

ADAMS RESOURCES & ENERGY, INC.  
Form 10-Q  
November 09, 2016  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10 Q

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2016  
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 (I.R.S. Employer  
incorporation or organization) Identification No.)

17 South Briar Hollow Lane Suite 100, Houston, Texas 77027  
(Address of principal executive office & Zip Code)

Registrant's telephone number, including area code (713) 881 3600

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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

A total of 4,217,596 shares of Common Stock were outstanding at November 1, 2016.

---

## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements

ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
<b>REVENUES:</b>				
Marketing	\$758,627	\$1,541,999	\$243,704	\$423,014
Transportation	39,517	49,921	12,310	15,748
Oil and natural gas	2,427	4,104	863	1,131
	800,571	1,596,024	256,877	439,893
<b>COSTS AND EXPENSES:</b>				
Marketing	737,858	1,511,258	240,021	416,517
Transportation	33,537	41,018	11,039	12,938
Oil and natural gas	2,421	6,451	1,011	2,746
General and administrative	6,252	7,750	2,114	2,101
Depreciation depletion and amortization	14,385	18,086	4,514	5,968
	794,453	1,584,563	258,699	440,270
Operating earnings (loss)	6,118	11,461	(1,822 )	(377 )
<b>Other income (expense):</b>				
Interest income	444	237	245	64
Interest expense	-	(5 )	-	(1 )
Earnings (loss) before income taxes and equity investments	6,562	11,693	(1,577 )	(314 )
Income tax (provision) benefit	(2,451 )	(4,564 )	594	6
Earnings before equity investments	4,111	7,129	(983 )	(308 )
Earnings (loss) from equity investments, net of tax benefit of \$770, zero, \$630 and zero, respectively	(1,430 )	-	(1,170 )	-
Net earnings (loss)	\$2,681	\$7,129	\$(2,153 )	\$(308 )
<b>EARNINGS (LOSS) PER SHARE:</b>				
Basic and diluted net earnings per common share	\$.64	\$1.69	\$(.51 )	\$(.07 )
<b>DIVIDENDS PER COMMON SHARE</b>	\$.66	\$.66	.22	\$.22

The accompanying notes are an integral part of these financial statements.

2

---

ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$78,485	\$91,877
Accounts receivable, net of allowance for doubtful accounts of \$225 and \$206, respectively	73,561	71,813
Inventory	16,066	7,671
Fair value contracts	153	-
Income tax receivable	2,474	2,587
Prepayments	4,159	2,589
<b>Total current assets</b>	<b>174,898</b>	<b>176,537</b>
Property and Equipment		
Marketing	56,284	65,200
Transportation	70,525	70,732
Oil and gas (successful efforts method)	66,447	77,117
Other	108	187
	193,364	213,236
Less – Accumulated depreciation, depletion and amortization	(143,848)	(153,521)
	49,516	59,715
Other Assets:		
Investments	2,500	-
Cash deposits and other	5,997	6,963
	\$232,911	\$243,215
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	64,056	\$74,117
Accounts payable – related party	75	40
Fair value contracts	43	195
Accrued and other liabilities	7,129	5,845
<b>Total current liabilities</b>	<b>71,303</b>	<b>80,197</b>
Other Liabilities:		
Asset retirement obligations	2,351	2,469
Deferred taxes and other liabilities	6,850	8,039
	80,504	90,705
Commitments and Contingencies (Note 5)		
Shareholders' Equity:		
Preferred stock - \$1.00 par value, 960,000 shares authorized, none outstanding	-	-

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

Common stock - \$.10 par value, 7,500,000 shares authorized, 4,217,596 shares outstanding	422	422
Contributed capital	11,693	11,693
Retained earnings	140,292	140,395
Total shareholders' equity	152,407	152,510
	\$232,911	\$243,215

The accompanying notes are an integral part of these financial statements.

3

---

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

	Nine Months Ended September 30,	
	2016	2015
<b>CASH PROVIDED BY OPERATIONS:</b>		
Net earnings	\$2,681	\$7,129
Adjustments to reconcile net earnings to net cash from operating activities -		
Depreciation, depletion and amortization	14,385	18,086
Property sales gains	(1,948 )	(522 )
Dry hole costs incurred	-	803
Impairment of oil and natural gas properties	87	1,191
Provision for doubtful accounts	19	(25 )
Deferred income taxes	(1,170 )	(1,151 )
Net change in fair value contracts	(305 )	158
Equity investment (earnings) losses	2,200	-
Decrease (increase) in accounts receivable	(1,767 )	48,822
Decrease (increase) in inventories	(8,395 )	(1,334 )
Decrease (increase) in income tax receivable	113	970
Decrease (increase) in prepayments	(1,570 )	3,790
Increase (decrease) in accounts payable	(8,795 )	(58,594)
Increase (decrease) in accrued liabilities	1,378	5,122
Other changes, net	(252 )	(884 )
Net cash provided by (used in) operating activities	(3,339 )	23,561
<b>INVESTING ACTIVITIES:</b>		
Property and equipment additions	(7,186 )	(6,347 )
Proceeds from property sales	3,536	660
Investments	(4,700 )	-
Insurance and state collateral (deposits) refunds	1,081	(39 )
Net cash (used in) investing activities	(7,269 )	(5,726 )
<b>FINANCING ACTIVITIES</b>		
Dividend payments	(2,784 )	(2,784 )
Net cash (used in) financing activities	(2,784 )	(2,784 )
Increase (decrease) in cash and cash equivalents	(13,392)	15,051
Cash and cash equivalents at beginning of period	91,877	80,184
Cash and cash equivalents at end of period	\$78,485	\$95,235

The accompanying notes are an integral part of these financial statements

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

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, in the opinion of the Company's management, include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of its financial position at September 30, 2016, its results of operations for the nine months ended September 30, 2016 and 2015 and its cash flows for the nine months ended September 30, 2016 and 2015. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to Securities and Exchange Commission rules and regulations. The impact on the accompanying financial statements of events occurring after September 30, 2016, was evaluated through the date of issuance of these financial statements.

Although the Company believes the disclosures made are adequate to make the information presented not misleading, it is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the financial statements, and the notes thereto, included in the Company's latest annual report on Form 10-K. The interim statement of operations is not necessarily indicative of results to be expected for a full year.

Note 2 - Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The Company is engaged in the business of crude oil marketing, tank truck transportation of liquid chemicals and oil and gas exploration and production. Its primary area of operation is within a 1,000 mile radius of Houston, Texas. The accompanying unaudited condensed consolidated financial statements include the accounts of Adams Resources & Energy, Inc., a Delaware corporation, and its wholly owned subsidiaries (the "Company") after elimination of all intercompany accounts and transactions.

