

BASIC ENERGY SERVICES INC

Form 10-Q

April 27, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission File Number 001-32693

Basic Energy Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

54-2091194
(I.R.S. Employer

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incorporation or organization) Identification No.)

801 Cherry Street, Suite 2100

Fort Worth, Texas 76102
(Address of principal executive offices) (Zip code)

(817) 334-4100

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

Large accelerated filer

Accelerated filer

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

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

42,636,065 shares of the registrant's Common Stock were outstanding as of April 24, 2015.

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CAUTIONARY STATEMENT

REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains certain statements that are, or may be deemed to be, “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, or the Exchange Act. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things, the risk factors discussed in this quarterly report and in our most recent annual report on Form 10-K and other factors, most of which are beyond our control.

The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “plan,” “expect,” “indicate” and similar expressions intended to identify forward-looking statements. All statements other than statements of current or historical fact contained in this quarterly report are forward-looking statements. Although we believe that the forward-looking statements contained in this quarterly report are based upon reasonable assumptions, the forward-looking events and circumstances discussed in this quarterly report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Important factors that may affect our expectations, estimates or projections include:

- a decline in, or substantial volatility of, oil or natural gas prices, and any related changes in expenditures by our customers;
- the effects of future acquisitions on our business;
- changes in customer requirements in markets or industries we serve;
- competition within our industry;
- general economic and market conditions;
- our access to current or future financing arrangements;
- our ability to replace or add workers at economic rates; and
- environmental and other governmental regulations.

Our forward-looking statements speak only as of the date of this quarterly report. Unless otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This quarterly report includes market share and industry data and forecasts that we obtained from internal company surveys (including estimates based on our knowledge and experience in the industry in which we operate), market research, consultant surveys, publicly available information, and industry publications and surveys. Industry surveys and publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. Although we believe such information is accurate and reliable, we have not independently verified any of the data from third party sources cited or used for our management’s industry estimates, nor have we ascertained the underlying economic assumptions relied upon therein. For example, the number of onshore well servicing rigs in the U.S. could be lower than our estimate to the extent our two larger competitors have continued to report as stacked rigs equipment that is not actually complete or subject to refurbishment. Statements as to our position relative to our competitors or as to market share refer to the most recent available data.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Basic Energy Services, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|----------------------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 104,936 | \$ 79,915 |
| Trade accounts receivable, net of allowance of \$1,575 and \$2,032, respectively | 158,867 | 247,069 |
| Accounts receivable - related parties | 39 | 161 |
| Income tax receivable | 1,330 | 3,121 |
| Inventories | 39,769 | 44,557 |
| Prepaid expenses | 16,060 | 15,779 |
| Other current assets | 9,732 | 9,934 |
| Deferred tax assets | 15,514 | 14,664 |
| Total current assets | 346,247 | 415,200 |
| Property and equipment, net | 982,153 | 1,007,969 |
| Deferred debt costs, net of amortization | 14,639 | 15,350 |
| Goodwill | 78,011 | 78,011 |
| Other intangible assets, net of amortization | 69,001 | 71,173 |
| Other assets | 9,499 | 9,474 |
| Total assets | \$ 1,499,550 | \$ 1,597,177 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 33,715 | \$ 50,618 |
| Accrued expenses | 65,642 | 90,810 |
| Current portion of long-term debt | 46,816 | 48,575 |
| Other current liabilities | 4,753 | 6,135 |
| Total current liabilities | 150,926 | 196,138 |
| Long-term debt, net of unamortized premium on notes of \$1,155 and \$1,217, respectively | 878,219 | 882,572 |
| Deferred tax liabilities | 133,354 | 147,621 |
| Other long-term liabilities | 29,587 | 28,193 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock; \$0.01 par value; 5,000,000 shares authorized; none designated or issued at March 31, 2015 and December 31, 2014 | — | — |

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| | | |
|---|--------------|--------------|
| Common stock; \$0.01 par value; 80,000,000 shares authorized; 43,500,032 shares issued and 42,643,875 shares outstanding at March 31, 2015; 43,500,032 shares issued and 42,241,719 shares outstanding at December 31, 2014 | 435 | 435 |
| Additional paid-in capital | 365,482 | 369,920 |
| Retained deficit | (47,691) | (15,067) |
| Treasury stock, at cost, 856,157 and 1,258,313 shares at March 31, 2015 and December 31, 2014, respectively | (10,762) | (12,635) |
| Total stockholders' equity | 307,464 | 342,653 |
| Total liabilities and stockholders' equity | \$ 1,499,550 | \$ 1,597,177 |

See accompanying notes to unaudited consolidated financial statements.

