating regulations, and for failure to report a spill or to cooperate fully in a clean-up.

The Oil Pollution Act also expands the authority and capability of the federal government to direct and manage oil spill clean-up and operations, and requires operators to prepare oil spill response plans in cases where it can reasonably be expected that substantial harm will be done to the environment by discharges on or into navigable waters. Failure to comply with ongoing requirements or inadequate cooperation during a spill event may subject a responsible party, such as us, to administrative, civil or criminal actions. Although the liability for owners and operators is the same under the federal Water Pollution Act, the damages recoverable under the Oil Pollution Act are potentially much greater and can include natural resource damages.

Our contract drilling services will be marketed in oil and natural gas producing regions that utilize hydraulic fracturing services to enhance the production of oil and natural gas from formations with low permeability, such as shales. Due to concerns raised relating to potential impacts of hydraulic fracturing on groundwater quality and the increased occurrence of seismic activity, legislative and regulatory efforts at the federal level and in some states have been initiated to render permitting and compliance requirements more stringent for hydraulic fracturing or prohibit the activity altogether. Such efforts could have an adverse effect on oil and natural gas production activities, which in turn could have an adverse effect on the contract drilling services that we render for our exploration and production customers.

Our operations are also subject to federal, state and local laws, rules and regulations for the control of air emissions, including the federal Clean Air Act. The federal Clean Air Act, and comparable state laws, regulates emissions of various air pollutants through, for example, air emissions permitting programs. In addition, the Environmental Protection Agency (the "EPA") has developed, and continues to develop, stringent regulations governing emissions of toxic air pollutants at specified sources including pursuing the energy extraction sector under a National Enforcement Initiative. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the federal Clean Air Act and associated state laws and regulations. Finally, more stringent federal, state and local regulations, such as the EPA rules issued in April 2012, which add new requirements for the oil and natural gas sector under the New Source Review Program and the National Emission Standards for Hazardous Air Pollutants program, could result in increased costs and the need for operational changes. Any direct and indirect costs of meeting these requirements may adversely affect our business, results of operations and financial condition.

On December 7, 2009, the EPA announced its findings that emissions of GHG present an "endangerment to human health and the environment." The EPA based this finding on a conclusion that greenhouse gases are contributing to the warming of the Earth's atmosphere and other climate changes. The EPA began to adopt regulations that would require a reduction in emissions of greenhouse gases from certain stationary sources and has required monitoring and reporting for other stationary sources. Mandatory reporting requirements for additional regional, federal or state requirements have been imposed and additional requirements may be imposed in the future. New legislation or regulatory programs that restrict emissions of greenhouse gases in areas in which we conduct business could have an adverse effect on our operations and demand for our services. For example, during 2012, the EPA published rules that include standards to reduce methane emissions associated with oil and natural gas production. In May 2016, the EPA finalized regulations that set methane emission standards for new and modified oil and natural gas facilities, including production facilities. In July 2017, the EPA proposed a two-year stay of certain requirements of this rule pending reconsideration of the rule. Currently, our operations are not adversely impacted by existing state and local climate change initiatives and, at this time, it is not possible to accurately estimate how potential future laws or regulations addressing greenhouse gas emissions would impact our business. Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have

significant physical effects, such as increased frequency and severity of storms, floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our exploration and production operations. We are subject to the requirements of the federal Occupational Safety and Health Act (“OSHA”) and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA and similar state statutes require that we organize and/or disclose information about hazardous materials used or produced in our operations. We believe that we are in compliance with these applicable requirements and with other OSHA and comparable requirements.

Additionally, environmental laws such as the federal Endangered Species Act (“ESA”) and the Migratory Bird Treaty Act, may impact exploration, development and production activities on public or private lands. The ESA provides broad protection for species of fish, wildlife and plants that are listed as threatened or endangered in the United States, and prohibits taking of endangered species. Federal agencies are required to ensure that any action authorized, funded or carried out by them is not likely to jeopardize the continued existence of listed species or modify their critical habitat. While some of our customers’ properties may be located in areas that are designated as habitat for endangered or threatened species, we believe that we are in substantial compliance with the ESA. However, the designation of previously unidentified endangered or threatened species or the designation of previously unprotected areas as a critical habitat could cause us to incur additional costs or become subject to operating restrictions or bans in the affected areas.

Risks and Insurance

Our operations are subject to the many hazards inherent in the drilling business, including:

• accidents at the work location;

• blow-outs;

• cratering;

• fires; and

• explosions.

These and other hazards could cause:

• personal injury or death;

• suspension of drilling operations; or

• damage or destruction of our equipment and that of others;

• damage to producing formations and surrounding areas; and

• environmental damage.

Damage to the environment, including property contamination in the form of soil or ground water contamination, could also result from our operations, including through:

• oil or produced water spillage;

• natural gas leaks; and

• fires.

We maintain insurance coverage of types and amounts that we believe to be customary in the industry, but we may not be fully insured against all risks, either because insurance is not available or because of the high premium costs. Such risks include personal injury, well disasters, extensive fire damage, damage to the environment, and other hazards. The insurance coverage that we maintain includes insurance for fire, windstorm and other risks of physical loss to our rigs and other assets, employer’s liability, automobile liability, commercial general liability insurance and workers compensation insurance. We cannot assure, however, that any insurance obtained by us will be adequate to cover any losses or liabilities, or that this insurance will continue to be available or available on terms that are acceptable to us. While we carry insurance to cover physical damage to, or loss of, our drilling rigs and other assets, such insurance does not cover the full replacement cost of the rigs or other assets, and we do not carry insurance against loss of earnings resulting from such damage. Liabilities for which we are not insured, or which exceed the policy limits of our applicable insurance, could have a material adverse effect on our financial condition and results of operations. Further, we may experience difficulties in collecting from insurers, or such insurers may deny all or a portion of our claims for insurance coverage.

In addition to insurance coverage, we also attempt to obtain indemnification from our customers for certain risks.

These indemnities typically require our customers to hold us harmless in the event of loss of production or reservoir damage. There is no assurance that we will obtain such contractual indemnity, and if obtained, whether such indemnity will be enforceable, whether the customer will be able to satisfy such indemnity or whether such indemnity will be supported by adequate insurance maintained by the customer.

If a significant accident or other event occurs and is not fully covered by insurance or is not an enforceable or recoverable indemnity from a third party, it could have a material adverse effect on our business, financial condition, cash flows and results of operations. See “Risk Factors - Our operations involve operating hazards, which if not insured or indemnified against, could adversely affect our results of operations and financial condition.”

Employees

As of December 31, 2017, we had approximately 390 employees, none of whom were contract employees or were represented by a union. The number of our employees fluctuates depending on our construction and drilling activities.

Seasonality

Seasonality has not significantly affected our overall operations. However, our drilling operations can be affected by severe winter storms or other weather related events. Additionally, toward the end of some years, we experience slower contracting activity as customers' capital expenditure budgets are depleted.

Drilling Equipment, Suppliers and Subcontractors

We use many suppliers of drilling equipment and services. Although this drilling equipment and services have historically been available, there is no assurance that such drilling equipment and services will continue to be available on favorable terms or at all. We also utilize numerous manufacturers and independent subcontractors from various trades to supply key components to the rigs that we construct for our use. These key components include masts and substructures, top drives, high pressure mud pumps, pressure control equipment, engines, and VFD control systems. We believe that we have alternative sources for each of these components.

Website Access to Our Periodic SEC Reports

Our internet address is <http://www.icdrilling.com>. We file and furnish Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, with the Securities and Exchange Commission (the "SEC"), which are available free of charge through our website as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding our company that we file and furnish electronically with the SEC.