Cash and Cash Equivalents

Cash and cash equivalents include any Treasury bill, commercial paper, money market fund or federal funds with maturity of 90 days or less. Depending on cash availability and market conditions, investments in corporate and municipal bonds, which are classified as investments in marketable securities, may also be made from time to time. Cash and cash equivalents are maintained with major financial institutions and such deposits may exceed the amount of federally backed insurance provided. While the Company regularly monitors the financial stability of such institutions, cash and cash equivalents ultimately remain at risk subject to the financial viability of such institutions.

Inventory

Inventory consists of crude oil held in storage tanks and at third-party pipelines as part of the Company's crude oil marketing operations. Crude oil inventory is carried at the lower of average cost or market.

## Prepayments

The components of prepayments are as follows (in thousands):

	September 30, 2016	December 31, 2015
Cash collateral deposits for commodity purchases	\$ -	\$ 167
Insurance premiums	3,323	1,609
Rents, license and other	836	813
	\$ 4,159	\$ 2,589

## Property and Equipment

Expenditures for major renewals and betterments are capitalized, and expenditures for maintenance and repairs are expensed as incurred. Interest costs incurred in connection with major capital expenditures are capitalized and amortized over the lives of the related assets. When properties are retired or sold, the related cost and accumulated depreciation, depletion and amortization is removed from the accounts and any gain or loss is reflected in earnings.

Oil and gas exploration and development expenditures are accounted for in accordance with the successful efforts method of accounting. Direct costs of acquiring developed or undeveloped leasehold acreage, including lease bonus, brokerage and other fees, are capitalized. Exploratory drilling costs are initially capitalized until the properties are evaluated and determined to be either productive or nonproductive. Such evaluations are made on a quarterly basis. If an exploratory well is determined to be nonproductive, the costs of drilling the well are charged to expense. Costs incurred to drill and complete development wells, including dry holes, are capitalized. As of September 30, 2016, the Company had no unevaluated or suspended exploratory drilling costs.

Depreciation, depletion and amortization of the cost of proved oil and gas properties is calculated using the unit-of-production method. The reserve base or denominator used to calculate depreciation, depletion and amortization for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped reserves. For lease and well equipment, development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves. The numerator for such calculations is actual production volumes for the period. All other property and equipment is depreciated using the straight-line method over the estimated average useful lives of three to twenty years.

The Company reviews its long-lived assets for impairment whenever there is evidence that the carrying value of such assets may not be recoverable. Any impairment recognized is permanent and may not be restored. Producing oil and gas properties are reviewed on a field-by-field basis. Fields with carrying values in excess of their estimated undiscounted future net cash flows are deemed impaired. For properties requiring impairment, the fair value is estimated based on an internal discounted cash flow model. Cash flows are developed based on estimated future production and prices are then discounted using a market based rate of return consistent with that used by the Company in evaluating cash flows for other assets of a similar nature. At times during 2016, the commodity price for crude oil has been in decline which, if it continues, may require the recording of future impairments in the carrying value of oil and gas properties.



On a quarterly basis, management evaluates the carrying value of non-producing oil and gas leasehold properties and may deem them impaired based on remaining lease term, area drilling activity and the Company's plans for the property. This fair value measure depends highly on management's assessment of the likelihood of continued exploration efforts in a given area. Therefore, such data inputs are categorized as "unobservable" or "Level 3" inputs. (See "Fair Value Measurements" below). Importantly, this fair value measure only applies to the write-down of capitalized costs and will never result in an increase to reported earnings.

Impairment provisions are included in oil and gas segment operating losses and were as follows (in thousands):

	Nine Months Ended September 30, 2016		Three Months Ended September 30, 2015	
Producing property impairments	\$1	\$207	\$-	\$-
Non-producing property impairments	86	984	-	568
Total	\$87	\$1,191	-	\$568

Capitalized costs for non-producing oil and gas leasehold interests currently represent approximately three percent of total oil and gas property costs and are categorized as follows (in thousands):

	September 30, 2016	December 31, 2015
Napoleonville, Louisiana acreage	\$ -	\$ 49
Wyoming and other acreage	200	182
Total Non-producing Leasehold Costs	\$ 200	\$ 231

Since the Company is generally not the operator of its oil and gas property interests, it does not maintain the underlying detail acreage data and the Company is dependent on the operator when determining which specific acreage will ultimately be drilled. However, the capitalized cost detail on a property-by-property basis is reviewed by management, and deemed impaired if development is not anticipated prior to lease expiration. Onshore leasehold periods are normally three years and may contain renewal options.

#### Investments

Investments reflect the Company's interest in operating entities where the Company holds a non-controlling interest. Investments where the Company's interest is between twenty percent and fifty percent of the ownership are accounted for under the "Equity Method". Under the equity method, the initial investment is capitalized and adjusted periodically for the Company's pro-rata share of earnings and losses. Any dividends received will reduce the equity investment balance. Investments where the Company's interest is less than twenty percent are accounted for on the "Cost Method". Under the cost method, the initial investment is capitalized, but no adjustments are made to capitalized costs for the underlying earnings of the investments. For cost method investments, dividends are recorded as income upon receipt.

On January 14, 2016 the Company's wholly owned subsidiary Adams Resources Medical Management, Inc. ("ARMM") acquired a 30% member interest in Bencap LLC ("Bencap") for a \$2,200,000 cash payment. Bencap provides medical insurance brokerage and medical claims auditing services to employers utilizing ERISA governed employee benefit plans. The Company accounts for this investment under the equity method of accounting. Bencap may require additional funding as it completes development of its operations. To fund such needs, on or after December 5, 2016 but before October 31, 2018, Bencap may request to borrow from ARMM an amount no greater than \$1,500,000 and on or after September 1, 2017, but before August 31, 2019, Bencap may request to borrow an amount no greater than \$2,000,000. ARMM is under no obligation to make such loans. However, in the event ARMM elects not to make such loans, ARMM's interest in Bencap is forfeited. Bencap is subject to certain restrictions on its ability to make cash distributions during any period when such loans remain outstanding.

Bencap's predecessor entities began operating in their current form in January 2014. Presently, Bencap's primary focus is developing a general market for its medical claims auditing services. Unlike the traditional approach to employee medical insurance, Bencap's methodology audits and pays claims based on a multiplier which takes into consideration a premium over Medicare rates and/or a premium over the "Cost-to-Charge Ratio" which facility providers must file with the Federal government. The Company has utilized this methodology over the past three years to process and pay medical claims for its employees, including all management personnel.

