

ADAMS RESOURCES & ENERGY, INC.

Form 10-Q

August 08, 2018

Accelerated Filer 4,217,596 FALSE June 30,

20180000002178--12-31Q2201810-Q2713031.001.00960,000960,000—0.100.107,500,0007,500,0004,217,5964,217,59623

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D. C. 20549**

# FORM 10Q

(Mark one)

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

For the quarterly period ended June 30, 2018

**OR**

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

For the transition period from \_\_\_\_ to \_\_\_\_.

Commission file number: 1-07908

## ADAMS RESOURCES & ENERGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware 74-1753147**

(State or Other  
Jurisdiction of  
Incorporation or  
Organization)

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

**17 South  
Briar  
Hollow  
Lane,  
Suite 100  
Houston,  
Texas  
77027**

(Address of  
Principal  
Executive  
Offices,  
including  
Zip Code)

Edgar Filing: ADAMS RESOURCES & ENERGY, INC. - Form 10-Q

**(713) 881-3600**

(Registrant's Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated ☐ Accelerated  
filer ☐ filer ☒

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

Emerging growth  
company ☐

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

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

A total of 4,217,596 shares of Common Stock were outstanding at August 1, 2018. Our Common Stock trades on the NYSE American (formerly the NYSE MKT) under the ticker symbol "AE."

---

Table of Contents

**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. <i>Financial Statements</i></u></b>	
<u>Unaudited Condensed Consolidated Balance Sheets</u>	2
<u>Unaudited Condensed Consolidated Statements of Operations</u>	3
<u>Unaudited Condensed Consolidated Statements Cash Flows</u>	4
<u>Unaudited Condensed Consolidated Statements of Shareholders' Equity</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u><i>Management's Discussion and Analysis of</i></u>	
<b><u>Item 2. <i>Financial Condition and Results of Operations</i></u></b>	24
<b><u>Item 3. <i>Quantitative and Qualitative Disclosures About Market</i></u></b>	34

**Risk**

<b><u>Item 4.</u></b>	<b><u>Controls and Procedures</u></b>	<b><u>34</u></b>
-----------------------	---------------------------------------	------------------

**PART II. OTHER INFORMATION**

<b><u>Item 1.</u></b>	<b><u>Legal Proceedings</u></b>	<b><u>34</u></b>
-----------------------	---------------------------------	------------------

<b><u>Item 1A.</u></b>	<b><u>Risk Factors</u></b>	<b><u>34</u></b>
------------------------	----------------------------	------------------

<b><u>Item 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b><u>35</u></b>
-----------------------	---	------------------

<b><u>Item 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b>	<b><u>35</u></b>
-----------------------	---	------------------

<b><u>Item 4.</u></b>	<b><u>Mine Safety Disclosures</u></b>	<b><u>35</u></b>
-----------------------	---------------------------------------	------------------

<b><u>Item 5.</u></b>	<b><u>Other Information</u></b>	<b><u>35</u></b>
-----------------------	---------------------------------	------------------

<b><u>Item 6.</u></b>	<b><u>Exhibits</u></b>	<b><u>36</u></b>
-----------------------	------------------------	------------------

<b><u>Signatures</u></b>	<b><u>37</u></b>
--------------------------	------------------

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 126,999	\$ 109,393
Accounts receivable, net of allowance for doubtful accounts of \$271 and \$303, respectively	118,533	121,353
Inventory	21,513	12,192
Derivative assets	538	166
Income tax receivable	—	1,317
Prepayments and other current assets	1,197	1,264
Total current assets	268,780	245,685
Property and equipment, net	27,304	29,362
Investments in unconsolidated affiliates	425	425
Cash deposits and other assets	6,618	7,232
Total assets	\$ 303,127	\$ 282,704

**LIABILITIES AND  
SHAREHOLDERS'  
EQUITY**

Current liabilities:		
Accounts payable	\$ 140,296	\$ 124,706
Accounts payable – related party	5	5
Derivative liabilities	514	145
Current portion of capital lease obligations	345	338
Other current	6,845	4,404

## liabilities

Total current liabilities	148,005	129,598
---------------------------	---------	---------

## Other long-term liabilities:

Asset retirement obligations	1,405	1,273
------------------------------	-------	-------

Capital lease obligations	1,177	1,351
---------------------------	-------	-------

Deferred taxes and other liabilities	2,516	3,363
--------------------------------------	-------	-------

Total liabilities	153,103	135,585
-------------------	---------	---------

## Commitments and contingencies (Note 12)

## Shareholders' equity:

Preferred stock – \$1.00 par value, 960,000 shares

authorized, none outstanding	—	—
------------------------------	---	---

Common stock – \$0.10 par value, 7,500,000 shares

authorized, 4,217,596 shares outstanding	422	422
--	-----	-----

Contributed capital	11,696	11,693
---------------------	--------	--------

Retained earnings	137,906	135,004
-------------------	---------	---------

Total shareholders' equity	150,024	147,119
----------------------------	---------	---------

Total liabilities and shareholders' equity	\$ 303,127	\$ 282,704
--	------------	------------

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	<b>Three Months Ended</b>			<b>Six Months Ended</b>
	<b>June 30,</b>		<b>2018</b>	<b>June 30,</b>
	<b>2018</b>	<b>2017</b>		<b>2017</b>
<b>Revenues:</b>				
Marketing	\$ 438,791	\$ 301,176	\$ 812,429	\$ 589,791
Transportation	13,626	13,616	27,244	27,071
Oil and natural gas	—	410	—	1,427
Total revenues	452,417	315,202	839,673	618,289
<b>Costs and expenses:</b>				
Marketing	431,683	297,508	800,866	582,661
Transportation	11,890	11,851	24,191	24,013
Oil and natural gas	—	201	—	951
General and administrative	2,284	1,460	4,567	4,097
Depreciation, depletion and amortization	2,262	3,563	4,674	7,532
Total costs and expenses	448,119	314,583	834,298	619,254
<b>Operating earnings (losses)</b>	4,298	619	5,375	(965)
<b>Other income (expense):</b>				
Loss on deconsolidation of subsidiary	—	(1,635)	—	(1,635)
Interest income	498	260	885	419
Interest expense	(15)	(1)	(34)	(2)
Total other income (expense), net	483	(1,376)	851	(1,218)
<b>(Losses) earnings before income taxes</b>	4,781	(757)	6,226	(2,183)
Income tax benefit (provision)	(1,161)	475	(1,468)	1,041

<b>Net (losses) earnings</b>	\$ 3,620	\$ (282)	\$ 4,758	\$ (1,142)
<b>Earnings (losses) per share:</b>				
Basic net (losses) earnings per common share	\$ 0.86	\$ (0.07)	\$ 1.13	\$ (0.27)
Diluted net (losses) earnings per common share	\$ 0.86	\$ (0.07)	\$ 1.13	\$ (0.27)
<b>Dividends per common share</b>	\$ 0.22	\$ 0.22	\$ 0.44	\$ 0.44

See Notes to Unaudited Condensed Consolidated Financial Statements.

3

---



Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities:</b>		
Net (losses) earnings	\$ 4,758	\$ (1,142)
Adjustments to reconcile net (losses) earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	4,674	7,532
Gains on sales of property	(446)	(129)
Impairment of oil and natural gas properties	—	3
Provision for doubtful accounts	(32)	(8)
Stock-based compensation expense	3	—
Deferred income taxes	(832)	(926)
Net change in fair value contracts	(3)	(700)
Loss on deconsolidation of subsidiary	—	1,635
<b>Changes in assets and liabilities:</b>		
Accounts receivable	2,852	13,581
Accounts receivable/payable, affiliates	—	(151)
Inventories	(9,321)	(2,887)
Income tax receivable	1,317	(336)
	67	887

Prepayments and other current assets		
Accounts payable	15,634	3,357
Accrued liabilities	2,441	(483)
Other	125	(461)
Net cash provided by operating activities	21,237	19,772
<b>Investing activities:</b>		
Property and equipment additions	(2,728)	(2,108)
Proceeds from property sales	655	190
Insurance and state collateral (deposits) refunds	465	347
Net cash used in investing activities	(1,608)	(1,571)
<b>Financing activities:</b>		
Principal repayments of capital lease obligations	(167)	—
Dividends paid on common stock	(1,856)	(1,856)
Net cash used in financing activities	(2,023)	(1,856)
<b>Increase in cash and cash equivalents</b>	<b>17,606</b>	<b>16,345</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>109,393</b>	<b>87,342</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 126,999</b>	<b>\$ 103,687</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(In thousands)

	Common Stock	Contributed Capital	Retained Earnings	Total Shareholders' Equity
<b>Balance, January 1, 2018</b>	\$ 422	\$ 11,693	\$ 135,004	\$ 147,119
Net earnings	—	—	4,758	4,758
Stock-based compensation expense	—	3	—	3
Dividends paid on common stock	—	—	(1,856)	(1,856)
<b>Balance, June 30, 2018</b>	\$ 422	\$ 11,696	\$ 137,906	\$ 150,024

	Common Stock	Contributed Capital	Retained Earnings	Total Shareholders' Equity
<b>Balance, January 1, 2017</b>	\$ 422	\$ 11,693	\$ 139,197	\$ 151,312
Net losses	—	—	(1,142)	(1,142)
Dividends paid on common stock	—	—	(1,856)	(1,856)
<b>Balance, June 30, 2017</b>	\$ 422	\$ 11,693	\$ 136,199	\$ 148,314

See Notes to Unaudited Condensed Consolidated Financial Statements.