We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules. Information on our website is not incorporated by reference into this Annual report on Form 10-K and you should not consider information on our website as part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

We face many challenges and risks in the industry in which we operate. You should carefully consider each of the following risk factors and all of the other information set forth in this Annual Report on Form 10-K, including our financial statements and related notes, and the documents and other information incorporated by reference herein, before investing in our shares. The risks and uncertainties described are not the only ones we face. Additional risk factors not presently known to us or which we currently consider immaterial may also adversely affect us. If any of these risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our shares could decline and you could lose all or part of your investment.

Risks Related to Our Business

Significant declines in oil and natural gas prices could continue and adversely affect demand for contract drilling services, which could have a material adverse effect on our results of operations and financial condition.

Oil prices began to decline in the second half of 2014 and declined further during 2015 and 2016. The closing price of oil was as high as \$106.06 per barrel during the third quarter of 2014, was \$37.13 per barrel on December 31, 2015 and reached a low of \$26.19 on February 11, 2016 (WTI spot price as reported by the EIA). Similarly, natural gas prices (as measured at Henry Hub) declined from an average of \$4.37 per MMBtu in 2014, to \$2.62 per MMBtu in 2015, \$2.52 per MMBtu in 2016. As a result, our industry experienced an exceptional downturn and market conditions have only begun to stabilize and slowly recover.

Although crude oil prices recovered to the \$45 to \$55 per barrel range, and natural gas prices at Henry Hub averaged \$2.99 per MMBtu in 2017, there are no indications at this time that oil and natural gas prices and rig counts will recover to their previous highs experienced in 2014. We believe the current stabilization in market conditions is predicated on oil prices remaining in the \$45 to \$55 per barrel or higher range, and if oil prices were to fall below these levels for any sustainable period, demand and pricing for our contract drilling services could decline and have a material adverse effect on our operations and financial condition.

In addition, we currently finance our capital expenditures and operations pursuant to a committed \$85.0 million revolving line of credit. A significant portion of our borrowing base is tied to the appraised value of our drilling rigs, which value may decline if market conditions deteriorate further. A significant decline in our borrowing base could have a material adverse effect on our financial condition. Our amended and restated credit agreement (the "Credit Facility") also contains certain restrictive covenants, including a leverage and fixed charge ratio covenant based upon the cash flows of the company, and a minimum utilization covenant. Thus, a significant reduction in our cash flows as a result of the decline in demand for our products and services, or significant decline in our operating rig count due to an inability to recontract rigs could reduce or limit the level of funds we are able to borrow under our existing Credit Facility or cause us to violate one or more of our restrictive covenants, which could have a material adverse effect on our financial condition.

We derive all our revenues from companies in the oil and natural gas exploration and production industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility in oil and natural gas prices.

As a provider of land-based contract drilling services, our business depends on the level of exploration and production activity by oil and natural gas companies operating in the United States, and in particular, the regions where we actively market our contract drilling services. The oil and natural gas exploration and production industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. Oil and natural gas prices and market expectations of potential changes in those prices significantly affect the levels of those activities. Worldwide political, regulatory, economic, and military events as well as natural disasters have contributed to oil and natural gas price volatility and are likely to continue to do so in the future. Any prolonged reduction in the overall level of exploration and development activities in the United States and the regions where we market our contract drilling services, whether resulting from changes in oil and natural gas prices or otherwise, could materially and adversely affect us in many ways by negatively impacting:

- our revenues, cash flows and profitability;
- our ability to recontract drilling rigs upon expiration of existing contracts;

- our ability to recontract drilling rigs at profitable dayrates;
- our ability to invest in capital expenditures necessary to maintain our drilling fleet and respond to customer requirements;
- the fair market value of our drilling rig fleet and other assets;

our ability to obtain additional debt and equity capital required to implement our rig construction and growth strategy, and the cost of that capital; and
our ability to retain skilled rig personnel whom we need to implement our growth strategy.

Depending on the market prices of oil and natural gas, oil and natural gas exploration and production companies may cancel or curtail their drilling programs and may lower production spending on existing wells, thereby reducing demand for our services. Many factors beyond our control affect oil and natural gas prices, including, but not limited to:

- the cost of exploring for, producing and delivering oil and natural gas;
- the discovery and development rate of new oil and natural gas reserves, especially shale and other unconventional natural gas resources for which we market our rigs;
- the rate of decline of existing and new oil and natural gas reserves;
- available pipeline and other oil and natural gas transportation capacity;
- the levels of oil and natural gas storage;
- the ability of oil and natural gas exploration and production companies to raise capital;
- economic conditions in the United States and elsewhere;
- actions by the Organization of Petroleum Exporting Countries;
- political instability in the Middle East and other major oil and natural gas producing regions;
- governmental regulations, sanctions and trade restrictions, both domestic and foreign;
- domestic and foreign tax policy;
- weather conditions in the United States;
- the pace adopted by foreign governments for the exploration, development and production of their national reserves;
- the price of foreign imports of oil and natural gas;
- the strength or weakness of the United States dollar;
- the overall supply and demand for oil and natural gas; and
- the development of alternate energy sources and the long-term effects of worldwide energy conservation measures.

As discussed above, oil and natural gas prices have been volatile historically and, we believe, will continue to be so in the future. We also believe the current stabilization in market conditions for our services is predicated on oil prices remaining in the \$45 to \$55 per barrel or higher range, and if oil prices were to fall below these levels for any sustainable period, demand and pricing for our contract drilling services could decline and have a material adverse affect on our operations and financial condition.

Oil and natural gas prices, and market expectations of potential changes in these prices, significantly impact the level of worldwide drilling and production services activities. Reduced demand for oil and natural gas generally results in lower prices for these commodities and may impact the economics of planned drilling projects and ongoing production projects, resulting in the curtailment, reduction, delay or postponement of such projects for an indeterminate period of time. When drilling and production activity and spending decline, both dayrates and utilization have also historically declined. Further declines in oil and natural gas prices and the general economy, could materially and adversely affect our business, results of operations, financial condition and growth strategy. In addition, if oil and natural gas prices decline, companies that planned to finance exploration, development or production projects through the capital markets may be forced to curtail, reduce, postpone or delay drilling activities even further, and also may experience an inability to pay suppliers. Adverse conditions in the global economic environment could also impact our vendors' and suppliers' ability to meet obligations to provide materials and services in general. If any of the foregoing were to occur, or if current depressed market conditions continue for a prolonged period of time, it could have a material adverse effect on our business and financial results and our ability to timely and successfully implement our growth strategy.

Any loss of large customers could have a material adverse effect on our financial condition and results of operations. Our customer base consists of E&P companies that drill oil and natural gas wells in the United States in the regions where we market our rigs. As of December 31, 2017, we have rigs operating or earning revenues from six different

customers, including one customer who has contracted five of our rigs, and two customers that have contracted three of our rigs. It is likely that we will continue to derive a significant portion of our revenue from a relatively small number of customers in the future. Daywork contracts in the contract drilling industry typically do not obligate those customers to order additional services from the drilling contractor beyond those for which they have currently contracted. If a customer decided not to continue to use our services or to terminate an existing contract, or if there is a change of management or ownership of a customer or a material adverse change in the financial condition of one of our customers, it could have a material adverse effect on our revenues, cash flows, and financial condition.

If our customers delay paying or fail to pay a significant amount of our outstanding receivables, it could have a material adverse effect on our business, financial condition, cash flows and results of operations.