In April 2016 the Company, through its ARMM subsidiary, acquired an approximate 15% equity interest (less than 3% voting interest) in VestaCare, Inc., a California corporation ("VestaCare"), for a \$2,500,000 cash payment. VestaCare provides an array of software as a service ("SaaS") electronic payment technologies to medical providers, payers and patients including VestaCare's most recent product offering, VestaPay™. VestaPay™ allows medical care providers to structure fully automated and dynamically updating electronic payment plans for their patients. As deductibles and copays have risen in recent years, medical care providers are experiencing a significant shift in revenues from the insurance company to the individual patient. The increasing level of patient obligations has led to significantly increased bad debt write-offs for providers. The VestaCare product earns a contingent collection fee and handling fees as account collections improve.

The Company's investments are considered long-lived assets and will be reviewed for impairment whenever there is evidence that the carrying value of such assets may not be recoverable. These fair value measures depend highly on management's assessment of the financial status of the underlying operation. Such data inputs are "unobservable" or "Level 3" inputs. The Company's Bencap and VestaCare investments are in the early stage of product implementation. The Company monitors revenue and product acceptance trends in order to assess the current fair value of the investment. If the fair value of these investments is determined to be below their carrying value and that loss in fair value is deemed other than temporary, an investment loss will be recognized. During the third quarter of 2016, the Company completed a review of its equity method investment in Bencap and determined there was an other than temporary impairment. Underlying this decision are the terms of the investment agreement where Bencap has the option to request borrowings up to \$1,500,000 on or after December 5, 2016 but before October 31, 2018. Given Bencap's lower than projected revenue growth and operating losses, the Company is unlikely to loan any requested funds causing forfeiture of the investment, leading to the decision to fully impair the investment. The Company recognized a net loss of \$1,430,000 from its investment in Bencap as of September 30, 2016. This loss included a pre-tax impairment charge of \$1,732,000 and pre-tax losses from the equity method investment of \$468,000.

## Cash Deposits and Other Assets

The Company has established certain deposits to support participation in its liability insurance program and remittance of state crude oil severance taxes and other state collateral deposits. Insurance collateral deposits are invested at the discretion of the Company's insurance carrier and such investments primarily consist of intermediate term federal government bonds and bonds backed by federal agencies. This fair value measure relies on inputs from quoted prices for similar assets and is thus categorized as a "Level 2" valuation in the fair value hierarchy. Components of cash deposits and other assets are as follows (in thousands):

	September 30, 2016	December 31, 2015
Insurance collateral deposits	\$ 5,585	\$ 6,531
State collateral deposits	131	140
Materials and supplies	281	292
	\$ 5,997	\$ 6,963

## Revenue Recognition

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

Most crude oil purchase contracts and sale contracts qualify and are designated as non-trading activities and the Company considers such contracts as normal purchases and sales activity. For normal purchases and sales, the Company's 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. Such sales are recorded gross in the financial statements because the Company takes title, has risk of loss for the products, is the primary obligor for the purchase, establishes the sale price independently with a third party and maintains credit risk associated with the sale of the product.

Certain 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. Such buy/sell arrangements are reflected on a net revenue basis in the accompanying unaudited condensed consolidated financial statements. Reporting such crude oil contracts on a gross revenue basis would increase the Company's reported revenues as follows (in thousands):

	Nine Months Ended		Three Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue gross-up	\$245,245	\$388,936	\$70,236	\$122,273

Transportation segment customers are invoiced, and the related revenue is recognized, as the service is provided. Oil and gas revenue from the Company's interests in producing wells is recognized as title and physical possession of the oil and gas passes to the purchaser.

## Sales of Long-lived assets

Gains and losses from the sale or disposal of long-lived assets that do not meet the criteria for presentation as a discontinued operation are presented in the accompanying financial statements as a component of operating earnings.

9

---

## Concentration of Credit Risk

The Company's largest customers consist of large multinational integrated oil companies and independent refiners of crude oil. In addition, the Company transacts business with independent oil producers, major chemical concerns, crude oil trading companies and a variety of commercial energy users. Within this group of customers the Company generally derives approximately 50 percent of its revenues from three to five large crude oil refining concerns. While the Company has ongoing established relationships with certain domestic refiners of crude oil, alternative markets are readily available since the Company supplies less than one percent of U.S. domestic refiner demand. As a fungible commodity delivered to major Gulf Coast supply points, the Company's crude oil sales can be readily delivered to alternative end markets. Management believes that a loss of any customers where the Company currently derives more than 10 percent of its revenues would not have a material adverse effect on the Company's operations.

Accounts receivable associated with crude oil activities comprise approximately 90 percent of the Company's total receivables and industry practice requires payment for such sales to occur within 20 days of the end of the month following a transaction. The Company's customer makeup, credit policies and the relatively short duration of receivables mitigate the uncertainty typically associated with receivables management.

## Letter of Credit Facility

The Company maintains a Credit and Security Agreement with Wells Fargo Bank to provide up to a \$60 million stand-by letter of credit facility used to support crude oil purchases within the marketing segment. This facility is collateralized by the eligible accounts receivable within the segment and outstanding amounts were as follows (in thousands):

Nine  
Months  
Ended  
September  
30,  
2016

Stand-by letters of credit \$- \$1,000

The issued stand-by letters of credit are cancelled as the underlying purchase obligations are satisfied by cash payment when due. The letter of credit facility places certain restrictions on the Company's Gulfmark Energy, Inc. subsidiary. Such restrictions include the maintenance of a combined 1.1 to 1.0 current ratio and the maintenance of positive net earnings excluding inventory valuation changes, as defined, among other restrictions. The Company is currently in compliance with all such financial covenants.

## Statement of Cash Flows

There were no significant non-cash financing activities in any of the periods reported. Statements of cash flow disclosure items include the following (in thousands):

Nine Months  
Ended  
September 30,  
2016 2015

Interest paid \$- \$5

Federal and state tax paid 2,582 4,038

10

---

Capitalized amounts included in property and equipment that were not included in amounts reported for cash additions in the Statements of Cash Flows for the applicable report dates were as follows (in thousands):

	As of September 30,	
	2016	2015
Property and equipment additions	\$ 382	\$ 3

#### Earnings Per Share

Earnings per share are based on the weighted average number of shares of common stock and potentially dilutive common stock shares outstanding during the period presented herein. The weighted average number of shares outstanding was 4,217,596 for 2016 and 2015. There were no potentially dilutive securities during those periods.

#### Share-Based Payments

During the periods presented herein, the Company had neither stock-based employee compensation plans nor any other share-based payment arrangements.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Examples of significant estimates used in the accompanying consolidated financial statements include oil and gas reserve volumes forming the foundation for calculating depreciation, depletion and amortization and for estimating cash flows when assessing impairment triggers and when estimating values associated with oil and gas properties. Other examples include revenue accruals, the provision for bad debts, insurance related accruals, income tax permanent and timing differences, contingencies and valuation of fair value contracts.