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Basic Energy Services, Inc.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)

| | Three months ended March 31, | |
|---|---------------------------------|------------|
| | 2015 | 2014 |
| | (Unaudited) | |
| Revenues: | | |
| Completion and remedial services | \$ 112,775 | \$ 137,485 |
| Fluid services | 73,803 | 92,835 |
| Well servicing | 63,668 | 92,912 |
| Contract drilling | 11,475 | 13,524 |
| Total revenues | 261,721 | 336,756 |
| Expenses: | | |
| Completion and remedial services | 81,251 | 86,480 |
| Fluid services | 54,132 | 66,782 |
| Well servicing | 52,401 | 69,759 |
| Contract drilling | 7,525 | 9,166 |
| General and administrative, including stock-based compensation of \$3,969 and \$3,388 in three months ended March 31, 2015 and 2014, respectively | 39,204 | 39,559 |
| Depreciation and amortization | 60,929 | 51,705 |
| (Gain) loss on disposal of assets | 48 | (679) |
| Total expenses | 295,490 | 322,772 |
| Operating income (loss) | (33,769) | 13,984 |
| Other income (expense): | | |
| Interest expense | (16,863) | (16,859) |
| Interest income | 6 | 13 |
| Other income | 120 | 366 |
| Loss before income taxes | (50,506) | (2,496) |
| Income tax benefit | 17,882 | 589 |
| Net loss | \$ (32,624) | \$ (1,907) |
| Loss per share of common stock: | | |
| Basic | \$ (0.81) | \$ (0.05) |
| Diluted | \$ (0.81) | \$ (0.05) |

See accompanying notes to unaudited consolidated financial statements.

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Basic Energy Services, Inc.

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

| | Common Stock | | Additional | Treasury | Retained | Total |
|--|--------------|--------|------------|-------------|-------------|---------------|
| | Shares | Amount | Paid-In | Stock | Deficit | Stockholders' |
| | | | Capital | | | Equity |
| Balance - December 31, 2014 | 43,500,032 | \$ 435 | \$ 369,920 | \$ (12,635) | \$ (15,067) | \$ 342,653 |
| Issuances of restricted stock | — | — | (3,779) | 3,779 | — | — |
| Amortization of share-based compensation | — | — | 3,969 | — | — | 3,969 |
| Purchase of treasury stock | — | — | — | (4,490) | — | (4,490) |
| Exercise of stock options | — | — | (4,628) | 2,584 | — | (2,044) |
| Net loss | — | — | — | — | (32,624) | (32,624) |
| Balance - March 31, 2015 (unaudited) | 43,500,032 | \$ 435 | \$ 365,482 | \$ (10,762) | \$ (47,691) | \$ 307,464 |

See accompanying notes to unaudited consolidated financial statements.

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Basic Energy Services, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

| | Three months ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net loss | \$ (32,624) | \$ (1,907) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 60,929 | 51,705 |
| Accretion on asset retirement obligation | 33 | 31 |
| Change in allowance for doubtful accounts | (457) | (371) |
| Amortization of deferred financing costs | 743 | 799 |
| Amortization of premium on notes | (62) | (58) |
| Non-cash compensation | 3,969 | 3,387 |
| (Gain) loss on disposal of assets | 48 | (679) |
| Deferred income taxes | (17,885) | (1,197) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 88,781 | (16,011) |
| Inventories | 4,788 | (1,308) |
| Prepaid expenses and other current assets | (2,116) | (6,703) |
| Other assets | (25) | 562 |
| Accounts payable | (16,903) | 5,206 |
| Income tax receivable / payable | 1,791 | 578 |
| Other liabilities | (65) | 639 |
| Accrued expenses | (25,168) | (6,106) |
| Net cash provided by operating activities | 65,777 | 28,567 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (25,861) | (33,106) |
| Proceeds from sale of assets | 3,261 | 23,297 |
| Payments for other long-term assets | — | (363) |
| Net cash used in investing activities | (22,600) | (10,172) |
| Cash flows from financing activities: | | |
| Payments of debt | (14,358) | (11,124) |
| Purchase of treasury stock | (4,490) | (6,244) |
| Tax withholding from exercise of stock options | (3) | (362) |
| Exercise of employee stock options | 727 | 4,441 |
| Deferred loan costs and other financing activities | (32) | (11) |