In most cases, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets. If our customers delay paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, results of operations, and financial condition.

We currently have eleven rigs operating under contracts with terms expiring during 2018. If we are unable to continue to operate rigs in the spot-market or renew our expiring contracts or continue their operation in the spot-market, it could have a material adverse effect on our results of operations and financial condition.

Upon expiration of a drilling contract, our customers have no obligation to extend the contract term or recontract the drilling rig, and may elect to release the rig. In the event a customer elects to terminate a drilling contract prior to the expiration of its drilling term, all of our current drilling contracts provide that our customers pay an early termination payment. We cannot assure that any replacement contract can be obtained for any of our rigs operating in the spot-market or with terms expiring, and if obtained, that it would be on terms as favorable as those of our existing drilling contracts or at profitable levels. The failure to renew or timely replace one or more of our expiring contracts could have a material adverse effect on our results of operations and financial condition.

Our operations involve operating hazards, which if not insured or indemnified against, could adversely affect our results of operations and financial condition.

Our operations are subject to the many hazards inherent in the drilling and well services industries, including the risks of:

- personal injury and loss of life;
- blowouts;
- cratering;
- fires and explosions;
- loss of well control;
- collapse of the borehole;
- damaged or lost drilling equipment; and
- damage or loss from extreme weather and natural disasters.

Any of these hazards can result in substantial liabilities or losses to us from, among other things:

- suspension of operations;
- damage to, or destruction of, our property and equipment and that of others;
- damage to producing or potentially productive oil and natural gas formations through which we drill; and
- environmental damage.

Although, we seek to protect ourselves from some but not all operating hazards through insurance coverage, some risks are either not insurable or insurance is available only at rates that we consider uneconomical. Depending on competitive conditions and other factors, we attempt to obtain contractual protection against uninsured operating risks from our customers. However, customers who provide contractual indemnification protection may not in all cases maintain adequate insurance or otherwise have the financial resources necessary to support their indemnification obligations. Our insurance or indemnification arrangements may not adequately protect us against liability or loss from all the hazards of our operations. We do not carry loss of business insurance for a rig being out of service. We maintain insurance against some, but not all, of the potential risks affecting our operations and only in coverage amounts and deductible levels that we believe to be economical. Our insurance coverage includes deductibles which must be met prior to recovery. Additionally, our insurance is subject to exclusions and limitations, and there is no assurance that such coverage will adequately protect us against liability from all potential consequences and damages. The occurrence of a significant event that we have not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and

financial condition. Furthermore, we may be unable to maintain adequate insurance in the future at rates we consider reasonable. Incurring a liability for which we are not fully insured or indemnified could have a material adverse effect on our financial condition and results of operations.

We operate in a highly competitive industry in which price competition could reduce our profitability.

We encounter substantial competition from other drilling contractors. The competition in the markets in which we operate has intensified as recent mergers among E&P companies have reduced the number of available customers and the downturn in oil prices has decreased demand for drilling rigs and resulted in downward pricing pressure on operating drilling rigs.

Contract drilling companies compete primarily on a regional basis, and the intensity of competition may vary significantly from region to region at any particular time. Most drilling services contracts are awarded on the basis of competitive bids, which also results in price competition.

In addition to pricing, we believe the principal competitive factors in our markets are availability and condition of equipment, quality of personnel, efficiency of equipment, service quality, experience and safety record. The success of our business depends on our ability to offer safe and highly efficient operations, the quality and efficiency of our rigs and the skills and experience of our rig crews.

As a result of competition, we may lose market share or be unable to maintain or increase prices for our present services or to acquire additional business opportunities, which could have a material adverse effect on our business, results of operations and financial condition. In addition, the failure to maintain an adequate safety record could harm our ability to secure new drilling contracts. As a relatively new contract driller with limited operating history, there can be no assurance that we will be able to maintain the reputation for safety and quality required to successfully compete against our competition.

We face competition from many competitors with greater resources and greater ability to rapidly respond to changing customer requirements and market conditions.

We compete with large national and multi-national companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Many of our larger competitors are able to offer ancillary products and services with their contract drilling services, and recently, some of our larger competitors have begun integrating and offering contract drilling services in connection with directional drilling and other services that we do not offer. In this regard, large diversified oilfield service companies have begun to market bundled services, including contract drilling services, in the United States. If any of these combined offerings gain acceptance within the United States market, it could place us at a competitive disadvantage that has an adverse impact on our future results of operations and profitability.

Furthermore, some of our competitors' greater capabilities in these areas may enable them to better withstand industry downturns, compete more effectively on the basis of price and technology, retain skilled rig personnel, and build new rigs or acquire and refurbish existing rigs so as to be able to place rigs into service more quickly than us in periods of high drilling demand.

In addition, we compete with several smaller companies capable of competing effectively on a regional or local basis. Smaller competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements.

Finally, some E&P companies perform horizontal and directional drilling on their wells using their own equipment and personnel. Any increase in the development and utilization of in-house drilling capabilities by our customers could decrease the demand for our services and have a material adverse impact on our business.

New technology may cause our drilling methods or equipment to become less competitive.

The drilling industry is subject to the introduction of new drilling and completion methods and equipment using new technologies, some of which may be subject to patent protection. Changes in technology or improvements in competitors' equipment could make our equipment less competitive or require significant capital investments to build and maintain a competitive advantage. Further, we may face competitive pressure to design, implement or acquire certain new technologies at a substantial cost. Some of our competitors have greater financial, technical and personnel resources that may allow them to implement new technologies before we can. If we are unable to implement new and emerging technologies on a timely basis or at an acceptable cost, it may have a material adverse effect on our business, results of operations, financial condition and growth strategy.

Federal and state legislative and regulatory initiatives related to hydraulic fracturing could result in operating restrictions or delays in the completion of oil and natural gas wells that may reduce demand for our activities and could adversely affect our financial position, results of operations and cash flows.

Hydraulic fracturing is a commonly used process that involves injection of water, sand, and certain chemicals to fracture the hydrocarbon-bearing rock formation to allow flow of hydrocarbons into the wellbore. The adoption of any federal, state or local laws or the implementation of regulations or ordinances restricting or increasing the costs of hydraulic fracturing could potentially increase our costs of operations and cause a decrease in drilling activity levels in the Permian Basin and other unconventional resource plays and an associated decrease in demand for our rigs and service, any or all of which could adversely affect our financial position, results of operations and cash flows.

The federal Energy Policy Act of 2005 amended the Underground Injection Control provisions of the federal Safe Drinking Water Act (“SDWA”) to exclude certain hydraulic fracturing practices from the definition of “underground injection.” The EPA has asserted regulatory authority over certain hydraulic fracturing activities involving diesel fuel and published guidance relating to such practices in February 2014. From time to time, Congress has considered bills to repeal the exemption for hydraulic fracturing from the SDWA, which would have the effect of allowing the EPA to promulgate new regulations and permitting requirements for hydraulic fracturing, potentially including chemical disclosure requirements. At the state level, several states in which we operate have adopted regulations requiring the disclosure of certain information regarding hydraulic fracturing fluids.

Scrutiny of hydraulic fracturing activities continues in other ways. A number of federal agencies are analyzing, or have been requested to review, a variety of environmental issues associated with hydraulic fracturing. The EPA conducted a study of the potential impacts of hydraulic fracturing on drinking water and issued a final report in December 2016. This study and other studies that may be undertaken by the EPA or other federal agencies could spur initiatives to further regulate hydraulic fracturing under the SDWA or other statutory and/or regulatory mechanisms. Additionally, in June 2016, the EPA published a rule establishing pretreatment standards which prohibit the disposal of unconventional oil and natural gas wastewater at publicly owned treatment works.