#### 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 assets and liabilities and their respective tax basis.

#### Use of Derivative Instruments

The Company's marketing segment is involved in the purchase and sale of crude oil. The Company seeks 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, such 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, the Company accounts for such contracts at fair value, unless the normal purchase and sale exception is applicable. Such underlying contracts are standard for the industry and are the governing document for the Company's crude oil wholesale distribution businesses. None of the Company's derivative instruments have been designated as hedging instruments. The accounting methodology utilized by the Company for its commodity contracts is further discussed below under the caption "Fair Value Measurements".





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

The estimated fair value of forward month commodity contracts (derivatives) is reflected in the accompanying Unaudited Condensed Consolidated Balance Sheet as of September 30, 2016 as follows (in thousands):

	Balance Sheet Location and Amount			
	Current Assets	Other Assets	Current Liabilities	Other Liabilities
Asset Derivatives				
- Fair Value Forward Hydrocarbon Commodity Contracts at Gross Valuation	\$153	\$ -	\$ -	\$ -
Liability Derivatives				
- Fair Value Forward Hydrocarbon Commodity Contracts at Gross Valuation	-	-	43	-
Less Counterparty Offsets	-	-	-	-
As Reported Fair Value Contracts	\$153	\$ -	\$ 43	\$ -

As of September 30, 2016, three commodity purchase and sale contracts comprise the Company's derivative valuations. These contracts encompass approximately 65 barrels per day of diesel fuel during October 2016 through March 2017, 142,000 barrels of crude oil for the month of November 2016 and 3,000 barrels of crude oil during October 2016 through December 2016.

Forward month commodity contracts (derivatives) are reflected in the accompanying Unaudited Condensed Consolidated Balance Sheet as of December 31, 2015 as follows (in thousands):

	Balance Sheet Location and Amount			
	Current Assets	Other Assets	Current Liabilities	Other Liabilities
Asset Derivatives				
- Fair Value Forward Hydrocarbon Commodity Contracts at Gross Valuation	\$-	\$ -	\$ -	\$ -
Liability Derivatives				
- Fair Value Forward Hydrocarbon Commodity Contracts at Gross Valuation	-	-	195	-
Less Counterparty Offsets	-	-	-	-
As Reported Fair Value Contracts	\$-	\$ -	\$ 195	\$ -

As of December 31, 2015, one commodity purchase and sale contract comprised the Company's derivative valuations. The purchase and sale contract encompasses approximately 65 barrels per day of diesel fuel in each of January, February and March 2016.

The Company only enters into commodity contracts with creditworthy counterparties or obtains collateral support for such activities. As of September 30, 2016 and December 31, 2015, the Company was not holding nor has it posted any collateral to support its forward month fair value derivative activity. The Company is not subject to any credit-risk related trigger events. The Company has no other financial investment arrangements that would serve to offset its derivative contracts.

Forward month commodity contracts (derivatives) are reflected in the accompanying Unaudited Condensed Consolidated Statement of Operations for the nine months and three months ended September 30, 2016 and 2015 as follows (in thousands):

	Earnings Nine Months Ended September 30,		Earnings Three Months Ended September 30,	
	2016	2015	2016	2015
Revenues – Marketing	\$ 305	\$ (158)	\$ 181	\$ (208)

#### Fair Value Measurements

The carrying amount reported in the consolidated balance sheet 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.

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 the Company elects, cash flow hedge accounting. The Company had no contracts designated for hedge accounting during any current reporting periods.

Fair value estimates are based on assumptions that market participants would use when pricing an asset or liability and the Company uses a fair value hierarchy of three levels that prioritizes the information used to develop those assumptions. Currently, for all items presented herein, the Company utilizes a market approach to valuing its contracts. On a contract by contract, forward month by forward month basis, the Company obtains observable market data for valuing its contracts. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is summarized as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities that may be accessed at the measurement date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. For Level 1 valuation of marketable securities, the Company utilizes market quotations provided by its primary financial institution and for the valuation of derivative financial instruments the Company utilizes the New York Mercantile Exchange ( "NYMEX") for such valuations.

Level 2 – (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical assets or liabilities but in markets that are not actively traded or in which little information is released to the public, (c) observable inputs other than quoted prices and (d) inputs derived from observable market data. Source data for Level 2 inputs include information provided by the NYMEX, published price data and indices, third party price survey data and broker provided forward price statistics.

Level 3 – unobservable market data inputs for assets or liabilities.

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

As of September 30, 2016, the Company's fair value assets and liabilities are summarized and categorized as follows (in thousands):

	Market Data Inputs					Total	
	Gross						
	Level 1 Quoted Prices	Level 2 Observable	Gross Level 3 Unobservable	Counterparty Offsets			
Derivatives							
- Current assets	\$-	153	\$	-	\$	-	\$ 153
- Current liabilities	-	(43 )		-		-	(43 )
Net Value	\$-	\$ 110	\$	-	\$	-	\$ 110

As of December 31, 2015, the Company's fair value assets and liabilities are summarized and categorized as follows (in thousands):

	Market Data Inputs					Total	
	Gross						
	Level 1 Quoted Prices	Level 2 Observable	Gross Level 3 Unobservable	Counterparty Offsets			
Derivatives							
- Current assets	\$-	\$ -	\$	-	\$	-	\$-
- Current liabilities	-	(195 )		-		-	(195 )
Net Value	\$-	\$ (195 )	\$	-	\$	-	\$(195)

When determining fair value measurements, the Company makes credit valuation adjustments to reflect both its own nonperformance risk and its counterparty's nonperformance risk. When adjusting the fair value of derivative contracts for the effect of nonperformance risk, the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, and guarantees are considered. Credit valuation adjustments utilize Level 3 inputs, such as credit scores to evaluate the likelihood of default by the Company or its counterparties. As of September 30, 2016 and December 31, 2015, credit valuation adjustments were not significant to the overall valuation of the Company's fair value contracts. As a result, applicable fair value assets and liabilities are included in their entirety in the fair value hierarchy.

#### Recent Accounting Pronouncements

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for annual periods ending after December 15, 2017. Early adoption is permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Management is currently evaluating the impact of these amendments on the Company's consolidated financial statements as well as the transition alternatives.