Table of Contents

**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Basis of Presentation**

*Organization*

Adams Resources & Energy, Inc. (“AE”) is a publicly traded Delaware corporation organized in 1973, the common shares of which are listed on the NYSE American LLC under the ticker symbol “AE”. We and our subsidiaries are primarily engaged in the business of crude oil marketing, transportation and storage in various crude oil and natural gas basins in the lower 48 states of the United States (“U.S.”). We also conduct tank truck transportation of liquid chemicals and dry bulk and ISO tank container storage and transportation primarily in the lower 48 states of the U.S. with deliveries into Canada and Mexico and with terminals in the Gulf Coast region of the U.S. Unless the context requires otherwise, references to “we,” “us,” “our,” the “Company” or “AE” are intended to mean the business and operations of Adams Resources & Energy, Inc. and its consolidated subsidiaries.

Historically, we have operated and reported in three business segments: (i) crude oil marketing, transportation and storage, (ii) tank truck transportation of liquid chemicals and dry bulk and ISO tank container storage and transportation, and (iii) upstream crude oil and natural gas exploration and production. We exited the upstream crude oil and natural gas exploration and production business during 2017 with the sale of our upstream crude oil and natural gas exploration and production assets as a result of a voluntary bankruptcy filing for this subsidiary. We expect the bankruptcy case involving the wholly owned subsidiary through which this business was conducted to be dismissed during the second half of 2018.

*Basis of Presentation*

Our results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of results expected for the full year of 2018. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring accruals necessary for fair presentation. The condensed consolidated financial statements and the accompanying notes are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and the rules of the U.S. Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”) filed with the SEC on March 12, 2018. All significant intercompany transactions and balances have been eliminated in consolidation.

*Use of Estimates*

The preparation of our financial statements in conformity with GAAP requires management to use estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other assumptions and information we believe to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. While we believe the estimates and assumptions used in the preparation of these condensed consolidated financial statements are appropriate, actual results could differ from those estimates.



Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 2. Summary of Significant Accounting Policies***Earnings Per Share*

Basic earnings (losses) per share is computed by dividing our net earnings (losses) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (losses) per share is computed by giving effect to all potential shares of common stock outstanding, including our stock related to unvested restricted stock awards. Unvested restricted stock awards granted under the Adams Resources & Energy, Inc. 2018 Long-Term Incentive Plan ("2018 LTIP") are not considered to be participating securities as the holders of these shares do not have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares (see Note 10 for further discussion).

A reconciliation of the denominator used in the calculation of basic and diluted earnings (losses) per share is as follows (in thousands, except per share data):

	<b>Three Months Ended</b>			<b>Six Months Ended</b>	
	<b>June 30,</b>			<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	
<b>Basic earnings (losses) per share:</b>					
Net earnings (losses)	\$ 3,620	\$ (282)	\$ 4,758	\$ (1,142)	
Weighted average number of shares outstanding – Basic	4,218	4,218	4,218	4,218	
Basic earnings (losses) per share	\$ 0.86	\$ (0.07)	\$ 1.13	\$ (0.27)	
<b>Diluted earnings (losses) per share:</b>					
Net earnings (losses)	\$ 3,620	\$ (282)	\$ 4,758	\$ (1,142)	
Diluted weighted average number of					

shares  
outstanding:

Common shares	4,218	4,218	4,218	4,218
Restricted stock unit awards <sup>(1)</sup>	—	—	—	—
Performance share unit awards <sup>(2)</sup>	—	—	—	—
Total	4,218	4,218	4,218	4,218
Diluted earnings (losses) per share	\$ 0.86	\$ (0.07)	\$ 1.13	\$ (0.27)

(1) The dilutive effect of restricted stock unit awards for the three and six months ended June 30, 2018 is de minimis.

(2) Performance share awards will be included in the calculation of diluted earnings per share when the performance conditions have been achieved.

#### *Fair Value Measurements*

The carrying amounts reported in the unaudited condensed consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments. Marketable securities are recorded at fair value based on market quotations from actively traded liquid markets.

A three-tier hierarchy has been established that classifies fair value amounts recognized in the financial statements based on the observability of inputs used to estimate such fair values. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3). At each balance sheet reporting date, we categorize our financial assets and liabilities using this hierarchy.



Table of Contents

**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Fair value contracts consist of derivative financial instruments and are recorded as either an asset or liability measured at its fair value. Changes in fair value are recognized immediately in earnings unless the derivatives qualify for, and we elect, cash flow hedge accounting. We had no contracts designated for hedge accounting during any current reporting periods (see Note 9 for further information).

*Income Taxes*

Income taxes are accounted for using the asset and liability method. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of these items and their respective tax basis. On December 22, 2017, the Tax Cut and Jobs Act was enacted into law resulting in a reduction in the federal corporate income tax rate from 35 percent to 21 percent for years beginning in 2018, which impacts our income tax provision or benefit.

*Investments in Unconsolidated Affiliates*

In April 2017, one of our wholly owned subsidiaries, Adams Resources Exploration Corporation (“AREC”), filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware seeking relief under Chapter 11 of Title 11 of the United States Code. As a result of the voluntary bankruptcy filing, we no longer controlled the operations of AREC; therefore, we deconsolidated AREC in April 2017, and we recorded our investment in this subsidiary under the cost method of accounting. During the second quarter of 2017, we recorded a non-cash charge of approximately \$1.6 million associated with the deconsolidation of AREC. At June 30, 2018, our remaining investment in AREC was \$0.4 million. We expect the bankruptcy case to be dismissed during the second half of 2018.

*Letter of Credit Facility*

We maintain a Credit and Security Agreement with Wells Fargo Bank, National Association to provide up to a \$60 million stand-by letter of credit facility used to support crude oil purchases within our crude oil marketing segment and for other purposes. We are currently using the letter of credit facility for a letter of credit related to our insurance program. This facility is collateralized by the eligible accounts receivable within our crude oil marketing segment and expires on August 27, 2019.

The issued stand-by letters of credit are canceled as the underlying purchase obligations are satisfied by cash payment when due. The letter of credit facility places certain restrictions on Gulfmark Energy, Inc., one of our wholly owned subsidiaries. These restrictions include the maintenance of positive net earnings excluding inventory valuation changes, as defined, among other restrictions. We are currently in compliance with all such financial covenants. At June 30, 2018 and December 31, 2017, we had \$0.4 million and \$2.2 million, respectively, outstanding under this facility.

*Property and Equipment*

Property and equipment is recorded at cost. Expenditures for additions, improvements and other enhancements to property and equipment are capitalized, and minor replacements, maintenance and repairs that do not extend asset life or add value are charged to expense as incurred. When property and equipment assets are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is included in results of operations in operating costs and expenses for the respective period. Property and equipment, except for land, is depreciated using the straight-line method over the estimated average useful lives ranging from two to thirty-nine years.

We review our long-lived assets for impairment whenever there is evidence that the carrying value of these assets may not be recoverable. Any impairment recognized is permanent and may not be restored. Property and equipment is reviewed at the lowest level of identifiable cash flows. For properties requiring impairment, the fair value is estimated based on an internal discounted cash flow model of future cash flows.

Table of Contents

**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

See Note 5 for additional information regarding our property and equipment.

*Recent Accounting Developments*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 842, *Leases* (“ASC 842”), which requires substantially all leases (with the exception of leases with a term of one year or less) to be recorded on the balance sheet using a method referred to as the right-of-use (“ROU”) asset approach. We plan to adopt the new standard on January 1, 2019 using the modified retrospective approach.

The new standard introduces two lease accounting models, which result in a lease being classified as either a “finance” or “operating” lease on the basis of whether the lessee effectively obtains control of the underlying asset during the lease term. A lease would be classified as a finance lease if it meets one of five classification criteria, four of which are generally consistent with current lease accounting guidance. By default, a lease that does not meet the criteria to be classified as a finance lease will be deemed an operating lease. Regardless of classification, the initial measurement of both lease types will result in the balance sheet recognition of a ROU asset representing a company’s right to use the underlying asset for a specified period of time and a corresponding lease liability. The lease liability will be recognized at the present value of the future lease payments, and the ROU asset will equal the lease liability adjusted for any prepaid rent, lease incentives provided by the lessor, and any indirect costs.

The subsequent measurement of each type of lease varies. Leases classified as a finance lease will be accounted for using the effective interest method. Under this approach, a lessee will amortize the ROU asset (generally on a straight-line basis in a manner similar to depreciation) and the discount on the lease liability (as a component of interest expense). Leases classified as an operating lease will result in the recognition of a single lease expense amount that is recorded on a straight-line basis (or another systematic basis, if more appropriate).

We have started the process of reviewing our lease agreements in light of the new guidance. Although we are in the early stages of our ASC 842 implementation project, we anticipate that this new lease guidance will cause significant changes to the way leases are recorded, presented and disclosed in our consolidated financial statements.

*Stock-Based Compensation*

We measure all share-based payments, including the issuance of restricted stock units and performance share units to employees and board members, using a fair-value based method. The cost of services received from employees and non-employee board members in exchange for awards of equity instruments is recognized in the consolidated statement of operations based on the estimated fair value of those awards on the grant date and amortized on a straight-line basis over the requisite service period. The fair value of restricted stock unit awards and performance share unit awards is based on the closing price of our common stock on the grant date. We account for forfeitures as they occur. See Note 10 for additional information regarding our 2018 LTIP.