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| | | |
|---|------------|------------|
| Net cash used in financing activities | (18,156) | (13,300) |
| Net increase in cash and equivalents | 25,021 | 5,095 |
| Cash and cash equivalents - beginning of period | 79,915 | 111,532 |
| Cash and cash equivalents - end of period | \$ 104,936 | \$ 116,627 |

See accompanying notes to unaudited consolidated financial statements.

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BASIC ENERGY SERVICES, INC.

Notes to Consolidated Financial Statements

March 31, 2015 (unaudited)

1. Basis of Presentation and Nature of Operations

Basis of Presentation

The accompanying unaudited consolidated financial statements of Basic Energy Services, Inc. and subsidiaries (“Basic” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Certain information relating to our organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in this Quarterly Report on Form 10-Q in accordance with GAAP and financial statement requirements promulgated by the U.S. Securities and Exchange Commission (“SEC”). The notes to the consolidated financial statements (unaudited) should be read in conjunction with the notes to the consolidated financial statements contained in the December 31, 2014 Form 10-K. In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for a fair presentation have been made in the accompanying unaudited financial statements.

Nature of Operations

Basic provides a wide range of well site services to oil and natural gas drilling and producing companies, including completion and remedial services, fluid services, well servicing and contract drilling. These services are primarily provided using Basic’s fleet of equipment. Basic’s operations are concentrated in the major United States onshore oil and gas producing regions in Texas, New Mexico, Oklahoma, Arkansas, Kansas, Louisiana, Wyoming, North Dakota, Colorado, Utah, Montana, West Virginia, Ohio, California, Kentucky and Pennsylvania.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Basic and its wholly owned subsidiaries. Basic has no variable interest in any other organization, entity, partnership or contract. All intercompany transactions and balances have been eliminated.

Estimates and Uncertainties

Preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management uses historical and other pertinent information to determine these estimates. Actual results could differ from those estimates. Areas where critical accounting estimates are made by management include:

- Depreciation and amortization of property and equipment and intangible assets

Impairment of property and equipment, goodwill and intangible
assets

- Allowance for doubtful accounts
- Litigation and self-insured risk reserves
- Fair value of assets acquired and liabilities assumed in an acquisition
- Stock-based compensation
- Income taxes

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2. Acquisitions

In 2014, Basic acquired substantially all of the assets of the following business, which was accounted for using the purchase method of accounting. The following table summarizes the final values for the acquisition at the date of acquisition (in thousands):

| | Closing Date | Total Cash Paid (net of cash acquired) |
|--|--------------------|--|
| Pioneer Fishing & Rental Services, LLC | September 17, 2014 | \$ 16,090 |
| Total 2014 | | \$ 16,090 |

The operations of the acquisition listed above are included in Basic's consolidated statement of operations as of the closing date. There were no acquisitions in the first quarter of 2015. The provisional purchase price allocation used with respect to Pioneer Fishing & Rental Services, LLC will be finalized once the valuation of the tangible and intangible assets is complete.