In August 2014, the FASB issued guidance requiring management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. The standard also provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new guidance is effective for the annual period ending after December 15, 2016, and interim periods

thereafter, with early adoption permitted. Management does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In March 2016, the FASB issued Accounting Standard Update No. 2016-02, Leases (Topic 842). The standard amends existing accounting standards to require the capitalization and recording on the balance sheet the assets and liabilities associated with lease terms of more than 12 months. The new standard is effective for fiscal years beginning after December 15, 2018. As of December 31, 2015, the Company had rental obligations under long-term non-cancellable operating leases and terminaling arrangements totaling \$12,393,000 payable through 2019, with only nominal activity during 2016. Management is currently evaluating the impact of these amendments on the Company's consolidated financial statements as well as the transition alternatives.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows (Topic 230)" which is intended to clarify and align how certain cash receipts and cash payments are presented and classified in the statement of cash flows where there is currently diversity in practice. ASU 2016-15 specifically addresses eight classification issues within the statement of cash flows including proceeds from the settlement of insurance claims; distributions received from equity method investees; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for annual and interim periods in fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of these amendments on the Company's consolidated financial statements.

With the exception of the new standards for revenue recognition and leases, as discussed, management believes the impact of recently issued standards and updates, which are not yet effective, will not have a material impact on the Company's consolidated financial position, results of operations or cash flows upon adoption.

### Note 3 – Segment Reporting

The Company is engaged in the business of crude oil marketing as well as tank truck transportation of liquid chemicals, and oil and gas exploration and production. Information concerning the Company's various business activities is summarized as follows (in thousands):

#### - Nine Month Comparison

	Revenues	Segment Operating Earnings	Depreciation and Depletion and Amortization	Property and Equipment Additions
Period Ended September 30, 2016				
Marketing	\$ 758,627	\$ 13,148	\$ 7,621	\$ 514
Transportation	39,517	444	5,536	6,480
Oil and gas	2,427	(1,222 )	1,228	192
	\$ 800,571	\$ 12,370	\$ 14,385	\$ 7,186
Period Ended September 30, 2015				
Marketing	\$ 1,541,999	\$ 22,405	\$ 8,336	\$ 2,128
Transportation	49,921	3,212	5,691	1,584
Oil and gas	4,104	(6,406 )	4,059	2,635
	\$ 1,596,024	\$ 19,211	\$ 18,086	\$ 6,347

## - Three Month Comparison

	Revenues	Segment Operating Earnings	Depreciation and Depletion Amortization	Property and Equipment Additions
Period Ended September 30, 2016				
Marketing	\$243,704	\$ 1,265	\$ 2,418	\$ -
Transportation	12,310	(430 )	1,701	2,329
Oil and gas	863	(543 )	395	85
	\$256,877	\$ 292	\$ 4,514	\$ 2,414
Period Ended September 30, 2015				
Marketing	\$423,014	\$ 3,715	\$ 2,782	\$ -
Transportation	15,748	918	1,892	1,050
Oil and gas	1,131	(2,909 )	1,294	458
	\$439,893	\$ 1,724	\$ 5,968	\$ 1,508

Segment operating earnings reflect revenues net of operating costs and depreciation, depletion and amortization and are reconciled to earnings from continuing operations before income taxes, as follows (in thousands):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
Segment operating earnings	\$12,370	\$19,211	\$292	\$1,724
- General and administrative	(6,252 )	(7,750 )	(2,114)	(2,101)
Operating earnings	6,118	11,461	(1,822)	(377 )
- Interest income	444	237	245	64
- Interest expense	-	(5 )	-	(1 )
Earnings before income tax	\$6,562	\$11,693	\$(1,577)	\$(314 )

Identifiable assets by industry segment are as follows (in thousands):

	September 30, 2016	December 31, 2015
Marketing	\$98,689	\$96,723
Transportation	34,558	35,010
Oil and gas	7,459	8,930
Other	92,205	102,552
	\$232,911	\$243,215

Intersegment sales are insignificant and all sales occurred in the United States. Other identifiable assets are primarily corporate cash, corporate accounts receivable, investments and properties not identified with any specific segment of the Company's business. Accounting policies for transactions between reportable segments are consistent with applicable accounting policies as disclosed herein.

## Note 4 - Transactions with Affiliates

The late Mr. K. S. Adams, Jr., former Chairman of the Board of the Company, and certain of his family partnerships and affiliates have participated as working interest owners with the Company's subsidiary, Adams Resources Exploration Corporation ("AREC"). Mr. Adams and the affiliates participated on terms similar to those afforded other non-affiliated working interest owners. While the affiliates have generally maintained their existing property interest, they have not participated in any such transactions originating after the death of Mr. Adams in October 2013. In connection with the operation of certain oil and gas properties, the Company also charges such related parties for administrative overhead primarily as prescribed by the Council of Petroleum Accountants Society Bulletin 5. The Company also enters into certain transactions in the normal course of business with other affiliated entities including direct cost reimbursement for shared phone and administrative services. In addition, the Company leases office space from an affiliated entity based on a lease rental rate determined by an independent appraisal.

The Company utilizes its affiliate, Bencap, to administer certain of its employee medical benefit programs including a detail audit of individual medical claims. See Note (1) to the accompanying financials under the caption "Investments" for further discussion. Bencap earns a fee from the Company for providing such services at a discounted amount from its standard charge to non-affiliates.

The Company's former Chief Financial Officer, upon retiring from the Company in September 2016, elected to invest in Bencap LLC acquiring a six percent member interest in Bencap in exchange for a \$440,000 cash contribution.

Activities with affiliates were as follows (in thousands):

	Nine Months Ended September 30, 2016		Three Months Ended September 30, 2015	
Overhead recoveries	\$31	\$74	\$2	\$24
Affiliate billings to company	\$51	\$57	\$13	\$10
Company billings to affiliates	\$4	\$29	\$1	\$7
Rentals paid to affiliate	\$473	\$427	\$155	\$143
Fees paid to Bencap	\$439	\$-	\$309	\$-

## Note 5 - Commitments and Contingencies

Under the Company's automobile and workers' compensation insurance policies, the Company can 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 is shared with a group of similarly situated entities. The Company has appropriately recognized estimated expenses and liabilities related to these policies for losses incurred but not reported to the Company or its insurance carrier as follows (in thousands):

	September 30, 2016	December 31, 2015

Estimated expenses and liabilities<sup>(1)</sup> \$ 2,783      \$ 2,086

---

<sup>(1)</sup> Premiums paid and expensed for which possible and anticipated claims that have not been reported and/or fully developed as of the balance sheet date.