**Note 3. Revenue Recognition**

*Adoption of ASC 606*

On January 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers* (“ASC 606”) and all related Accounting Standards Updates by applying the modified retrospective method to all contracts that were not completed on January 1, 2018. The modified retrospective approach required us to recognize the cumulative effect of initially

applying the new standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new revenue standard did not result in a cumulative effect adjustment to our retained earnings since there was no significant impact upon adoption. We expect the impact of the adoption of the new standard to remain immaterial to our net earnings on an ongoing basis.

Table of Contents

**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Revenue Recognition*

The new revenue standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new revenue standard requires entities to recognize revenue through the application of a five-step model, which includes: identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue as the entity satisfies the performance obligations.

Our revenues are primarily generated from the marketing, transportation and storage of crude oil and other related products and the tank truck transportation of liquid chemicals and dry bulk. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. To identify the performance obligations, we considered all of the products or services promised in the contracts with customers, whether explicitly stated or implied based on customary business practices. Revenue is recognized when, or as, each performance obligation is satisfied under terms of the contract.

For our crude oil marketing segment, most of our crude oil purchase and sale contracts qualify and are designated as non-trading activities, and we consider these contracts as normal purchases and sales activity. For normal purchases and sales, our customers are invoiced monthly based upon contractually agreed upon terms with revenue recognized in the month in which the physical product is delivered to the customer, generally upon delivery of the product to the customer. Revenue is recognized based on the transaction price and the quantity delivered.

The majority of our crude oil sales contracts have multiple distinct performance obligations as the promise to transfer the individual goods (e.g., barrels of crude oil) is separately identifiable from the other goods promised within the contracts. Our performance obligations are satisfied at a point in time. For normal sales arrangements, revenue is recognized in the month in which control of the physical product is transferred to the customer, generally upon delivery of the product to the customer.

For our transportation segment, each sales order associated with our master transportation agreements is considered a distinct performance obligation. The performance obligations associated with this segment are satisfied over time as the goods and services are delivered.

*Practical Expedients*

In connection with our adoption of ASC 606, we used significant judgment when assessing our contracts for impact upon adoption. For example, our contracts often include promises to transfer various goods and services to a customer. Determining whether goods and services are considered distinct performance obligations that should be accounted for separately versus together will continue to require significant judgment. We also used practical expedients permitted by ASC 606 when applicable. These practical expedients included:

- Applying the new guidance only to contracts that were not completed as of January 1, 2018; and
- Not accounting for the effects of significant financing components if the company expects that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

*Contract Balances*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable and customer advances and deposits (contract liabilities) on our consolidated balance sheet. Currently, we do not record any contract assets in our financial statements due to the timing of revenue recognized and when our customers are billed. Our crude oil marketing customers are generally billed monthly based on contractually agreed upon terms. However, we sometimes receive advances or deposits from customers before revenue is recognized, resulting in contract liabilities. These contract assets and liabilities, if any, are reported on our consolidated balance sheets at the end of each reporting period.

10

---

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Revenue Disaggregation*

The following table disaggregates our revenue by segment and by major source for the periods indicated (in thousands):

	<b>Reporting Segments</b>		
	<b>Marketing</b>	<b>Transportation</b>	<b>Total</b>
<b>Three Months Ended June 30, 2018</b>			
Revenues from contracts with customers	\$ 419,365	\$ 13,626	\$ 432,991
Other <sup>(1)</sup>	19,426	—	19,426
Total revenues	\$ 438,791	\$ 13,626	\$ 452,417
Timing of revenue recognition:			
Goods transferred at a point in time	\$ 419,365	\$ —	\$ 419,365
Services transferred over time	—	13,626	13,626
Total revenues from contracts with customers	\$ 419,365	\$ 13,626	\$ 432,991
<b>Six Months Ended June 30, 2018</b>			
Revenues from contracts with customers	\$ 779,450	\$ 27,244	\$ 806,694
Other <sup>(1)</sup>	32,979	—	32,979
Total revenues	\$ 812,429	\$ 27,244	\$ 839,673

Timing of  
revenue  
recognition:

Goods transferred at a point in time	\$	779,450	\$	—	\$	779,450
Services transferred over time	—		27,244		27,244	
Total revenues from contracts with customers	\$	779,450	\$	27,244	\$	806,694

(1) Other marketing revenues are recognized under ASC 815, *Derivatives and Hedging*, and ASC 845, *Nonmonetary Transactions – Purchases and Sales of Inventory with the Same Counterparty*.

#### *Other Marketing Revenue*

Certain of the commodity purchase and sale contracts utilized by our crude oil marketing business qualify as derivative instruments with certain specifically identified contracts also designated as trading activity. From the time of contract origination, these contracts are marked-to-market and recorded on a net revenue basis in the accompanying consolidated financial statements.

Certain of our crude oil contracts may be with a single counterparty to provide for similar quantities of crude oil to be bought and sold at different locations. These contracts are entered into for a variety of reasons, including effecting the transportation of the commodity, to minimize credit exposure, and/or to meet the competitive demands of the customer. These buy/sell arrangements are reflected on a net revenue basis in the accompanying consolidated financial statements.

Reporting these crude oil contracts on a gross revenue basis would increase our reported revenues as follows for the periods indicated (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,	
	2018	2017	2018	2017	
Revenue gross-up	\$ 56,335	\$ 44,908	\$ 102,026	\$ 102,473	



Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 4. Prepayments and Other Current Assets**

The components of prepayments and other current assets were as follows at the dates indicated (in thousands):

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Insurance premiums	\$ 582	\$ 425
Rents, licenses and other	615	839
<b>Total</b>	<b>\$ 1,197</b>	<b>\$ 1,264</b>

**Note 5. Property and Equipment**

The historical costs of our property and equipment and related accumulated depreciation balances were as follows at the dates indicated (in thousands):

	<b>Estimated Useful Life in Years</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Tractors and trailers <sup>(1)</sup>	5 – 6	\$ 83,686	\$ 88,065
Field equipment	2 – 5	19,811	18,490
Buildings	5 – 39	15,727	15,727
Office equipment	2 – 5	1,808	1,929
Land		1,790	1,790
Construction in progress		960	275
<b>Total</b>		<b>123,782</b>	<b>126,276</b>
Less accumulated depreciation		(96,478)	(96,914)
<b>Property and equipment, net</b>		<b>\$ 27,304</b>	<b>\$ 29,362</b>

(1) Amounts include assets held under capital leases for certain tractors in our marketing segment. Gross property and equipment associated with assets held under capital leases were \$1.8 million and \$1.8 million at June 30, 2018 and December 31, 2017, respectively. Accumulated amortization associated with assets held under capital leases were \$0.3 million and \$0.1 million at June 30, 2018 and December 31, 2017, respectively (see Note 12 for further information).

Edgar Filing: ADAMS RESOURCES & ENERGY, INC. - Form 10-Q

Components of depreciation, depletion and amortization expense were as follows for the periods indicated (in thousands):

	Three Months Ended			Six Months Ended	
	June 30,			June 30,	
	2018	2017	2018	2017	
Depreciation, depletion and amortization, excluding amounts under capital leases	\$ 2,171	\$ 3,563	\$ 4,493	\$ 7,532	
Amortization of property and equipment under capital leases	91	—	181	—	
Total depreciation, depletion and amortization	\$ 2,262	\$ 3,563	\$ 4,674	\$ 7,532	

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 6. Cash Deposits and Other Assets**

Components of cash deposits and other assets were as follows at the dates indicated (in thousands):

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Amounts associated with liability insurance program:		
Insurance collateral deposits	\$ 3,517	\$ 3,767
Excess loss fund	2,093	2,284
Accumulated interest income	642	814
Other amounts:		
State collateral deposits	57	57
Materials and supplies	273	273
Other	36	37
<b>Total</b>	<b>\$ 6,618</b>	<b>\$ 7,232</b>

We have established certain deposits to support participation in our liability insurance program and remittance of state crude oil severance taxes and other state collateral deposits. Insurance collateral deposits are held by the insurance company to cover past or potential open claims based upon a percentage of the maximum assessment under our insurance policies. Insurance collateral deposits are invested at the discretion of our insurance carrier. Excess amounts in our loss fund represent premium payments in excess of claims incurred to date that we may be entitled to recover through settlement or commutation as claim periods are closed. Interest income is earned on the majority of amounts held by the insurance companies and will be paid to us upon settlement of policy years.

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 7. Segment Reporting**

Historically, our three reporting segments have been: (i) crude oil marketing, transportation and storage, (ii) tank truck transportation of liquid chemicals and dry bulk and ISO tank container storage and transportation, and (iii) upstream crude oil and natural gas exploration and production. Our upstream crude oil and natural gas exploration and production wholly owned subsidiary filed for bankruptcy in April 2017, and as a result of our loss of control of the wholly owned subsidiary, AREC was deconsolidated and is accounted for under the cost method of accounting. AREC remained a reportable segment until its deconsolidation, effective April 30, 2017.