In addition, some states and localities have adopted, and others are considering adopting, regulations or ordinances that could restrict hydraulic fracturing in certain circumstances, that would require, with some exceptions, disclosure of constituents of hydraulic fracturing fluids, or that would impose higher taxes, fees or royalties on natural gas production. Moreover, public debate over hydraulic fracturing and shale natural gas production has been increasing, and has resulted in delays of well permits in some areas.

Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition, including litigation, to oil and natural gas production activities using hydraulic fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil and natural gas, including from the developing shale plays, incurred by our customers or could make it more difficult to perform hydraulic fracturing in the unconventional resource plays where we focus our operations.

We depend on the services of key executives, the loss of whom could materially harm our business.

Our senior executives are important to our success because they are instrumental in setting our strategic direction, operating our business and technology, identifying, recruiting and training key personnel, and identifying customers and expansion opportunities. We also depend on the relationships that our senior management has with many of our customers. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. We do not maintain key man life insurance on any of our senior executives. As a result, we are not insured against any losses resulting from the death of our key employees.

Rig upgrade, refurbishment and new rig construction projects, as well as the reactivation of rigs that have been idle for six months or longer, are subject to risks which could cause delays or cost overruns and adversely affect our cash flows, results of operations, and financial position.

New drilling rigs or rigs being upgraded, converted or re-activated following a period of stack may experience start-up complications and may encounter other operational problems that could result in significant delays, uncompensated downtime, reduced dayrates or the cancellation, termination or non-renewal of drilling contracts. Rig construction and upgrade projects are subject to risks of delay or significant cost overruns inherent in any large construction project from numerous factors, including the following:

shortages of equipment, materials or skilled labor;

unscheduled delays in the delivery of ordered materials and equipment or shipyard construction;

17

- failure of equipment to meet quality and/or performance standards;
- financial or operating difficulties of equipment vendors;
- unanticipated actual or purported change orders;
- inability by us or our customer to obtain required permits or approvals, or to meet applicable regulatory standards in our areas of operations;
- unanticipated cost increases between order and delivery;
- adverse weather conditions and other events of force majeure;
- design or engineering changes; and
- work stoppages and other labor disputes.

The occurrence of any of these events could have a material adverse effect on our cash flows, results of operations and financial position.

As we construct additional rigs in the future, we may experience difficulty integrating those rigs into our operations. Additionally, we may incur leverage and add additional financial risk to our business. To the extent we incur additional leverage in our business, it may adversely affect our results of operations, financial position and growth strategy.

The process of constructing rigs may involve unforeseen difficulties and may require a disproportionate amount of management's attention and other resources. We may not be able to successfully manage and integrate new rigs into our existing operations or successfully market our rigs and build market share attributable to drilling rigs that we construct. To the extent we experience some or all of these difficulties, our results of operations, financial condition and growth strategy could be adversely affected.

Expanding our fleet may cause us to incur additional financial leverage, increasing our financial risk and debt service requirements, which could adversely affect our business, results of operations, financial condition and growth strategy.

Our current estimated backlog of contract drilling revenue may not ultimately be realized.

As of December 31, 2017, our estimated contract drilling backlog for future revenues under term contracts, which we define as contracts with a fixed term of six months or more, was approximately \$51.5 million. Our backlog does not include potential reductions in rates for unscheduled standby during periods in which the rig is moving, on standby or incurring maintenance and repair time in excess of contractually allowed downtime. To the extent that we have rigs under term contracts operating on a standby or standby-without-crew basis, our top line revenues will be less than our reported backlog from term contracts.

Fixed-term drilling contracts customarily provide for termination at the election of the customer, with an "early termination payment" to us if a contract is terminated prior to the expiration of the fixed term. Additionally, in certain circumstances, for example, destruction of a drilling rig that is not replaced within a specified period of time, our bankruptcy, or a breach of our contract obligations, the customer may not be obligated to make an early termination payment to us. Additionally, during depressed market conditions, such as those we are currently experiencing, or otherwise, customers may be unable to satisfy their contractual obligations or may seek to terminate, renegotiate or fail to honor their contractual obligations. In addition, we may not be able to perform under these contracts due to events beyond our control, and our customers may seek to cancel or negotiate our contracts for various reasons, including those described above. As a result, we may be unable to realize all of our current contract drilling backlog. In addition, the renegotiation or termination of fixed-term contracts without the receipt of early termination payments could have a material adverse effect on our business, financial condition, cash flows and results of operations.

Our operating and maintenance costs with respect to our rigs include fixed costs that will not decline in proportion to decreases in dayrates.

We do not expect our operating and maintenance costs with respect to our rigs to necessarily fluctuate in proportion to changes in operating revenue. Operating revenue may fluctuate as a function of changes in dayrate, but costs for operating a rig and property taxes are generally fixed or only semi-variable regardless of the dayrate being earned. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to

prepare our rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. Moreover, when our rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. In general, labor costs increase due to higher salary levels, inflation, and increases in workers' compensation insurance. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are amortized.

We participate in a capital intensive business. We may not be able to finance future growth of our operations. The contract drilling industry is capital intensive. Our cash flow from operations and the continued availability of credit are subject to a number of variables, including general economic conditions, conditions in the oil and natural gas market, and more specifically, our rig utilization rates, operating margins and ability to control costs and obtain contracts in a competitive industry. Our cash flow from operations and present borrowing capacity may not be sufficient to fund our anticipated capital expenditures and working capital requirements. We may from time to time seek additional financing, either in the form of bank borrowings, sales of debt or equity securities or otherwise. To the extent our capital resources and cash flow from operations are at any time insufficient to fund our activities or repay our indebtedness as it becomes due, we will need to raise additional funds through public or private financing or additional borrowings. We may not be able to obtain any such capital resources in the amount or at the time when needed. Based upon the significant downturn in market conditions, any new sources of debt capital would require substantially higher interest requirements, and any new sources of equity capital could be substantially dilutive to existing shareholders. Any limitations on our access to capital or increase in the cost of that capital could significantly impair our growth strategy. Our ability to maintain our targeted credit profile could affect our cost of capital as well as our ability to execute our growth strategy. In addition, a variety of factors beyond our control could impact the availability or cost of capital, including domestic or international economic conditions, increases in key benchmark interest rates and/or credit spreads, the adoption of new or amended banking or capital market laws or regulations, the re-pricing of market risks and volatility in capital and financial markets. If we are at any time not able to obtain the necessary capital resources, our financial condition and results of operations could be materially adversely affected. We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under applicable debt instruments, which may not be successful.

Our ability to make scheduled payments on or to refinance indebtedness under our Credit Facility depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the interest or principal, when due, on our indebtedness. If our cash flows and capital resources are insufficient to fund debt service obligations, we may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional capital or restructure or refinance indebtedness. Our ability to restructure or refinance indebtedness will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. Our Credit Facility currently restricts our ability to dispose of assets and our use of the proceeds from such disposition subject to certain defined exceptions. We may not be able to consummate those dispositions, and the proceeds of any such disposition may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet scheduled debt service obligations.

Restrictions in our existing and future debt agreements could limit our growth and our ability to engage in certain activities.

Our Credit Facility contains a number of significant covenants, including restrictive covenants that may limit our ability to, among other things:

- incur or guarantee additional indebtedness;
- make loans to others;
- make investments;
- merge or consolidate with another entity;
- transfer, lease or dispose of all or substantially all of our assets;

- make certain payments;
- create or incur liens;
- purchase, hold or acquire capital stock or certain other types of securities;
- pay cash dividends;
- enter into certain transactions with affiliates; and
- engage in certain other transactions without the prior consent of the lenders.