17

---



The Company maintains a self-insurance program for managing employee medical claims. A liability for expected claims incurred is established on a monthly basis. As claims are paid, the liability is relieved. The Company maintains third party insurance stop-loss coverage for annual individual medical claims exceeding \$100,000. In addition, the Company maintains \$2 million of umbrella insurance coverage for aggregate medical claims exceeding approximately \$4.5 million for each of the calendar years ended 2016 and 2015. Medical accrued amounts are as follows (in thousands):

	September 30, 2016	December 31, 2015
Accrued medical claims	\$ 1,839	\$ 1,107

AREC is named as a defendant in a number of Louisiana based suits involving alleged environmental contamination from prior drilling operations. Such suits typically allege improper disposal of oilfield wastes in earthen pits with one suit alleging subsidence contributing to the formation of a sink hole. AREC is currently included in three such suits. The suits are styled *LePetit Chateau Deluxe v. Adams Resources Exploration Corporation* dated March 2004, *Gustave J. LaBarre, Jr., et. al. v. Adams Resources Exploration Corporation et. al.* dated October 2012 and *Henning Management, LLC v. Adams Resources Exploration Corporation* dated November 2013. Each suit involves multiple industry defendants with substantially larger proportional interests in the properties. In the *LePetit Chateau Deluxe* matter all of the larger defendants have settled the case. The plaintiffs in each of these matters are seeking unspecified compensatory and punitive damages. While management does not believe that a material adverse effect will result from the claims, significant attorney fees will be incurred to defend these matters. As of September 30, 2016 and December 31, 2015, the Company has accrued \$500,000 of future legal/or settlement costs for these matters.

From time to time as incidental to its operations, the Company may become involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, the Company is a party to motor vehicle accidents, worker compensation claims and other items of general liability as would be typical for the industry. Management of the Company is presently unaware of any claims against the Company 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 the Company's financial position or results of operations.

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

Results of Operations

-Marketing

Marketing segment revenues, operating earnings, depreciation and certain costs were as follows (in thousands):

	Nine Months Ended			Three Months Ended		
	September 30,		Change <sup>(1)</sup>	September 30,		Change <sup>(1)</sup>
	2016	2015		2016	2015	
Revenues	\$758,627	\$1,541,999	(50.8)%	\$243,704	\$423,014	(42.4)%
Operating earnings	\$13,148	\$22,405	(41.3)%	\$1,265	\$3,715	(65.9)%
Depreciation	\$7,621	\$8,336	(8.6)%	\$2,418	\$2,782	(13.1)%
Driver commission	\$11,702	\$17,305	(32.4)%	\$3,361	\$5,528	(39.2)%
Insurance	\$5,933	\$6,737	(11.9)%	\$1,816	\$2,166	(16.2)%
Fuel	\$4,163	\$7,909	(47.4)%	\$1,185	\$2,409	(50.8)%

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

Crude oil revenues declined in 2016 as a result of reduced purchase and sale volumes and reduced market prices for crude oil. The volume decline stemmed primarily from reduced production and reduced purchase activity in the Eagle Ford shale trend of South Texas and North Dakota. Operating earnings were adversely affected by the volume declines as well as a narrowing of margins in 2016. Driver commissions are reduced both in terms of the number of drivers employed as well as pay scale due to the decline in activity. Fuel and insurance costs are lower, consistent with reduced volumes.

Supplemental volume and price information is as follows:

	Nine Months		Three Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Field Level Purchase Volumes – Per Day				
Crude oil – barrels <sup>(1)</sup>	75,083	112,345	61,200	100,816
Average Purchase Price				
Crude oil – per barrel	\$37.26	\$47.25	\$42.33	\$43.26

(1) Reflects the volume purchased from third parties at the oil and natural gas field level and pipeline pooling points.

Crude Oil – Field Level Operating Earnings (Non GAAP-Measure<sup>(1)</sup>)

Two significant factors affecting comparative crude oil segment operating earnings are inventory valuations and forward commodity contract (derivatives or mark-to-market) valuations. As a purchaser and shipper of crude oil, the Company holds inventory in storage tanks and third-party pipelines. Inventory sales turnover occurs approximately every three days, but the quantity held in stock at the end of a given period is reasonably consistent. As a result, during periods of increasing crude oil prices, the Company recognizes inventory liquidation gains while during periods of falling prices, the Company recognizes inventory valuation losses. Over time, these gains and losses tend to offset and have limited impact on cash flow. While crude oil prices fluctuated during the first nine months of 2016 and 2015, the net impact on earnings was to yield inventory liquidation gains and losses as shown in the table below.

Crude oil marketing operating earnings are also affected by the valuations of the Company's forward month commodity contracts (derivative instruments) as of the various report dates. Such non-cash valuations are calculated and recorded at each period end based on the underlying data existing as of such date. The Company generally enters into these derivative contracts as part of a pricing strategy based on crude oil purchases at the wellhead (field level). Only those contracts qualifying as derivative instruments are accorded fair value treatment while the companion contracts to purchase crude oil at the wellhead (field level) are not accorded fair value treatment. The period-end valuation of derivative instruments requires recognition of "mark-to-market" gains and losses.

The impact on crude oil segment operating earnings of inventory liquidations and derivative valuations is summarized as follows in reconciling from the GAAP to non-GAAP financial measures (in thousands):

	Nine Months Ended September 30, 2016		Three Months Ended September 30, 2015	
As reported segment operating earnings	\$13,148	\$22,405	\$1,265	\$3,715
Add (less) -				
Inventory valuation (gains) losses	(5,779 )	1,031	432	2,536
Derivative valuation (gains) losses	(305 )	158	(181 )	208
Field level operating earnings <sup>(1)</sup>	\$7,064	\$23,594	\$1,516	\$6,459

Such designation is (a) unique to the Company, (b) not a substitute for GAAP and (c) not comparable to any similar (1) measures developed by industry participants. The Company utilizes such data to evaluate the profitability of its operations.

The Company held crude oil inventory at a weighted average commodity price in barrels as follows:

	September 30, 2016		December 31, 2015	
	Barrels	Average Price	Barrels	Average Price
Crude oil inventory	361,780	\$ 44.40	261,718	\$ 29.31

Field level operating earnings and field level purchase volumes (see earlier table) depict the Company's day-to-day operation of acquiring crude oil at the wellhead, transporting the material, and delivery to market at the sales point. Comparative field level operating earnings decreased during 2016 relative to the comparative 2015 periods due to reduced purchase volumes and reduced unit margins. Competition has intensified for a declining level of crude oil production within the Company's areas of operation.