Information concerning our various business activities was as follows for the periods indicated (in thousands):

	<b>Reporting Segments</b>			
	<b>Marketing</b>	<b>Transportation</b>	<b>Oil and Gas</b>	<b>Total</b>
<b>Three Months Ended June 30, 2018</b>				
Revenues	\$ 438,791	\$ 13,626	\$ —	\$ 452,417
Segment operating (losses) earnings <sup>(1)</sup>	5,772	810	—	6,582
Depreciation, depletion and amortization	1,336	926	—	2,262
Property and equipment additions <sup>(2)</sup>	277	1,572	—	1,849
<b>Three Months Ended June 30, 2017</b>				
Revenues	\$ 301,176	\$ 13,616	\$ 410	\$ 315,202
Segment operating (losses) earnings <sup>(1)</sup>	1,691	293	95	2,079
Depreciation, depletion and amortization	1,977	1,472	114	3,563
Property and equipment additions	191	(92)	1,003	1,102
<b>Six Months</b>				

**Ended June  
30, 2018**

Revenues	\$ 812,429	\$ 27,244	\$ —	\$ 839,673
Segment operating (losses) earnings <sup>(1)</sup>	8,730	1,212	—	9,942
Depreciation, depletion and amortization	2,833	1,841	—	4,674
Property and equipment additions <sup>(2)</sup>	1,070	1,645	—	2,715

**Six Months  
Ended June  
30, 2017**

Revenues	\$ 589,791	\$ 27,071	\$ 1,427	\$ 618,289
Segment operating (losses) earnings <sup>(1)</sup>	3,084	(5)	53	3,132
Depreciation, depletion and amortization	4,046	3,063	423	7,532
Property and equipment additions	273	10	1,825	2,108

(1) Our marketing segment's operating earnings included inventory liquidation gains of \$1.9 million and \$2.5 million for the three and six months ended June 30, 2018, respectively, and inventory valuation losses of \$1.4 million and \$2.1 million for the three and six months ended June 30, 2017, respectively.

(2) During the six months ended June 30, 2018, we had \$13 thousand of property and equipment additions for leasehold improvements at our corporate headquarters level, which is not attributed or allocated to any of our reporting segments.

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Segment operating earnings reflect revenues net of operating costs and depreciation, depletion and amortization expense and are reconciled to earnings (losses) before income taxes, as follows for the periods indicated (in thousands):

	<b>Three Months Ended</b>			<b>Six Months Ended</b>	
	<b>June 30,</b>			<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	
Segment operating earnings	\$ 6,582	\$ 2,079	\$ 9,942	\$ 3,132	
General and administrative	(2,284)	(1,460)	(4,567)	(4,097)	
Operating earnings (losses)	4,298	619	5,375	(965)	
Loss on deconsolidation of subsidiary	—	(1,635)	—	(1,635)	
Interest income	498	260	885	419	
Interest expense	(15)	(1)	(34)	(2)	
(Losses) earnings before income taxes	\$ 4,781	\$ (757)	\$ 6,226	\$ (2,183)	

Identifiable assets by industry segment were as follows at the dates indicated (in thousands):

	<b>June 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Reporting segment:		
Marketing	\$ 139,687	\$ 134,745
Transportation	28,803	29,069
Oil and Gas <sup>(1)</sup>	425	425
Cash and other assets	134,212	118,465
Total assets	\$ 303,127	\$ 282,704

(1) Amounts represent our cost method investment in this segment.

Intersegment sales are insignificant. Other identifiable assets are primarily corporate cash, corporate accounts receivable, investments and properties not identified with any specific segment of our business. Accounting policies for transactions between reportable segments are consistent with applicable accounting policies as disclosed herein.

**Note 8. Transactions with Affiliates**

We enter into certain transactions in the normal course of business with affiliated entities including direct cost reimbursement for shared phone and administrative services. In addition, we lease our corporate office space from an affiliated entity.

We utilize our former affiliate, Bencap LLC (“Bencap”), to administer certain of our employee medical benefit programs including a detail audit of individual medical claims. Bencap earns a fee from us for providing these services at a discounted amount from its standard charge to non-affiliates. We had an equity method investment in Bencap, which was forfeited during the first quarter of 2017. As a result, we have no further ownership interest in Bencap.

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Activities with affiliates were as follows for the periods indicated (in thousands):

	<b>Three Months Ended</b>			<b>Six Months Ended</b>	
	<b>June 30,</b>			<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	
Affiliate					
billings to us	\$ 25	\$ 24	\$ 40	\$ 36	
Billings to affiliates	1	1	3	2	
Rentals paid to affiliate	122	158	244	325	
Fees paid to Bencap (1)	—	—	—	108	

(1) Amount represents fees paid to Bencap through the date of the forfeiture of our investment during the first quarter of 2017. As a result of the investment forfeiture, Bencap is no longer an affiliate.

**Note 9. Derivative Instruments and Fair Value Measurements***Derivative Instruments*

In the normal course of our operations, our crude oil marketing segment purchases and sells crude oil. We seek to profit by procuring the commodity as it is produced and then delivering the material to the end users or the intermediate use marketplace. As typical for the industry, these transactions are made pursuant to the terms of forward month commodity purchase and/or sale contracts. Some of these contracts meet the definition of a derivative instrument, and therefore, we account for these contracts at fair value, unless the normal purchase and sale exception is applicable. These types of underlying contracts are standard for the industry and are the governing document for our crude oil marketing segment. None of our derivative instruments have been designated as hedging instruments.

At June 30, 2018, we had in place 16 commodity purchase and sale contracts, of which four of these contracts had no fair value associated with them as the contractual prices of crude oil were within the range of prices specified in the agreements. These commodity purchase and sale contracts encompassed approximately:

- 646 barrels per day of crude oil during July 2018;
- 322 barrels per day of crude oil during August through September 2018;
- 258 barrels per day of crude oil during October through December 2018;
- 322 barrels per day of crude oil during January 2019 through April 2019; and
- 258 barrels per day of crude oil during May 2019.



Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The estimated fair value of forward month commodity contracts (derivatives) reflected in the accompanying unaudited condensed consolidated balance sheet were as follows at the date indicated (in thousands):

	<b>June 30, 2018</b>			
	<b>Balance Sheet Location and Amount</b>			
	<b>Current</b>	<b>Other</b>	<b>Current</b>	<b>Other</b>
	<b>Assets</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Liabilities</b>
Asset derivatives:				
Fair value forward hydrocarbon commodity contracts at gross valuation	\$ 538	\$ —	\$ —	\$ —
Liability derivatives:				
Fair value forward hydrocarbon commodity contracts at gross valuation	—	—	514	—
Less counterparty offsets	—	—	—	—
As reported fair value contracts	\$ 538	\$ —	\$ 514	\$ —

At December 31, 2017, we had in place 20 commodity purchase and sale contracts, of which four of these contracts had no fair value associated with them as the contractual prices of crude oil were within the range of prices specified in the agreements. These commodity purchase and sale contracts encompassed approximately:

- 452 barrels per day of crude oil during January 2018;
- 322 barrels per day of crude oil during February through May 2018;
- 258 barrels per day of crude oil during June 2018;
- 646 barrels per day of crude oil during July 2018;
- 322 barrels per day of crude oil during August through September 2018; and
- 258 barrels per day of crude oil during October through December 2018.

The estimated fair value of forward month commodity contracts (derivatives) reflected in the accompanying unaudited condensed consolidated balance sheet were as follows at the date indicated (in thousands):

December 31, 2017

Balance Sheet Location and Amount

	Current	Other	Current	Other
	Assets	Assets	Liabilities	Liabilities
Asset				
derivatives:				
Fair value				
forward				
hydrocarbon				
commodity				
contracts at				
gross	\$ 166	\$ —	\$ —	\$ —
valuation				
Liability				
derivatives:				
Fair value				
forward				
hydrocarbon				
commodity				
contracts at				
gross	—	—	145	—
valuation				
Less				
counterparty	—	—	—	—
offsets				
As reported				
fair value	\$ 166	\$ —	\$ 145	\$ —
contracts				

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

We only enter into commodity contracts with creditworthy counterparties and evaluate our exposure to significant counterparties on an ongoing basis. At June 30, 2018 and December 31, 2017, we were not holding nor have we posted any collateral to support our forward month fair value derivative activity. We are not subject to any credit-risk related trigger events. We have no other financial investment arrangements that would serve to offset our derivative contracts.

Forward month commodity contracts (derivatives) reflected in the accompanying unaudited condensed consolidated statements of operations were as follows for the periods indicated (in thousands):

	<b>Gains (losses)</b>			
	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Revenues – marketing	\$ 1	\$ 280	\$ 2	\$ 700

*Fair Value Measurements*

The following tables set forth, by level with the Level 1, 2 and 3 fair value hierarchy, the carrying values of our financial assets and liabilities at the dates indicated (in thousands):

	June 30, 2018							
	Fair Value Measurements Using							
	Quoted Prices							
	in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			Counterparty Offsets	Total	
Derivatives:								
Current assets	\$ —	\$ 538	\$ —		\$ —	\$ —	\$ 538	
Current liabilities	—	(514)	—		—		(514)	
Net value	\$ —	\$ 24	\$ —		\$ —	\$ —	\$ 24	

December 31, 2017

Fair Value Measurements Using

Quoted  
Prices

in  
Active Significant

Markets  
for

Identical Other  
Assets Observable

and  
Liabilities Inputs

(Level  
1)

(Level 2)

Significant

Unobservable

Inputs

(Level 3)

Counterparty

Offsets

Total

Derivatives:

Current assets	\$	—	\$	166	\$	—	\$	—	\$	166
Current liabilities	—		(145)		—		—		(145)	
Net value	\$	—	\$	21	\$	—	\$	—	\$	21

Table of Contents

**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These assets and liabilities are measured on a recurring basis and are classified based on the lowest level of input used to estimate their fair value. Our assessment of the relative significance of these inputs requires judgments.

When determining fair value measurements, we make credit valuation adjustments to reflect both our own nonperformance risk and our counterparty's nonperformance risk. When adjusting the fair value of derivative contracts for the effect of nonperformance risk, we consider the impact of netting and any applicable credit enhancements. Credit valuation adjustments utilize Level 3 inputs, such as credit scores to evaluate the likelihood of default by us or our counterparties. At June 30, 2018 and December 31, 2017, credit valuation adjustments were not significant to the overall valuation of our fair value contracts. As a result, applicable fair value assets and liabilities are included in their entirety in the fair value hierarchy.