A breach of any covenant in our Credit Facility would result in a default. A resulting event of default, if not waived, could result in acceleration of the payment of the indebtedness outstanding under, and a termination of, our Credit Facility and in a default with respect to, and an acceleration of, the indebtedness outstanding under any other debt agreements. The accelerated indebtedness would become immediately due and payable. If that occurs, we may not be able to make all of the required payments or borrow sufficient funds to refinance such indebtedness. Even if new financing were available at that time, it may not be on terms that are acceptable to us.

A failure of any of our lenders to honor commitments or advance funds under our Credit Facility would have a material adverse effect on our ability to fund our operations and business strategy.

Our Credit Facility limits the amounts we can borrow up to a borrowing base amount, although capped based on lender commitments, which is calculated monthly and is based upon the appraised value of our eligible drilling fleet and a percentage of our eligible accounts receivable. If a rig becomes idle for longer than 90 consecutive days, it is removed from our borrowing base until it is recontracted. The borrowing base under our Credit Facility was \$106.7 million as calculated as of December 31, 2017, with lender commitments of \$85.0 million.

In the future, we may not be able to access adequate funding under our Credit Facility as a result of a decrease in borrowing base based upon the outcome of a subsequent borrowing base redetermination or an unwillingness or inability on the part of lending counterparties to meet their funding obligations and the inability of other lenders to provide additional funding to cover the defaulting lender's portion. As a result, we may be unable to implement our respective drilling and development plan, make acquisitions or otherwise carry out business plans, which would have a material adverse effect on our financial condition and results of operations.

We may be adversely impacted by work stoppages or other labor matters.

We depend on skilled employees to build and operate our rigs, and any prolonged labor disruption involving our employees could have a material adverse impact on our results of operations and financial condition by disrupting our ability to perform drilling-related services for our customers. Moreover, unionization efforts have been made from time to time within our industry, with varying degrees of success. Any such unionization could increase our costs or limit our flexibility.

Failure to hire and retain skilled personnel could adversely affect our business.

The delivery of our services and products and construction of our rigs requires personnel with specialized skills and experience who can perform physically demanding work. As a result of the volatility of the contract drilling industry and the demanding nature of the work, workers may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive, which occurred during the dramatic industry downturn that began in 2014 and lasted throughout 2016. Between December 31, 2016 and December 31, 2017, the United States land rig count, as reported by Baker Hughes, rose by 271 rigs, with a disproportionate amount of this increase occurring in the Company's target markets of Texas and its contiguous states. This increase in activity has increased competition for, and decreased the availability of, experienced rig crews. This increased competition could result in an increase to our operating costs if we are forced to raise wages to compete for experienced rig crew talent, and could result in increased training and new hire related costs if we are required to train and assimilate lesser experienced crew personnel into our organization.

Potential inability or lack of desire by workers to commute to our facilities and job sites and competition for workers from competitors or other industries are factors that could affect our ability to attract and retain workers. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If either or both of these events were to occur, our capacity and profitability could be diminished and our growth potential could be impaired.

Our ability to be productive and profitable will depend upon our ability to employ and retain skilled personnel and we cannot assure that at times of high demand we will be able to retain, recruit and train an adequate number of skilled workers. In addition, our ability to expand our operations will depend in part on our ability to increase the size of our skilled labor force. Our inability to attract and retain skilled workers in sufficient numbers to satisfy our existing service contracts and enter into new contracts could materially adversely affect our business, financial condition, results of operations and growth strategy.

We depend on a limited number of vendors, some of which are thinly capitalized and the loss of any of which could disrupt our operations.

Our contract drilling operations and our ability to construct new drilling rigs in a timely manner depend on the availability of various rig equipment, including VFD drives and drillers cabins, top drives, mud pumps, engines and drill pipe,

20

as well as replacement parts, related rig equipment and fuel. Some of these have been in short supply from time to time. In addition, key rig components critical to the construction of our rigs are either purchased from or fabricated by a single or limited number of vendors, including vendors that may compete against us from time to time. For many of these products and services, there are only a limited number of vendors and suppliers available to us.

We do not currently have any long-term supply contracts with any of our suppliers or subcontractors and may be at a competitive disadvantage compared to our larger competitors when purchasing from these suppliers and subcontractors. Shortages could occur in these essential components due to an interruption of supply or increased demands in the industry. If we are unable to procure certain of such rig components or services from our subcontractors we would be required to reduce or delay our rig construction and other operations, which could have a material adverse effect on our business, results of operations, financial condition and growth strategy.

We could be adversely affected if shortages of equipment or supplies occur.

Increased or decreased demand among drilling contractors for consumable supplies, including fuel, and ancillary rig equipment, such as pumps, valves, drillpipe and engines, may lead to delays in obtaining these materials and our inability to operate our rigs in an efficient manner. Most of our contracts provide that our customers purchase the fuel that run our drilling rigs and thus bear the financial impact of increased fuel prices. However, prolonged shortages in the availability of fuel to run our drilling rigs resulting from action of the elements, terrorism or other force majeure events could result in the suspension of our contracts and have a material adverse effect on our financial condition and results of operations. We have periodically experienced increased lead times in purchasing ancillary equipment for our drilling rigs. To the extent there are significant delays in being able to purchase important components for our rigs, certain of our rigs may not be available for operation or may not be able to operate as efficiently as expected, which could adversely affect our results of operations and financial condition.

Reduced demand can drive suppliers from the market. With reduced suppliers, consumables for our operations may not be readily available. Additionally, suppliers may experience shortfalls in obtaining their materials and/or labor. Suppliers who have been regular providers to us may experience shortfalls that may lead to delays as we secure other sources.

Legal proceedings could have a negative impact on our business.

The nature of our business makes us susceptible to legal proceedings and governmental investigations from time to time. Lawsuits or claims against us could have a material adverse effect on our business, financial condition and results of operations. Any litigation or claims, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future.

Regulatory compliance costs and restrictions, as well as any delays in obtaining permits by our customers for their operations, could impair our business.

The operations of our customers are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, including land drilling, our customers' operations could be disrupted or curtailed by governmental authorities. In most states, our customers are required to obtain permits from one or more governmental agencies in order to perform drilling and completion activities. Such permits are typically required by state agencies, but can also be required by federal and local governmental agencies. The requirements for such permits vary depending on the location where such drilling and completion activities will be conducted. As with all governmental permitting processes, there is a degree of uncertainty as to whether a permit will be granted, the time it will take for a permit to be issued, and the conditions which may be imposed in connection with the granting of the permit. Additionally, the high cost of compliance with applicable regulations may cause customers to discontinue or limit their operations or defer planned drilling, and may discourage companies from continuing development activities. As a result, demand for our services could be substantially affected by regulations adversely impacting the oil and natural gas industry.

We are subject to environmental, health and safety laws and regulations that may expose us to significant liabilities for penalties, damages or costs of remediation or compliance.

Our operations are subject to federal, regional, state and local laws and regulations relating to protection of natural resources and the environment, health and safety aspects of our operations and waste management, including the

transportation and disposal of waste and other materials. These laws and regulations may impose numerous obligations on our operations, including the acquisition of permits to conduct regulated activities, the incurrence of capital expenditures to mitigate or prevent releases of materials from our facilities, the imposition of substantial liabilities for pollution resulting from our operations and the application of specific health and safety criteria addressing worker protection. Failure to comply with these laws and regulations could result in investigations, restrictions or orders suspending well operations, the assessment of administrative,

civil and criminal penalties, the revocation of permits and the issuance of corrective action orders, any of which could have a material adverse effect on our business, results of operations and financial condition.