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

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 the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

- Transportation

Transportation segment revenues, earnings and depreciation are as follows (in thousands):

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2016	2015	Change <sup>(1)</sup>	2016	2015	Change <sup>(1)</sup>
Revenues	\$39,517	\$49,921	(20.8 )%	\$12,310	\$15,748	(21.8 )%
Operating earnings	\$444	\$3,212	(86.2 )%	\$(430 )	\$918	(146.8 )%
Depreciation	\$5,536	\$5,691	(2.7 )%	\$1,701	\$1,892	(10.1 )%
Driver commission	\$8,477	\$10,350	(18.1 )%	\$2,672	\$3,347	(20.2 )%
Insurance	\$3,880	\$4,134	(6.1 )%	\$1,285	\$1,146	12.1 %
Fuel	\$4,125	\$6,624	(37.7 )%	\$1,365	\$1,930	(29.3 )%
Maintenance expense	\$3,991	\$4,734	(15.7 )%	\$1,350	\$1,658	(18.6 )%
Mileage	16,800	19,714	(14.8 )%	5,315	6,326	(16.0 )%

<sup>(1)</sup> Represents the percentage increase (decrease) from the prior year.

The Company's revenue rate structure includes a component for fuel costs such that fuel cost fluctuations are largely passed through to the customer over time. To illustrate, a calculation of revenues net of fuel cost is presented below (in thousands):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
Total transportation revenue	\$39,517	\$49,921	\$12,310	\$15,748
Diesel fuel costs	\$(4,125 )	\$(6,624 )	\$(1,365 )	\$(1,930 )
Revenues net of fuel <sup>(1)</sup>	\$35,392	\$43,297	\$10,945	\$13,818

<sup>(1)</sup> Such designation is (a) unique to the Company, (b) not a substitute for GAAP and (c) not comparable to any similar measure developed by industry participants.

Revenues net of fuel are reduced in 2016 because of reduced demand which is indicative from the change in miles driven shown above. In addition, shippers have demanded reduced rates since the present level of demand created industry wide excess capacity. The Company has responded by selling older and excess equipment, reducing the level of personnel and working to control maintenance costs. Operating earnings declined at a rate faster than the decline in

revenues due to the fixed cost component contained therein. It is believed that a change in the current market demand scenario will not occur absent continued improvement in the overall U. S. economy.

## - Oil and Gas

Oil and gas segment revenues and operating earnings are primarily a function of crude oil and natural gas prices and volumes. Comparative amounts for revenues, operating earnings and depreciation and depletion are as follows (in thousands):

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2016	2015	Change <sup>(1)</sup>	2016	2015	Change <sup>(1)</sup>
Revenues	\$2,427	\$4,104	(40.9)%	\$863	\$1,131	(23.7)%
Operating earnings (loss)	\$(1,222)	\$(6,406)	(80.9)%	\$(543)	\$(2,909)	(81.3)%
Depreciation/depletion	\$1,228	\$4,059	(69.7)%	\$395	\$1,294	(69.5)%

<sup>(1)</sup>Represents the percentage increase (decrease) from the prior year.

Oil and gas revenues declined in 2016 following reduced commodity prices and volume reductions as shown in the table below. Operating losses decreased in 2016 due to reduced depreciation, amortization and impairment charges as a result of prior year impairments and a reduction in capital expenditures. Volumes declined consistent with reduced drilling activity and normal production declines. Depreciation and depletion expense is also reduced in 2016 consistent with reduced volumes and reduced net capitalized costs.

Production volumes and price information is as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
Crude oil				
Volume – barrels	25,112	39,710	6,859	12,070
Average price per barrel	\$36.20	\$48.07	\$39.70	\$41.94
Natural gas				
Volume – mcf	513,827	638,581	153,048	205,375
Average price per mcf	\$2.14	\$2.78	\$2.76	\$2.44
Natural gas liquids				
Volume – barrels	32,156	31,679	11,167	10,338
Average price per barrel	\$12.97	\$13.22	\$15.15	\$12.00

## General and administrative

General and administrative expenses declined from \$7,750,000 during the first nine months of 2015 to \$6,252,000 during the first nine months of 2016 primarily as the result of reduced employee termination costs in 2016.

## Investments

In January 2016, the Company acquired a 30% member interest in Bencap LLC (Bencap) for a \$2,200,000 cash payment. Bencap provides medical insurance brokerage and medical claims auditing services to employers utilizing ERISA governed employee benefit plans. The Company accounts for this investment under the equity method of accounting. Bencap used the Company's funding to expand its back-office and sales support functions as it seeks to compete in the medical benefits marketplace. Under equity method accounting the Company has included in operating earnings its pro-rata share of Bencap's net expenses in excess of revenues. During the third quarter of 2016, the Company completed a review of its equity method investment in Bencap and determined there was an other than temporary impairment. Underlying this decision are the terms of the investment agreement where Bencap has the option to request borrowings up to \$1,500,000 on or after December 5, 2016 but before October 31, 2018. Given Bencap's lower than projected revenue growth and operating losses, the Company is unlikely to loan any requested funds causing forfeiture of the investment, leading to the decision to fully impair the investment. The Company recognized a net loss of \$1,430,000 from its investment in Bencap as of September 30, 2016. This loss included a pre-tax impairment charge of \$1,732,000 and pre-tax losses from the equity method investment of \$468,000.

In April 2016 the Company acquired a 15% equity interest in VestaCare, Inc., a provider of electronic payment technologies to medical care providers. VestaCare is accounted for under the "cost method" and as such, earnings will be reported as dividends are paid.

## Outlook

The trend continues to indicate suppressed crude oil commodity prices and slackened demand for trucking services. As a result, the present emphasis involves aggressive sales efforts and cost control pending a rebound in the market conditions for the Company's products and services. By preserving liquidity and operating as a low-cost provider, the Company will be well positioned when general economic conditions improve.

## Liquidity and Capital Resources

The Company's liquidity derives from net cash provided by operating activities and is therefore dependent on the success of future operations. The most significant source of liquidity is the cash yield from net earnings factoring in the non-cash book expense items for depreciation, depletion, amortization and impairments. The Company has no debt and funds all of its projects from this stream of cash. In most periods, cash inflows equal or exceed capital spending outflows. Should cash inflow subside or turn negative, the Company will curtail its capital spending accordingly.

As of September 30, 2016 and December 31, 2015, the Company had no bank debt or other forms of debenture obligations. Cash balances are maintained in order to meet the timing of day-to-day cash needs and such amounts and working capital, the excess of current assets over current liabilities, were as follows (in thousands):

	September 30, 2016	December 31, 2015
Cash	\$ 78,485	\$ 91,877
Working capital	\$ 103,595	\$ 96,340



Cash provided by (used in) operating, investing and financing activities were as follows (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Net cash provided by (used in) operating activities	\$(3,339)	\$23,561
Net cash (used in) investing activities	\$(7,269)	\$(5,726)
Net cash (used in) financing activities	\$(2,784)	\$(2,784)

For the comparative periods, operating activities for 2015 provided cash of \$23,561,000 versus a use of cash of \$3,339,000 for the 2016 period. This trend reversal was caused by reduced earnings before depreciation, depletion and amortization coupled with increased physical inventory quantities in 2016. Increased inventory quantities are a result of the Company's current strategy to capture the difference between current and future prices for crude oil.