**Note 10. Share-Based Compensation Plan**

In May 2018, our shareholders approved the 2018 LTIP, a long-term incentive plan under which any employee or non-employee director who provides services to us is eligible to participate in the plan. The 2018 LTIP, which is overseen by the Compensation Committee of our Board of Directors, provides for the grant of various types of equity awards, of which restricted stock unit awards and performance-based compensation awards were granted during the second quarter of 2018. The maximum number of shares authorized for issuance under the 2018 LTIP is 150,000 shares, and the 2018 LTIP is effective until May 8, 2028. We began awarding share-based compensation to eligible employees and directors in June 2018. After giving effect to awards granted under the 2018 LTIP and assuming the potential achievement of the maximum amounts of the performance factors through June 30, 2018, a total of 120,403 shares were available for issuance. During the six months ended June 30, 2018, we recognized a nominal amount of compensation expense in connection with equity-based awards as the grant date for all awards under the 2018 LTIP was June 29, 2018.

If dividends are paid with respect to our common shares during the vesting period, an equivalent amount will accrue and be held by us without interest until the restricted stock and performance unit awards vest, at which time the amount will be paid to the recipient. If the award is forfeited prior to vesting, the accrued dividends will also be forfeited. At June 30, 2018, there were no accrued dividend amounts for awards granted under the 2018 LTIP.

*Restricted Stock Unit Awards*

A restricted stock unit award is a grant of a right to receive our common shares in the future at no cost to the recipient apart from fulfilling service and other conditions once a defined vesting period expires, subject to customary forfeiture provisions. A restricted stock unit award will either be settled by the delivery of common shares or by the payment of cash based upon the fair market value of a specified number of shares, at the discretion of the Compensation Committee, subject to the terms of the applicable award agreement. The Compensation Committee intends for these awards to vest with the settlement of common shares. Restricted stock unit awards generally vest at a rate of 33% per year beginning one year after the grant date and are non-vested until the required service periods expire.

The fair value of a restricted stock unit award is based on the market price per share of our common shares on the date of grant. Compensation expense is recognized based on the grant date fair value over the requisite service or vesting period.

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following table presents restricted stock unit award activity for the periods indicated:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value per Share <sup>(1)</sup></b>
Restricted stock unit awards at January 1, 2018	—	\$ —
Granted <sup>(2)</sup>	13,733	\$ 43.00
Vested	—	\$ —
Forfeited	—	\$ —
Restricted stock unit awards at June 30, 2018	13,733	\$ —

(1) Determined by dividing the aggregate grant date fair value of awards by the number of awards issued.

(2) The aggregate grant date fair value of restricted stock unit awards issued during 2018 was \$0.6 million based on a grant date market price of our common shares of \$43.00 per share.

Unrecognized compensation cost associated with restricted stock unit awards was approximately \$0.6 million. Due to the graded vesting provisions of these awards, we expect to recognize the remaining compensation cost for these awards over a weighted-average period of 1.7 years.

*Performance Share Unit Awards*

An award granted as performance-based compensation is awarded to a participant contingent upon attainment of our future performance goals during a performance cycle. The performance goals were pre-established by the Compensation Committee. Following the end of the performance period, the holder of a performance-based compensation award is entitled to receive payment of an amount not exceeding the number of shares of common stock subject to, or the maximum value of, the performance-based compensation award, based on the achievement of the performance measures for the performance period. The performance share unit awards generally vest in full approximately three years after grant date, and are non-vested until the required service period expires.

The fair value of a performance share unit award is based on the market price per share of our common shares on the date of grant. Compensation expense is recognized based on the grant date fair value over the requisite service or vesting period. Compensation expense will be adjusted for the performance goals on a quarterly basis.

The following table presents performance share unit award activity for the periods indicated:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value per Share <sup>(1)</sup></b>
Performance share unit awards at January 1, 2018	—	\$ —
Granted <sup>(2)</sup>	7,932	\$ 43.00
Vested	—	\$ —
Forfeited	—	\$ —
Performance share unit awards at June 30, 2018	7,932	\$ —

(1) Determined by dividing the aggregate grant date fair value of awards by the number of awards issued.

(2) The aggregate grant date fair value of performance share unit awards issued during 2018 was \$0.4 million based on a grant date market price of our common share of \$43.00 per share and assuming a performance factor of 100 percent.

20

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Unrecognized compensation cost associated with performance share unit awards was approximately \$0.4 million. We expect to recognize the remaining compensation cost for these awards over a weighted-average period of 2.9 years.

**Note 11. Supplemental Cash Flow Information**

Supplemental cash flows and non-cash transactions were as follows for the periods indicated (in thousands):

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
Cash paid for interest	\$ 34	\$ 2
Cash paid for federal and state income taxes	210	225
Non-cash transactions:		
Change in accounts payable related to property and equipment additions	(44)	455

**Note 12. Commitments and Contingencies***Capital Lease Obligations*

We have entered into capital leases for certain of our tractors in our crude oil marketing segment. The following table summarizes our principal contractual commitments outstanding under our capital leases at June 30, 2018 for the next five years, and in total thereafter (in thousands):

Remainder of 2018	\$ 199
2019	398
2020	398
2021	398
2022	255
Thereafter	—



Total minimum lease payments	1,648
Less: Amount representing interest	(126)
Present value of capital lease obligations	1,522
Less current portion of capital lease obligations	(345)
Total long-term capital lease obligations	\$ 1,177

#### *Operating Lease Obligations*

We lease certain property and equipment under noncancelable and cancelable operating leases. Our significant lease agreements consist of (i) arrangements with independent truck owner-operators for use of their equipment and driver services; (ii) leased office space; and (iii) certain lease and terminal access contracts in order to provide tank storage and dock access for our crude oil marketing business. Currently, our significant lease agreements have terms that range from one to eight years.

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Lease expense is charged to operating costs and expenses on a straight-line basis over the period of expected economic benefit. Contingent rental payments are expensed as incurred. We are generally required to perform routine maintenance on the underlying leased assets. Maintenance and repairs of leased assets resulting from our operations are charged to expense as incurred. Rental expense was as follows for the periods indicated (in thousands):

	<b>Three Months Ended</b>			<b>Six Months Ended</b>	
	<b>June 30,</b>			<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	
Rental expense	\$ 2,835	\$ 3,230	\$ 5,422	\$ 6,458	

At June 30, 2018, rental obligations under non-cancelable operating leases and terminal arrangements with terms in excess of one year for the next five years and thereafter are payable as follows (in thousands):

Remainder of 2018	\$ 2,986
2019	3,336
2020	1,641
2021	1,531
2022	1,499
Thereafter	2,966
Total operating lease payments	\$ 13,959

*Insurance Policies*

Under our automobile and workers' compensation insurance policies that were in place through September 30, 2017, we pre-funded our estimated losses, and therefore, we could either receive a return of premium paid or be assessed for additional premiums up to pre-established limits. Additionally, in certain instances, the risk of insured losses was shared with a group of similarly situated entities through an insurance captive. We have appropriately recognized estimated expenses and liabilities related to these policies for losses incurred but not reported to us or our insurance carrier. The amount of pre-funded insurance premiums left to cover potential future losses are presented in the table below. If the potential insurance claims do not further develop, the pre-funded premiums will be returned to us as a premium refund.

Effective October 1, 2017, we changed the structure of our automobile and workers' compensation insurance policies. We exited the group captive and now establish a liability for expected claims incurred but not reported on a monthly basis as we move forward. As claims are paid, the liability is relieved. The amount of pre-funded insurance premiums left to cover potential future losses and our accruals for automobile and workers' compensation claims were as follows at the dates indicated (in thousands):

<b>June 30,</b>	<b>December 31,</b>
-----------------	---------------------

	2018	2017
Pre-funded premiums for losses incurred but not reported	\$ 516	\$ 988
Accrued automobile and workers' compensation claims	1,262	450

Table of Contents**ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

We maintain a self-insurance program for managing employee medical claims. A liability for expected claims incurred but not reported is established on a monthly basis. As claims are paid, the liability is relieved. We also maintain third party insurance stop-loss coverage for annual aggregate medical claims exceeding \$6.0 million. Medical accrual amounts were as follows at the dates indicated (in thousands):

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Accrued medical claims	\$ 1,439	\$ 1,329

*Litigation*

From time to time as incidental to our operations, we may become involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, we are a party to motor vehicle accidents, worker compensation claims and other items of general liability as would be typical for the industry. We are presently unaware of any claims against us that are either outside the scope of insurance coverage or that may exceed the level of insurance coverage and could potentially represent a material adverse effect on our financial position or results of operations.

Table of Contents

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

The following information should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements and accompanying Notes included in this quarterly report on Form 10-Q and the Audited Consolidated Financial Statements and related Notes, together with our discussion and analysis of financial position and results of operations, included in our annual report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"), as filed on March 12, 2018 with the U.S. Securities and Exchange Commission ("SEC"). Our financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP").