There is inherent risk of environmental costs and liabilities in our business as a result of our handling of petroleum hydrocarbons and oilfield and industrial wastes, air emissions and wastewater discharges related to our operations, and historical industry operations and waste disposal practices. Some environmental laws and regulations may impose strict, joint and several liability, which means that in some situations, we could be exposed to liability as a result of our conduct that was without fault or lawful at the time it occurred or as a result of the conduct of, or conditions caused by, prior operators or other third parties. Clean-up costs and other damages arising as a result of environmental laws and costs associated with changes in environmental laws and regulations could be substantial and could have a material adverse effect on our financial condition and results of operations.

Laws protecting the environment generally have become more stringent over time and are expected to continue to do so, which could lead to material increases in costs for future environmental compliance and remediation. The modification or interpretation of existing laws or regulations, or the adoption of new laws or regulations, could curtail exploratory or developmental drilling for oil and natural gas, could limit well servicing opportunities or impose unforeseen liabilities. We may not be able to recover some or any of our costs of compliance with these laws and regulations from insurance.

Potential listing of species as “endangered” under the federal ESA could result in increased costs and new operating restrictions or delays on our oil and natural gas exploration and production customers, which could adversely reduce the amount of contract drilling services that we provide to such customers.

The federal ESA and analogous state laws regulate a variety of activities, including oil and natural gas development, which could have an adverse effect on species listed as threatened or endangered under the ESA or their habitats. The designation of previously unidentified endangered or threatened species or the designation of previously unprotected areas as a critical habitat could cause oil and natural gas exploration and production operators to incur additional costs or become subject to operating delays, restrictions or bans in affected areas, which impacts could adversely reduce the amount of drilling activities in affected areas, including support services that we provide to such operators under our contract drilling services segment. Numerous species have been listed or proposed for protected status in areas in which we provide or could in the future provide field services. For instance, the sage grouse, the lesser prairie-chicken and certain wildflower species, among others, are species that have been or are being considered for protected status under the ESA and whose range can coincide with our oil and natural gas production activities. The presence of protected species in areas where operators for whom we provide contract drilling services conduct exploration and production operations could impair such operators’ ability to timely complete well drilling and development and, consequently, adversely affect the amount of contract drilling or other field services that we provided to such operators, which reduction of services could have a significant adverse effect on our results of operations and financial position.

Climate change legislation or regulations restricting or regulating emissions of greenhouse gases could result in increased operating costs and reduced demand for our field services.

In response to findings that emissions of carbon dioxide, methane and other greenhouse gases from industrial and energy sources contribute to increases of carbon dioxide levels in the Earth’s atmosphere and oceans and contribute to global warming and other environmental effects, the EPA has adopted various regulations under the federal Clean Air Act addressing emissions of greenhouse gases that may affect the oil and natural gas industry. During 2012, the EPA published rules that include standards to reduce methane emissions associated with oil and natural gas production. In May 2016, the EPA finalized regulations that set methane emission standards for new and modified oil and natural gas facilities, including production facilities. In July 2017, the EPA proposed a two-year stay of certain requirements of this rule pending reconsideration of the rule. In addition, the United States has been involved in international negotiations regarding greenhouse gas reductions under the United Nations Framework Convention on Climate Change and was among the 195 nations that signed an international accord in December 2015 with the objective of limiting greenhouse gas emission. The Paris Agreement entered into force in November 2016; however, the United States announced its intention to withdraw from the Paris Agreement on June 1, 2017. The United States’ status and continued participation in these and other initiatives or regulatory changes could result in increased costs of

development and production and could have adverse effects on our operations. Additionally, certain U.S. states and regional coalitions of states have adopted measures regulating or limiting greenhouse gases from certain sources or have adopted policies seeking to reduce overall emissions of greenhouse gases. The adoption and implementation of any international treaty or of any federal or state legislation or regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our equipment and operations could require us to incur costs to comply with such requirements and possibly require the reduction or limitation of emissions of greenhouse gases associated with our operations and other sources within the industrial or energy sectors. Such legislation or regulations could adversely affect demand for the production of oil and natural gas and thus reduce demand for the services we provide to oil and natural gas producers as well as increase our

operating costs by requiring additional costs to operate and maintain equipment and facilities, install emissions controls, acquire allowances or pay taxes and fees relating to emissions, which could adversely affect our results of operations and financial condition. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases may produce changes in climate or weather, such as increased frequency and severity of storms, floods and other climatic events, which if any such effects were to occur, could have adverse physical effects on our operations, physical assets and field services to exploration and production operators.

The effects of severe weather could adversely affect our operations.

Changes in climate due to global warming trends could adversely affect our operations by limiting, or increasing the costs associated with, equipment or product supplies. In addition, coastal flooding and adverse weather conditions such as increased frequency and/or severity of hurricanes could impair our ability to operate in affected regions of the country. Oil and natural gas operations of our customers located in Louisiana and parts of Texas may be adversely affected by hurricanes and tropical storms, resulting in reduced demand for our services. Repercussions of severe weather conditions may include: curtailment of services; weather-related damage to facilities and equipment; suspension of operations; inability to deliver equipment, personnel and products to job sites in accordance with contract schedules; and loss of productivity. These constraints could delay our operations and materially increase our operating and capital costs. Unusually warm winters also adversely affect the demand for our services by decreasing the demand for natural gas.

Our business is subject to cybersecurity risks and threats.

Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. It is possible that our business, financial and other systems could be compromised, which might not be noticed for some period of time. Risks associated with these threats include, among other things, loss of intellectual property, disruption of our and customers' business operations and safety procedures, loss or damage to our worksite data delivery systems, and increased costs to prevent, respond to or mitigate cybersecurity events.

Any future implementation of price controls on oil and natural gas would affect our operations.

Certain groups have asserted efforts to have the United States Congress impose some form of price controls on either oil, natural gas, or both. There is no way at this time to know what results these efforts may have. However, any future limits on the price of oil or natural gas could have a material adverse effect on our business, financial condition and results of operations.

Improvements in or new discoveries of alternative energy technologies could have a material adverse effect on our financial condition and results of operations.

Since our business depends on the level of activity in the oil and natural gas industry, any improvement in or new discoveries of alternative energy technologies that increase the use of alternative forms of energy and reduce the demand for oil and natural gas could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Liquidity

The borrowing base under our Credit Facility may decline during 2018.

At December 31, 2017, the borrowing base under our Credit Facility was \$106.7 million, and we had \$36.5 million of availability remaining of our \$85.0 million commitment on that date. The borrowing base under the facility is calculated based upon the sum of (1) 85% of our eligible accounts receivable and (2) an advance percentage multiplied by the appraised forced liquidation value of our eligible drilling rigs. In most circumstances, all of accounts receivable are considered eligible unless they are more than 90 days past due.

With respect to the portion of the borrowing base tied to the appraised forced liquidation value of our eligible rigs, a rig is generally included in the borrowing base unless it has ceased earning revenue under a contract for 90 consecutive days or greater, and it will continue to be excluded until such time as a new drilling contract for the rig is executed.

At December 31, 2017, the advance percentage utilized to calculate the borrowing base was 73.75%. Under the terms of the Credit Facility, this advance rate will decline 1.25% each quarter beginning January 1, 2018 through June 2019. Thereafter, through the maturity date, the advance rate remains at 65.0%.