The Company relies heavily on its ability to obtain open-line trade credit from its suppliers especially with respect to its crude oil marketing operation. Because of this, the Company strives to maintain substantial cash balances and avoid debt obligations.

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

The Company maintains a stand-by letter of credit facility with Wells Fargo Bank to provide for the issuance of up to \$60 million in stand-by letters of credit for the benefit of suppliers of crude oil. Stand-by letters of credit are issued as needed and are cancelled as the underlying purchase obligations are satisfied by cash payment when due. The issuance of stand-by letters of credit enables the Company to avoid posting cash collateral when procuring crude oil supply.

Early payments, collateral and letters of credit amounts were as follows (in thousands):

	September 30, 2016	December 31, 2015
Early payments received	\$ 13,143	\$ 16,770
Cash collateral received	\$ -	\$ 840
Prepayments to suppliers	\$ -	\$ 167
Early payments to suppliers	\$ 14,495	\$ 11,645
Letters of credit outstanding	\$ -	\$ 1,000

Management believes 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 short-term and long-term liquidity needs.



The Company utilizes cash from operations to make discretionary investments in its marketing, transportation and exploration businesses, and more recently in the area of employer oriented medical management services. The Company does not look to proceeds from property sales to fund its cash flow needs. Except for commitments totaling approximately \$12.4 million associated with barge affreightment contracts, storage tank terminal arrangements and office lease space, the Company's future commitments and planned investments can be readily curtailed if operating cash flows contract.

Capital project and investment spending through the first nine months of 2016 and additional anticipated 2016 capital spending is as follows (in thousands):

	Expended through September 30, 2016	Additional 2016 Spending
Crude oil marketing	\$ 514	\$ 650
Truck transportation	6,480	830
Oil and gas exploration	192	-
Investments	4,700	-
	\$ 11,886	\$ 1,480

For the remainder of 2016, the primary planned capital addition is completion of the on-going Houston truck terminal expansion and improvements.

A quarterly dividend of \$0.22 per common share or \$928,000 was paid during each of the first, second and third quarters of 2016 and 2015. The most significant item affecting future increases or decreases in liquidity is earnings from operations and such earnings are dependent on the success of future operations. See Part I, Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

#### Critical Accounting Policies and Use of Estimates

There have been no material changes to the Company's "Critical Accounting Policies and Use of Estimates" disclosures that have occurred since the disclosures provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

There have been no material changes to the Company's "Quantitative and Qualitative Disclosures about Market Risk" that have occurred since the disclosures provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

#### Forward-Looking Statements – Safe Harbor Provisions

This quarterly report for the period ended September 30, 2016 contains certain forward-looking statements covered by the safe harbors provided under federal securities law and regulations. To the extent such statements are not recitations of historical fact, forward-looking statements involve risks and uncertainties. In particular, statements included herein and/or in the Company's latest annual report on Form 10-K under the captions (a) Production and Reserve Information, (b) Regulatory Status and Potential Environmental Liability, (c) Management's Discussion and Analysis of Financial Condition and Results of Operations, (d) Critical Accounting Policies and Use of Estimates, (e) Quantitative and Qualitative Disclosures about Market Risk, (f) Income Taxes, (g) Concentration of Credit Risk, (h)

Fair Value Contract Activities, and (i) Commitments and Contingencies, among others, contain forward-looking statements. Where the Company expresses an expectation or belief regarding future results of events, such expression is made in good faith and believed to have a reasonable basis in fact. However, there can be no assurance that such expectation or belief will actually result or be achieved.

25

---

With the uncertainties of forward-looking statements in mind, the reader should consider the risks discussed elsewhere in this report and other documents filed with the Securities and Exchange Commission from time to time and the important factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, under "Item 1A Risk Factors" that could cause actual results to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company.

#### Item 4. Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including the Company's Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's disclosure control objectives.

As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Interim Chief Financial Officer concluded the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

#### Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

AREC is named as a defendant in a number of Louisiana based suits involving alleged environmental contamination from prior drilling operations. Such suits typically allege improper disposal of oilfield wastes in earthen pits with one suit alleging subsidence contributing to the formation of a sink hole. AREC is currently included in three such suits. The suits are styled LePetit Chateau Deluxe v. Adams Resources Exploration Corporation dated March 2004, Gustave J. LaBarre, Jr., et. al. v. Adams Resources Exploration Corporation et. al. dated October 2012 and Henning Management, LLC v. Adams Resources Exploration Corporation dated November 2013. Each suit involves multiple industry defendants with substantially larger proportional interests in the properties. In the LePetit Chateau Deluxe matter all of the larger defendants have settled the case. The plaintiffs in each of these matters are seeking unspecified compensatory and punitive damages. While management does not believe that a material adverse effect will result from the claims, significant attorney fees will be incurred to defend these matters. As of September 30, 2016, the Company has accrued \$500,000 of future legal/or settlement costs for these matters.

From time to time as incident to its operations, the Company becomes involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, the Company may be a party to motor vehicle accidents, worker compensation claims or other items of general liability as would be typical for the industry. Management of the Company is presently unaware of any claims against the Company 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 the Company's financial position or results of operations.

Item Risk Factors – There are no material changes in the Company's risk factors from those disclosed in the 1A. Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

Item 6.Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

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: November 9, 2016 By /s/Thomas S. Smith  
Thomas S. Smith  
President, Chief Executive Officer  
(Principal Executive Officer)

By /s/Sharon Davis  
Sharon C. Davis  
Interim Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)

EXHIBIT INDEX

Exhibit

Number Description

- \* 31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \* 31.2 Certificate of Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \* 32.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \* 32.2 Certificate of Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \* \*\*101.INS- XBRL Instance Document
- \* \*\*101.SCH - XBRL Schema Document
- \* \*\*101.CAL - XBRL Calculation Linkbase Document
- \* \*\*101.DEF XBRL Definition Linkbase Document
- \* \*\*101.LAB - XBRL Label Linkbase Document
- \* \*\*101.PRE - XBRL Presentation Linkbase Document

\*Exhibits filed herewith

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income – Nine Months Ended September 30, 2016 and \*\*2015, (ii) the Consolidated Balance Sheets – September 30, 2016 and December 31, 2015, (iii) the Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2016 and 2015 and (iv) Notes to Consolidated Financial Statements.