**Cautionary Statement Regarding Forward-Looking Information**

*This quarterly report on Form 10-Q contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and information that are based on our beliefs, as well as assumptions made by us and information currently available to us. When used in this document, words such as "anticipate," "project," "expect," "plan," "seek," "goal," "estimate," "forecast," "intend," "could," "should," "would," "will," "believe," "may," "potential" and similar expressions and statements regarding our plans and objectives for future operations are intended to identify forward-looking statements. Although we believe that our expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions as described in more detail under Part I, Item 1A of our 2017 Form 10-K and within Part II, Item 1A of this quarterly report. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. You should not put undue reliance on any forward-looking statements. The forward-looking statements in this quarterly report speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.*

**Overview of Business**

Adams Resources & Energy, Inc. ("AE"), a Delaware corporation organized in 1973, and its subsidiaries are primarily engaged in the business of crude oil marketing, transportation and storage in various crude oil and natural gas basins in the lower 48 states of the United States ("U.S."). We also conduct tank truck transportation of liquid chemicals and dry bulk and ISO tank container storage and transportation primarily in the lower 48 states of the U.S. with deliveries into Canada and Mexico, and with terminals in the Gulf Coast region of the U.S. Unless the context requires otherwise, references to "we," "us," "our," the "Company" or "AE" are intended to mean the business and operations of Adams Resources & Energy, Inc. and its consolidated subsidiaries.

Historically, we have operated and reported in three business segments: (i) crude oil marketing, transportation and storage, (ii) tank truck transportation of liquid chemicals and dry bulk and ISO tank container storage and transportation, and (iii) upstream crude oil and natural gas exploration and production. We exited the upstream crude oil and natural gas exploration and production business during 2017 with the sale of our upstream crude oil and natural gas exploration and production assets as a result of a voluntary bankruptcy filing for this subsidiary. We expect the bankruptcy case involving the wholly owned subsidiary through which this business was conducted to be dismissed during the second half of 2018.



Table of Contents**Results of Operations***Marketing*

Our crude oil marketing segment revenues, operating earnings and selected costs were as follows for the periods indicated (in thousands):

	Three Months Ended June 30,			Change (1)	Six Months Ended June 30,			Change (1)
	2018	2017			2018	2017		
Revenues	\$ 438,791	\$ 301,176		<del>46%</del>	\$ 812,429	\$ 589,791		38%
Operating earnings	5,772	1,691		<del>241</del>	8,730	3,084		183
Depreciation and amortization	1,336	1,977		(32)	2,833	4,046		(30)
Driver commissions	3,001	3,129		(4%)	6,056	6,191		(2%)
Insurance	1,125	1,258		(1%)	2,414	2,497		(3%)
Fuel	1,653	1,284		29%	3,168	2,638		20%

(1) Represents the percentage increase (decrease) from the prior year period.

Volume and price information were as follows for the periods indicated:

	Three Months Ended June 30,			Six Months Ended June 30,	
	2018	2017	2018	2017	
Field level purchase volumes – per day <sup>(1)</sup>					
Crude oil – barrels	70,389	66,817	67,815	66,605	
Average purchase price					
Crude oil – per barrel	\$ 68.24	\$ 46.34	\$ 66.22	\$ 47.67	

(1) Reflects the volume purchased from third parties at the field level of operations.

**Revenues and Operating Earnings.** Crude oil marketing revenues increased by \$137.6 million during the three months ended June 30, 2018 as compared to the three months ended June 30, 2017, primarily as a result of an increase in the market price of crude oil, which increased revenues by approximately \$115.3 million, and higher overall crude oil volumes, which increased revenues by approximately \$22.3 million. The average crude oil price received was \$46.34

for the three months ended June 30, 2017, which increased to \$68.24 for the three months ended June 30, 2018.

Our crude oil marketing operating earnings for the three months ended June 30, 2018 increased by \$4.1 million as compared to the same period in 2017, due to low margin contracts being canceled or renegotiated and increased crude oil volumes. Operating earnings were also impacted by inventory valuation changes (as shown in the table below).

Crude oil marketing revenues increased by \$222.6 million during the six months ended June 30, 2018 as compared to the six months ended June 30, 2017, primarily as a result of an increase in the market price of crude oil, which increased revenues by approximately \$208.1 million, and higher overall crude oil volumes, which increased revenues by approximately \$14.5 million. The average crude oil price received was \$47.67 for the six months ended June 30, 2017, which increased to \$66.22 for the six months ended June 30, 2018.

Our crude oil marketing operating earnings for the six months ended June 30, 2018 increased by \$5.6 million as compared to the same period in 2017, due to improved market conditions. Operating earnings were also impacted by inventory valuation changes.

25

---



Table of Contents

Expenses. Driver commissions decreased by \$0.1 million during the three months ended June 30, 2018 as compared to the same period in 2017, primarily due to a decrease in the number of drivers in the 2018 period as compared to the 2017 period, partially offset by an increase in crude oil marketing volumes in the 2018 period. Insurance costs decreased by \$0.1 million during the three months ended June 30, 2018 as compared to the same period in 2017, primarily as a result of decreased mileage during the 2018 period as compared to the 2017 period, and favorable driver safety performance during the 2018 period. Fuel costs increased by \$0.4 million during the three months ended June 30, 2018 as compared to the same period in 2017 consistent with higher crude oil prices during the 2018 period and an increase in the price of diesel fuel during the 2018 period as compared to the 2017 period. Depreciation and amortization expense decreased by \$0.6 million during the three months ended June 30, 2018 as compared to the same period in 2017, primarily as a result of certain tractors, trailers and field equipment being fully depreciated during 2017.

Driver commissions decreased by \$0.1 million during the six months ended June 30, 2018 as compared to the same period in 2017, primarily due to a decrease in the number of drivers in the 2018 period as compared to the 2017 period, partially offset by an increase in crude oil marketing volumes in the 2018 period. Insurance costs decreased by \$0.1 million during the six months ended June 30, 2018 as compared to the same period in 2017, primarily as a result of decreased mileage during the 2018 period as compared to the 2017 period, and favorable driver safety performance during the 2018 period. Fuel costs increased by \$0.5 million during the six months ended June 30, 2018 as compared to the same period in 2017 consistent with higher crude oil prices during the 2018 period and an increase in the price of diesel fuel during the 2018 period as compared to the 2017 period. Depreciation and amortization expense decreased by \$1.2 million during the six months ended June 30, 2018 as compared to the same period in 2017, primarily as a result of certain tractors, trailers and field equipment being fully depreciated during 2017.

Field Level Operating Earnings (Non-GAAP Financial Measure). Inventory valuations and forward commodity contract (derivatives or mark-to-market) valuations are two significant factors affecting comparative crude oil marketing segment operating earnings. As a purchaser and shipper of crude oil, we hold inventory in storage tanks and third-party pipelines. During periods of increasing crude oil prices, we recognize inventory liquidation gains while during periods of falling prices, we recognize inventory liquidation and valuation losses.

Crude oil marketing operating earnings can be affected by the valuations of our forward month commodity contracts (derivative instruments). These non-cash valuations are calculated and recorded at each period end based on the underlying data existing as of such date. We generally enter into these derivative contracts as part of a pricing strategy based on crude oil purchases at the wellhead (field level). The valuation of derivative instruments at period end requires the recognition of non-cash “mark-to-market” gains and losses.

Table of Contents

The impact of inventory liquidations and derivative valuations on our crude oil marketing segment operating earnings is summarized in the following reconciliation of our non-GAAP financial measure for the periods indicated (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,	
	2018	2017	2018	2017	
As reported segment operating earnings <sup>(1)</sup>	\$ 5,772	\$ 1,691	\$ 8,730	\$ 3,084	
Add (subtract):					
Inventory liquidation gains	(1,923)	—	(2,475)	—	
Inventory valuation losses	—	1,405	—	2,063	
Derivative valuation (gains) losses	(1)	(280)	(2)	(700)	
Field level operating earnings <sup>(2)</sup>	\$ 3,848	\$ 2,816	\$ 6,253	\$ 4,447	

(1) Segment operating earnings included inventory liquidation gains of \$1.9 million and \$2.5 million for the three and six months ended June 30, 2018, respectively, and inventory valuation losses of \$1.4 million and \$2.1 million for the three and six months ended June 30, 2017, respectively.

(2) The use of field level operating earnings is (a) unique to us, (b) not a substitute for a GAAP measure and (c) may not be comparable to any similar measures developed by industry participants. We utilize this data to evaluate the profitability of our operations.

Field level operating earnings and field level purchase volumes depict our day-to-day operation of acquiring crude oil at the wellhead, transporting the product and delivering the product to market sales point. Field level operating earnings increased during the three and six months ended June 30, 2018 as compared to the same periods in 2017 due to an increase in the market price of crude oil, which increased revenues, the effects of lower barge costs, reducing operating expenses, increased crude oil volumes and improved market conditions.

We held crude oil inventory at a weighted average composite price as follows at the dates indicated (in barrels):

	June 30, 2018		December 31, 2017	
	Average Price	Barrels	Average Price	Barrels
Crude oil inventory	302,591	71.10	198,011	\$ 61.57

Historically, prices received for crude oil have been volatile and unpredictable with price volatility expected to continue. See “Part I, Item 1A. *Risk Factors*” in our 2017 Form 10-K.

Table of Contents*Transportation*

Our transportation segment revenues, operating earnings (losses) and selected costs were as follows for the periods indicated (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change (1)	2018	2017	Change (1)
Revenues	\$ 13,626	\$ 13,616	—%	\$ 27,244	\$ 27,071	1%
Operating earnings (losses)	\$ 810	\$ 293	176%	\$ 1,212	\$ (5)	(24,340)
Depreciation and amortization	\$ 926	\$ 1,472	(37%)	\$ 1,841	\$ 3,063	(40)
Driver commissions	\$ 2,726	\$ 2,892	(6%)	\$ 5,606	\$ 5,728	(2%)
Insurance	\$ 1,202	\$ 1,072	12%	\$ 2,604	\$ 2,453	6%
Fuel	\$ 1,722	\$ 1,477	17%	\$ 3,598	\$ 3,109	16%
Maintenance expense	\$ 1,548	\$ 1,471	5%	\$ 3,075	\$ 3,109	(1%)
Mileage (000s)	4,699	5,625	(16%)	9,769	11,243	(13%)

(1) Represents the percentage increase (decrease) from the prior year period.