The lenders have the right to reappraise our drilling fleet throughout the year, and there cannot be any assurance that future appraisals will not adversely affect the appraised values of our rigs due to the aging of our rigs or if market conditions decline.

At December 31, 2017, we had 14 rigs that were eligible to be included in the equipment portion of the borrowing base.

If at any time our borrowing base falls below our outstanding balance under our Credit Facility, and we were not able to promptly repay such deficiency, we would be required to repay to the banks any deficiency amount. In such event, if our available cash balances were not sufficient to repay such amounts, we would be required to obtain other debt or equity financing necessary to cure such deficiency, and there can be no assurance that such additional financing sources would be available to us, or available on terms acceptable to us. Any inability to timely cure any deficiency between our borrowing base and Credit Facility balance may have a material adverse effect on our liquidity and financial condition.

Our ability to comply with the leverage covenant and fixed charge coverage ratio covenant contained in our Credit Facility is based upon our future cash flows and debt levels.

Our Credit Facility requires us to maintain a leverage ratio of net debt to adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), not to exceed the following in the respective time periods: 1Q'18 and 2Q'18: 4.0x; 3Q'18 and 4Q'18: 3.75x; 1Q'19 and 2Q'19: 3.5x; 3Q'19: 3.25x; and thereafter 3.0x. Adjusted EBITDA is calculated as net income plus interest, taxes, depreciation and amortization, non-cash stock based compensation, and certain other gains, losses, and expenses (including up to \$2.0 million of Galayda yard costs previously capitalized when construction activities were continuous). As of December 31, 2017, the leverage ratio covenant was not to exceed 4.0x.

The Credit Facility also requires us to maintain a fixed charge coverage ratio ("FCCR") of not less than 1.1 to 1.0. The FCCR is equal to adjusted EBITDA less capital expenditures divided by cash interest expense plus scheduled principal payments, cash dividends and capital lease obligations plus cash taxes paid. The following capital expenditures are excluded from the calculation of FCCR: (1) capital expenditures incurred before November 1, 2015 and (2) capital expenditures financed through capital sources other than the Credit Facility on or after July 1, 2017. Our compliance with each of these covenants depends significantly upon our level of cash flows in 2018 and beyond, which are based upon factors such as spot dayrates and rig utilization that are difficult to predict based upon the downturn in market conditions our industry has experienced. In particular, our ability to comply with our leverage and FCCR covenant in 2018 and beyond is predicated upon market conditions not deteriorating. If we are not able to comply with the covenants contained in our Credit Facility, we would be required to seek a waiver or amendment to the facility, or seek alternative financing sources, and there can be no assurance that we would be able to obtain such waivers, amendments or alternative financing sources. Any failure to comply with the financial covenants contained in our Credit Facility, or to cure any such non-compliance may have a material adverse effect on our liquidity and financial condition.

Our ability to complete our two partially completed new build rigs is dependent upon our ability to maintain adequate liquidity and availability under our Credit Facility.

A key component of our growth strategy is completing two new build 200 Series rigs for which we already have made substantial investments. Our ability to complete these projects will be dependent upon adequate availability under our Credit Facility, and more importantly, on our ability to comply with the covenants, including financial covenants, under our Credit Facility after taking into account the increased debt levels we would incur associated with completing these projects. Therefore, there is no assurance that we can complete all of these capital projects and fully execute our near-term growth strategy.

Our Credit Facility contains a subjective acceleration clause, and a springing lock-box arrangement that is triggered when availability under our Credit Facility falls below \$10 million. Under applicable accounting rules, outstanding balances under our Credit Facility will be reclassified from long-term to current if this triggering event occurs.

The Credit Facility matures on November 5, 2020. The Credit Facility provides for a springing lock-box arrangement that is only triggered upon the occurrence of an event of default under the Credit Facility or if availability under the Credit Facility falls below the greater of (A) \$10.0 million and (B) the lesser of 10% of the borrowing base or 10% of the total commitments under the facility. The Credit Facility provides that an event of default may occur if a material adverse change to us occurs, which is considered a subjective acceleration clause under applicable accounting rules. Under ASC 470-10-45, because of the existence of this clause, borrowings under the Credit Facility will be required

to be classified as current in the event the springing lock-box event occurs, regardless of the actual maturity of the borrowings. We had \$48.5 million in outstanding borrowings under the Credit Facility at December 31, 2017. Remaining availability of our \$85.0 million commitment under the Credit Facility was \$36.5 million at December 31, 2017, and we are currently in compliance with all covenants under the Credit Facility. The lenders have the right to reappraise our drilling fleet in the future as well, and there cannot be any assurance that future appraisals will not adversely affect the appraised values of our rigs due to the aging of our rigs or if market conditions decline.

Increases in interest rates could adversely affect our business.

Our business and operating results can be harmed by factors such as the availability, terms of and cost of capital, increases in interest rates or a reduction in credit rating. These changes could cause our cost of doing business to increase, limit our ability to pursue acquisition opportunities, reduce cash flow used for capital expenditures and place us at a competitive disadvantage. For example, total long-term debt at December 31, 2017 included \$48.5 million of floating-rate debt attributed to borrowings at an average interest rate of 6.04%, and the impact on annual cash flow of a 10% change in the floating-rate (approximately 0.60%) would be approximately \$0.3 million annually based on the floating-rate debt and other obligations outstanding at December 31, 2017; however, there are no assurances that possible rate changes would be limited to such amounts. A significant reduction in cash flows from operations or the availability of credit could materially and adversely affect our ability to achieve our desired growth and operating results.

Risks Related to our Common Stock

Our stock price is subject to volatility.

The market price of common stock of companies engaged in the oil and natural gas service industry, including our common stock price, has been highly volatile. Stock price volatility could adversely affect our business operations by, among other things, impeding our ability to attract and retain qualified personnel and to obtain additional financing. In addition to the other risk factors discussed in this section, the price and volume volatility of our common stock may be affected by:

- operating results that vary from the expectations of securities analysts and investors;
- factors influencing the levels of global oil and natural gas exploration and exploitation activities, such as a downturn in oil prices;
- the operating and securities price performance of companies that investors or analysts consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

To the extent that the price of our common stock remains at lower levels or it declines further, our ability to raise funds through the issuance of equity or otherwise use our common stock as consideration will be reduced. In addition, increases in our leverage may make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

Because we have no plans to pay any dividends for the foreseeable future, investors must look solely to stock appreciation for a return on their investment in us.

We have not paid cash dividends on our common stock since our incorporation and our Credit Facility prohibits us from paying cash dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings to support our operations and growth. Any payment of cash dividends in the future will be dependent on the amount of funds legally available, our financial condition, capital requirements, ability to pay such dividends under our then existing Credit Facility and other factors that our board of directors may deem relevant. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company at a premium that a stockholder may consider favorable, which could adversely affect the price of our common stock.

The existence of some provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company that a stockholder may consider favorable, which could adversely affect the price of our common stock. The provisions in our amended and restated certificate of incorporation and amended and restated bylaws that could delay or prevent an unsolicited change in control of our company include:

- provisions regulating the ability of our stockholders to nominate candidates for election as directors or to bring matters for action at annual meetings of our stockholders;
- limitations on the ability of our stockholders to call a special meeting and act by written consent; and

the authorization given to our board of directors to issue and set the terms of preferred stock.

Future offerings of debt securities, which would rank senior to our common stock in the event of our liquidation, and future offerings of equity securities, which would dilute our existing stockholders or rank senior to our common stock, may adversely affect the market value of our common stock.