Our revenue rate structure includes a component for fuel costs in which fuel cost fluctuations are largely passed through to the customer over time. Revenues, net of fuel cost, were as follows for the periods indicated (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,	
	2018	2017	2018	2017	
Total transportation revenue	\$ 13,626	\$ 13,616	\$ 27,244	\$ 27,071	
Diesel fuel cost	(1,722)	(1,477)	(3,598)	(3,109)	
Revenues, net of fuel cost (1)	\$ 11,904	\$ 12,139	\$ 23,646	\$ 23,962	

(1) Revenues, net of fuel cost, is a non-GAAP financial measure and is utilized for internal analysis of the results of our transportation segment.

Transportation revenues during the three months ended June 30, 2018 were generally consistent with transportation revenues during the three months ended June 30, 2017, with a slight increase as a result of a new transportation agreement entered into in January 2018 and higher transportation rates in the 2018 period offset by a decrease in revenues as a result of less miles traveled. Revenues, net of fuel cost, decreased by \$0.2 million during the three months ended June 30, 2018, primarily as a result of an increase in the price of diesel and lower miles traveled during the 2018 period. Transportation activity has been increasing, and we continue to pursue our strategy of streamlining

operations and diversifying offerings in our transportation segment. We have been working with customers to increase our transportation rates as well as streamlining operations in low margin areas. This increase in services has resulted in an increase in revenues, an increase in variable expenses related to transportation activities and a decrease in mileage as we reduce low margin operations. Fuel costs increased by \$0.2 million as a result of an increase in the price of diesel during the 2018 period as compared to the 2017 period, partially offset by a decrease in miles traveled. Depreciation and amortization expense decreased by \$0.5 million during the three months ended June 30, 2018 as compared to the same period in 2017, primarily as a result of certain tractors, trailers and field equipment being fully depreciated during 2017, partially offset by the purchase of new tractors in the the second quarter of 2018, which will result in increased depreciation expense in future periods.

Table of Contents

Transportation revenues increased by \$0.2 million during the six months ended June 30, 2018, primarily as a result of the new transportation agreement entered into in January 2018 and higher transportation rates in the 2018 period. Revenues, net of fuel cost, decreased by \$0.3 million during the six months ended June 30, 2018, primarily as a result of an increase in the price of diesel during the 2018 period, partially offset by increased activity in our transportation segment. This increase in services resulted in an increase in variable expenses related to transportation activities. Fuel costs increased by \$0.5 million as a result of an increase in the price of diesel during the 2018 period as compared to the 2017 period. Depreciation and amortization expense decreased by \$1.2 million during the six months ended June 30, 2018 as compared to the same period in 2017, primarily as a result of certain tractors, trailers and field equipment being fully depreciated during 2017, partially offset by the purchase of new tractors in the second quarter of 2018, which will result in increased depreciation expense in future periods. During the remainder of 2018, we expect to purchase additional tractors, which will reduce the age of our fleet and increase depreciation expense. See “Other Items” below for further information regarding our purchase commitments.

*Oil and Gas*

Our upstream crude oil and natural gas exploration and production segment revenues and operating earnings (losses) were primarily a function of crude oil and natural gas prices and volumes. We accounted for our upstream operations under the successful efforts method of accounting. As a result of AREC’s bankruptcy filing in April 2017 and our loss of control of this subsidiary, we deconsolidated AREC effective with its bankruptcy filing in 2017 and recorded our investment in AREC under the cost method of accounting. Our results for the three and six months ended June 30, 2017 were for the period in which AREC was consolidated.

Our upstream crude oil and natural gas exploration and production segment revenues, operating losses and depreciation and depletion expense were as follows for the periods indicated (in thousands):

	<b>Three Months Ended June 30, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Revenues	\$ 410	\$ 1,427
Operating losses	95	53
Depreciation and depletion	114	423

Volume and price information were as follows for the periods indicated (volumes in thousands):

	<b>Three Months Ended June 30, 2017</b>	<b>Six Months Ended June 30, 2017</b>
Crude oil		
Volume – barrels <sup>(1)</sup>	3,169	11,643
Average price per barrel	\$ 51.20	\$ 49.44

Natural  
gas

Volume – Mcf <sup>(1)</sup>	48,781	189,488
--------------------------------	--------	---------

Average price per Mcf	\$ 2.48	\$ 2.86
-----------------------------	---------	---------

Natural  
gas  
liquids

Volume – barrels <sup>(1)</sup>	3,911	11,204
------------------------------------	-------	--------

Average price per barrel	\$ 30.06	\$ 26.77
--------------------------------	----------	----------

---

(1) Volumes for the six months ended June 30, 2017 are only through April 30, 2017, as a result of the deconsolidation of this subsidiary due to its bankruptcy filing.

29

---

Table of Contents

*General and Administrative Expense*

General and administrative expense increased by \$0.8 million during the three months ended June 30, 2018 as compared to the same period in 2017 primarily due to the reversal in the 2017 period of certain legal accruals of approximately \$0.7 million related to legal matters and higher legal and outside service fees in the 2018 period, partially offset by lower personnel costs in the 2018 period.

General and administrative expense increased by \$0.5 million during the six months ended June 30, 2018 as compared to the same period in 2017 primarily due to the reversal in the 2017 period of certain legal accruals of approximately \$0.7 million related to legal matters and higher legal and outside service fees in the 2018 period, partially offset by the deconsolidation of AREC in April 2017.

*Income Taxes*

Provision for (benefit from) income taxes is based upon federal and state tax rates, and variations in amounts are consistent with taxable income (loss) in the respective accounting periods.

On December 22, 2017, the Tax Cut and Jobs Act was enacted into law resulting in a reduction in the federal corporate income tax rate from 35 percent to 21 percent for years beginning in 2018. As a result of the lower tax rate, our provision for income taxes reflects the effects of the new tax rate during the three and six months ended June 30, 2018 as compared to the same periods in 2017.

*Outlook*

We plan to operate our remaining business segments with internally generated cash flows during 2018, but intend to remain flexible as the focus will be on increasing efficiencies and on business development opportunities. During 2018, we plan to leverage our investment in our transportation segment's Houston terminal with the continued efforts to diversify service offerings, and we plan to grow in new or existing areas with our crude oil marketing segment.

**Liquidity and Capital Resources**

*Liquidity*

Our liquidity is from our cash balance and net cash provided by operating activities and is therefore dependent on the success of future operations. If our cash inflow subsides or turns negative, we will evaluate our investment plan accordingly and remain flexible.

One of our wholly owned subsidiaries, AREC, filed for bankruptcy in April 2017. Over the past few years, we have de-emphasized our upstream operations and do not expect this Chapter 11 filing by AREC to have a material adverse impact on any of our core businesses. As a result of an auction process, AREC sold its assets for approximately \$5.2 million during 2017. After settlement of certain claims in late 2017, AE received approximately \$2.8 million from AREC in December 2017. AE anticipates receiving an additional \$0.4 million in the second half of 2018 when the bankruptcy case is dismissed.



# Edgar Filing: ADAMS RESOURCES & ENERGY, INC. - Form 10-Q

## Table of Contents

At June 30, 2018 and December 31, 2017, we had no bank debt or other forms of debenture obligations. We maintain cash balances in order to meet the timing of day-to-day cash needs. Cash and working capital, the excess of current assets over current liabilities, were as follows at the dates indicated (in thousands):

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Cash and cash equivalents	\$ 126,999	\$ 109,393
Working capital	120,775	116,087

We maintain a stand-by letter of credit facility with Wells Fargo Bank, National Association to provide for the issuance of up to \$60 million in stand-by letters of credit for the benefit of suppliers of crude oil within our crude oil marketing segment and for other purposes. Stand-by letters of credit are issued as needed and are canceled as the underlying purchase obligations are satisfied by cash payment when due. The issuance of stand-by letters of credit enables us to avoid posting cash collateral when procuring crude oil supply. We are currently using the letter of credit facility for a letter of credit related to our insurance program. At June 30, 2018 and December 31, 2017, we had \$0.4 million and \$2.2 million, respectively, outstanding under this facility.

We believe current cash balances, together with expected cash generated from future operations, and the ease of financing truck and trailer additions through leasing arrangements (should the need arise) will be sufficient to meet our short-term and long-term liquidity needs.

We utilize cash from operations to make discretionary investments in our marketing and transportation businesses. With the exception of operating and capital lease commitments primarily associated with storage tank terminal arrangements, leased office space and tractors, our future commitments and planned investments can be readily curtailed if operating cash flows decrease. See "Other Items" below for information regarding our operating and capital lease obligations.

The most significant item affecting future increases or decreases in liquidity is earnings from operations, and these earnings are dependent on the success of future operations. See "Part I, Item 1A. *Risk Factors*" in our 2017 Form 10-K.

## *Cash Flows from Operating, Investing and Financing Activities*

Our consolidated cash flows from operating, investing and financing activities were as follows for the periods indicated (in thousands):

	<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>2017</b>
Cash provided by (used in):		
Operating activities	\$ 21,237	\$ 19,772
Investing activities	(1,608)	(1,571)

Financing activities	(2,023)	(1,856)
----------------------	---------	---------

Operating activities. Net cash flows provided by operating activities for the six months ended June 30, 2018 increased by \$1.5 million when compared to the same period in 2017. This increase was primarily due to an increase in revenues and the timing of collections of accounts receivable and payments of accounts payable, partially offset by a decrease in operating expenses.

Table of Contents

At various times each month, we may make cash prepayments and/or early payments in advance of the normal due date to certain suppliers of crude oil within our crude oil marketing operations. Crude oil supply prepayments are recouped and advanced from month to month as the suppliers deliver product to us. In addition, in order to secure crude oil supply, we may also “early pay” our suppliers in advance of the normal payment due date of the twentieth of the month following the month of production. These “early payments” reduce cash and accounts payable as of the balance sheet date. We also require certain customers to make similar early payments or to post cash collateral with us in order to support their purchases from us. Early payments and cash collateral received from customers increases cash and reduces accounts receivable as of the balance sheet date.

Early payments were as follows at the dates indicated (in thousands):

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Early payments received	\$ 29,839	\$ 20,078
Early payments to suppliers	4,500	6,100

We rely heavily on our ability to obtain open-line trade credit from our suppliers especially with respect to our crude oil marketing operations. During the fourth quarter of 2017 and during the second quarter of 2018, we elected to make several early payments in our crude oil marketing operations. Our cash balance increased by approximately \$17.6 million as of June 30, 2018 relative to the year ended December 31, 2017 primarily as a result of the timing of the early payments and prepayments made and received during each period.

Investing activities. Net cash flows used in investing activities for the six months ended June 30, 2018 was consistent with the same period in 2017. Increases during the 2018 period of \$0.5 million in cash proceeds from the sales of assets and \$0.1 million in insurance and state collateral refunds were offset by an increase of \$0.6 million in capital spending for property and equipment (see following table).

Capital spending was as follows for the periods indicated (in thousands):

	<b>Six Months Ended</b>	
	<b>June 30, 2018</b>	<b>2017</b>
Crude oil marketing <sup>(1)</sup>	\$ 1,070	\$ 273
Truck transportation <sup>(2)</sup>	1,645	10
Oil and natural gas exploration	—	1,825
Other	13	—
Capital spending	\$ 2,728	\$ 2,108

(1) 2018 amount primarily relates to construction of a pipeline connection.

(2) 2018 amount primarily relates to the purchase of 10 tractors, five of which were placed into service in June 2018 and five of which were placed into service in July 2018.

*Financing activities.* Cash used in financing activities for the six months ended June 30, 2018 increased by \$0.2 million when compared to the same period in 2017. During each of the six months ended June 30, 2018 and 2017, we paid a quarterly dividend of \$0.22 per common share, or a total of \$1.9 million during each six month period. During the 2018 period, we paid \$0.2 million of principal repayments on capital lease obligations that we entered into in September 2017 for certain of our tractors in our crude oil marketing segment, with principal contractual commitments to be paid over a period of five years. See “Other Items” below for further information regarding our capital leases.

Table of Contents**Other Items***Contractual Obligations*

The following table summarizes our significant contractual obligations at June 30, 2018 (in thousands):

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital lease obligations (1)	\$ 1,648	\$ 398	\$ 796	\$ 454	\$ —
Operating lease obligations (2)	13,959	2,986	4,977	3,030	2,966
Purchase obligations (3)	5,000	5,000	—	—	—
Total contractual obligations	\$ 20,607	\$ 8,384	\$ 5,773	\$ 3,484	\$ 2,966

(1) Amounts represent our principal contractual commitments, including interest, outstanding under capital leases for certain tractors in our crude oil marketing segment.

(2) Amounts represent rental obligations under non-cancelable operating leases and terminal arrangements with terms in excess of one year.

(3) Amount represents commitments to purchase 41 new tractors during the remainder of 2018 in connection with our transportation business.

We maintain certain lease arrangements with independent truck owner-operators for use of their equipment and driver services on a month-to-month basis. In addition, we enter into office space and certain lease and terminal access contracts in order to provide tank storage and dock access for our crude oil marketing business. These storage and access contracts require certain minimum monthly payments for the term of the contracts. Rental expense was as follows for the periods indicated (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Rental expense	\$ 2,835	\$ 3,230	\$ 5,422	\$ 6,458

*Off-Balance Sheet Arrangements*

We have no off-balance sheet arrangements that have or are reasonably expected to have a material current or future effect on our financial position, results of operations or cash flows.

*Recent Accounting Pronouncements*

For information regarding recent accounting pronouncements, see Note 2 in the Notes to Unaudited Condensed Consolidated Financial Statements.

*Related Party Transactions*

For more information regarding related party transactions, see Note 8 in the Notes to Unaudited Condensed Consolidated Financial Statements.

**Critical Accounting Policies and Use of Estimates**

A discussion of our critical accounting policies and estimates is included in our 2017 Form 10-K. Certain of these accounting policies require the use of estimates. There have been no material changes to our accounting policies since the disclosures provided in our 2017 Form 10-K.

Table of Contents

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

There have been no material changes to our “Quantitative and Qualitative Disclosures about Market Risk” that have occurred since the disclosures provided in our 2017 Form 10-K.

**Item 4. *Disclosure Controls and Procedures***

As of the end of the period covered by this quarterly report, our management carried out an evaluation, with the participation of our Executive Chairman and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 and 15d-15(e) of the Exchange Act. Based on this evaluation, as of the end of the period covered by this quarterly report, our Executive Chairman and our Chief Financial Officer concluded:

(i) that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow for timely decisions regarding required disclosures; and

(ii) that our disclosure controls and procedures are effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(e) under the Exchange Act) during the fiscal quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

From time to time as incidental to our operations, we may become involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, we are a party to motor vehicle accidents, worker compensation claims and other items of general liability as would be typical for the industry. We are presently unaware of any claims against us that are either outside the scope of insurance coverage or that may exceed the level of insurance coverage and could potentially represent a material adverse effect on our financial position or results of operations.

**Item 1A. *Risk Factors***

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” included in our 2017 Form 10-K and the risk factors and other cautionary statements contained in our other SEC filings, which could materially affect our businesses, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. There have been no material changes in our risk factors from those disclosed in our 2017 Form 10-K or our other SEC filings.





Table of Contents

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

None.

**Item 3. *Defaults Upon Senior Securities***

None.

**Item 4. *Mine Safety Disclosures***

Not applicable.

**Item 5. *Other Information***

None.

35

---

Table of Contents

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Exhibit</b>
3.1	Certificate of Incorporation of Adams Resources & Energy, Inc., as amended (incorporated by reference to Exhibit 3(a) to Form 10-K for the fiscal year ended December 31, 1987).
3.2	<u>Bylaws of Adams Resources &amp; Energy, Inc., as amended (incorporated by reference to Exhibit 3(b) to Form 10-K for the year ended December 31, 2012).</u>
10.1+*	<u>Form of Director Restricted Stock Unit Award Agreement under the Adams Resources &amp; Energy, Inc. 2018 Long-Term Incentive Plan.</u>
10.2+*	<u>Form of Employee Restricted Stock Unit Award Agreement under the Adams Resources &amp; Energy, Inc. 2018 Long-Term Incentive Plan.</u>
10.3+*	

Form of  
Employee  
Performance  
Share Unit Award  
Agreement under  
the Adams  
Resources &  
Energy, Inc. 2018  
Long-Term  
Incentive Plan.  
Sarbanes-Oxley  
Section 302  
certification of  
Executive  
Chairman  
pursuant to  
31.1\* Exchange Act  
Rules 13a-14(a)  
and 15d-14(a), as  
adopted pursuant  
to Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.  
Sarbanes-Oxley  
Section 302  
certification of  
Chief Financial  
Officer pursuant  
31.2\* to Exchange Act  
Rules 13a-14(a)  
and 15d-14(a), as  
adopted pursuant  
to Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.  
Sarbanes-Oxley  
Section 906  
certification of  
Executive  
Chairman  
pursuant to 18.  
32.1\* U.S.C. Section  
1350, as adopted  
pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002.

32.2\* Sarbanes-Oxley  
Section 906  
certification of  
Chief Financial  
Officer pursuant  
to 18. U.S.C.  
Section 1350, as  
adopted pursuant  
to Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002.

101.CAL\* XBRL  
Calculation  
Linkbase  
Document

101.DEF\* XBRL Definition  
Linkbase  
Document

101.INS\* XBRL Instance  
Document — the  
instance  
document does  
not appear in the  
Interactive Data  
File because its  
XBRL tags are  
embedded within  
the Inline XBRL  
document.

101.LAB\* XBRL Labels  
Linkbase  
Document

101.PRE\* XBRL  
Presentation  
Linkbase  
Document

101.SCH\* XBRL Schema  
Document

+ Management contract or compensation plan or arrangement.

\*Filed or furnished (in the case of Exhibit 32.1 and 32.2) with this report.

Table of Contents

**SIGNATURES**

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

**ADAMS  
RESOURCES  
& ENERGY,  
INC.**

(Registrant)

Date:  
August  
8, 2018

By: /s/ Townes G.  
Pressler

Townes G.  
Pressler

*Executive  
Chairman*

*(Principal  
Executive  
Officer)*

By: /s/ Tracy E.  
Ohmart

Tracy E. Ohmart

*Chief Financial  
Officer*

*(Principal  
Financial Officer  
and Principal*

*Accounting  
Officer)*