We intend to evaluate and may attempt to increase our capital resources by offering debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible notes and classes of preferred stock. In the event of our liquidation, holders of our debt securities and preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market value of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that would limit amounts available for distribution to holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market value of our common stock and diluting their shareholdings in us.

For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.

In April 2012, President Obama signed into law the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). We are classified as an emerging growth company (an "EGC") under the JOBS Act. For as long as we are an EGC, which may be up to five full fiscal years, unlike other public companies, we will not be required to, among other things: (i) provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002; (ii) comply with any new requirements adopted by the Public Company Accounting Oversight Board (the "PCAOB") requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer; (iii) provide certain disclosure regarding executive compensation required of larger public companies; or (iv) hold nonbinding advisory votes on executive compensation. We will remain an EGC for up to five years, although we will lose that status sooner if we have more than \$1.07 billion of revenues in a fiscal year, have more than \$700 million in market value of our common stock held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt over a three-year period.

To the extent that we rely on any of the exemptions available to EGCs, we will provide less information about our executive compensation and internal control over financial reporting than issuers that are not emerging growth companies. If some investors find our common stock to be less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock. Our amended and restated certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own an approximate 14.4 acre corporate headquarters and rig assembly yard complex located at 11601 North Galayda Street, Houston, Texas 77086. The complex includes approximately 18,000 square feet of office space and 76,000 square feet of warehouse space. During 2017, our management committed to a plan to sell this property in order to relocate to office space and a yard facility more suitable to our needs. As of December 31, 2017, the property is available for sale. We also lease an additional approximate 0.2 acres of land for equipment and supply storage. Additionally, we lease office space in northwest Houston as a temporary location for our corporate operations after our corporate headquarter offices suffered water related damage from the heavy rainfall that occurred during Hurricane Harvey in August 2017.

We believe that all of our existing properties are suitable for their intended uses and are sufficient to support our operations. We do not believe that any single property is material to our operations and, if necessary, we could obtain a replacement facility. We continuously evaluate the needs of our business, and we will purchase or lease additional properties or reduce our properties, as our business requires.

ITEM 3. LEGAL PROCEEDINGS

We are the subject of certain legal proceedings and claims arising in the ordinary course of business from time to time. Management cannot predict the ultimate outcome of such legal proceedings and claims. While the legal proceedings and claims may be asserted for amounts that may be material should an unfavorable outcome be the result, management does not currently expect that the resolution of these matters will have a material adverse effect on our financial position or results of operations. In addition, management monitors our legal proceedings and claims on a quarterly basis and establishes and adjusts any reserves as appropriate to reflect our assessment of the then-current status of such matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information for Common Stock

Our common stock is traded on the New York Stock Exchange under the symbol “ICD”. The table below presents the high and low daily closing sales prices of the common stock, as reported by the New York Stock Exchange, for the periods indicated:

	High	Low
2017:		
First Quarter	\$7.14	\$4.70
Second Quarter	\$5.81	\$3.30
Third Quarter	\$4.22	\$3.03
Fourth Quarter	\$4.06	\$2.80
2016:		
First Quarter	\$5.40	\$3.44
Second Quarter	\$5.88	\$3.76
Third Quarter	\$5.63	\$4.68
Fourth Quarter	\$6.97	\$3.93

Holders of Record

As of February 20, 2018, we had 38,098,248 shares of common stock outstanding held by approximately 20 holders of record. This number includes registered stockholders and does not include stockholders who hold their shares institutionally.

Dividend Policy

We have not declared or paid any cash dividends on our common stock, our Credit Facility prohibits us from paying cash dividends on our common stock, and we do not currently anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all future earnings to fund the development and growth of our business. Any future determination relating to our dividend policy will be at the discretion of our board of directors and will depend on funds legally available, our results of operations, financial condition, capital requirements, the ability to pay cash dividends under our then existing Credit Facility and other factors deemed relevant by our board.

Stock Performance Graph

The following stock performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Securities Exchange Act of 1934, as amended (the “Exchange Act”), except to the extent that we specifically incorporate such information by reference into such a filing. The graph and information is included for historical comparative purposes only and should not be considered indicative of future stock performance.

The following graph compares our cumulative total stockholder return during the period from our initial public offering (IPO) on August 7, 2014 to December 31, 2017 with total stockholder return during the same period for the Standard & Poors 500 Index and an index of peer companies. The graph assumes that (i) \$100 was invested in our common stock on August 8, 2014 at our IPO price of \$11.00 per share, (ii) \$100 was invested in each index on August 8, 2014 at the closing price on such date, and (iii) all dividends, if any, were reinvested.

Edgar Filing: Independence Contract Drilling, Inc. - Form 10-K

	8/8/2014	9/30/2014	12/31/2014	6/30/2015	12/31/2015	6/30/2016	12/31/2016	6/30/2017	12/31/2017
Independence Contract Drilling, Inc.	\$ 100.00	\$ 106.24	\$ 47.20	\$ 80.20	\$ 45.66	\$ 49.10	\$ 60.58	\$ 35.17	\$ 35.99
S&P 500 Index	\$ 100.00	\$ 102.42	\$ 107.47	\$ 108.77	\$ 108.91	\$ 113.01	\$ 121.81	\$ 133.12	\$ 148.22
Peer Index	\$ 100.00	\$ 92.85	\$ 56.16	\$ 60.68	\$ 43.34	\$ 56.95	\$ 70.06	\$ 49.54	\$ 55.87

The index of peer companies consists of: Helmerich & Payne, Inc., Nabors Industries, Ltd., Patterson-UTI Energy, Inc., Pioneer Energy Services Corp., Precision Drilling Corporation, Trinidad Drilling Ltd., Superior Energy Services, Inc. and RPC, Inc.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

Issuer Purchases of Equity Securities

During the fourth quarter of 2017, we withheld shares of our common stock to satisfy minimum tax withholding obligations in connection with the vesting of certain stock awards. These shares are deemed to be “issuer purchases” of shares that are required to be disclosed pursuant to this Item but were not purchased as part of a publicly announced program to repurchase common shares. The following table provides information relating to our repurchase of shares of common stock during the three months ended December 31, 2017 (dollars in thousands, except average price paid per share):

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program (1)
October 1 — October 31	—	\$ —	—	\$ —
November 1 — November 30	—	\$ —	—	\$ —
December 1 — December 31	313,515	\$ 3.44	—	\$ —

(1) We do not have a current share repurchase program authorized by the board of directors.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical financial data. Our selected historical financial data as of and for the periods presented below were derived from our audited financial statements.

Our historical results are not necessarily indicative of our future operating results. The share information gives effect to a 1.57-for-1 stock split in the form of a stock dividend on July 24, 2014. The selected historical financial data presented below is qualified in its entirety by reference to, and should be read in conjunction with, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related Notes included in "Item 8. Financial Statements and Supplementary Data."

(In thousands, except per share data)	Year Ended				
	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Statement of operations data ⁽¹⁾ :					
Revenues	\$90,007	\$70,062	\$88,418	\$70,347	\$42,786
Operating costs	67,733	43,277	52,087	42,654	28,401
Selling, general and administrative ⁽²⁾	13,213	16,144	14,483	12,222	8,911
Depreciation and amortization	25,844	23,808	21,151	16,181	10,186
Goodwill impairment and other charges ⁽³⁾	—	—	—	30,627	—
Asset impairments, net of insurance recoveries ⁽⁴⁾	2,568	3,822	2,708	1,711	—
Loss (gain) on disposition of assets, net	1,677	1,942	2,940	19	(55)
Total cost and expenses	111,035	88,993	93,369		