3. Goodwill and Other Intangible Assets

Basic had no additions to goodwill during the three months ended March 31, 2015. The carrying amount of goodwill for the three months ended March 31, 2015 were as follows (in thousands):

| | Completion And Remedial Services |
|---------------------------------|---|
| Balance as of December 31, 2014 | \$ 78,011 |
| Goodwill additions | — |
| Balance as of March 31, 2015 | \$ 78,011 |

Basic's intangible assets subject to amortization were as follows (in thousands):

| | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| Customer relationships | \$ 88,576 | \$ 88,576 |
| Non-compete agreements | 13,163 | 13,223 |
| Trade names | 1,939 | 1,939 |
| Other intangible assets | 2,097 | 2,097 |
| | 105,775 | 105,835 |
| Less accumulated amortization | 36,774 | 34,662 |
| Intangible assets subject to amortization, net | \$ 69,001 | \$ 71,173 |

Amortization expense for the three months ended March 31, 2015 and 2014 was approximately \$2.2 million and \$2.1 million, respectively.

Intangible assets, net of accumulated amortization allocated to reporting units as of March 31, 2015 were as follows (in thousands):

| | Completion And Remedial Services | Well Servicing | Fluid Services | Contract Drilling | Total |
|--|---|-------------------|-------------------|----------------------|-----------|
| Intangible assets subject to amortization, net | \$ 50,936 | \$ 5,268 | \$ 9,558 | \$ 3,239 | \$ 69,001 |

Customer relationships are amortized over a 15-year life, non-compete agreements are amortized over a five-year life, and other intangible assets and trade names are amortized over a 15-year life.

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4. Property and Equipment

Property and equipment consisted of the following (in thousands):

| | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| Land | \$ 19,895 | \$ 19,071 |
| Buildings and improvements | 71,005 | 69,629 |
| Well service units and equipment | 488,532 | 483,644 |
| Fluid services equipment | 277,585 | 277,902 |
| Brine and fresh water stations | 13,764 | 14,175 |
| Frac/test tanks | 367,730 | 355,912 |
| Pumping equipment | 336,660 | 343,379 |
| Construction equipment | 15,680 | 15,764 |
| Contract drilling equipment | 111,484 | 110,510 |
| Disposal facilities | 158,877 | 157,519 |
| Light vehicles | 69,880 | 70,414 |
| Rental equipment | 104,278 | 102,471 |
| Aircraft | 713 | 857 |
| Software | 21,617 | 21,416 |
| Other | 16,050 | 16,324 |
| | 2,073,750 | 2,058,987 |
| Less accumulated depreciation and amortization | 1,091,597 | 1,051,018 |
| Property and equipment, net | \$ 982,153 | \$ 1,007,969 |

Basic is obligated under various capital leases for certain vehicles and equipment that expire at various dates during the next five years. The gross amount of property and equipment and related accumulated amortization recorded under capital leases and included above consisted of the following (in thousands):

| | March 31, 2015 | December 31, 2014 |
|----------------------------------|-------------------|----------------------|
| Light vehicles | \$ 46,598 | \$ 47,853 |
| Contract drilling equipment | 6,142 | 6,142 |
| Well service units and equipment | 819 | 883 |
| Fluid services equipment | 143,784 | 143,014 |
| Pumping equipment | 42,742 | 42,264 |

| | | |
|-------------------------------|------------|------------|
| Construction equipment | 730 | 730 |
| Software | 17,120 | 17,120 |
| Other | 70 | 71 |
| | 258,005 | 258,077 |
| Less accumulated amortization | 101,148 | 100,896 |
| | \$ 156,857 | \$ 157,181 |

Amortization of assets held under capital leases of approximately \$10.8 million and \$8.5 million for the three months ended March 31, 2015 and 2014, respectively, is included in depreciation and amortization expense in the consolidated statements of operations.

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5. Long-Term Debt and Interest Expense

Long-term debt consisted of the following (in thousands):

| | March 31, 2015 | December 31, 2014 |
|--------------------------------|-------------------|----------------------|
| Credit Facilities: | | |
| Revolver | \$ 16,000 | \$ 16,000 |
| 7.75% Senior Notes due 2019 | 475,000 | 475,000 |
| 7.75% Senior Notes due 2022 | 300,000 | 300,000 |
| Unamortized premium | 1,155 | 1,217 |
| Capital leases and other notes | 132,880 | 138,930 |
| | 925,035 | 931,147 |
| Less current portion | 46,816 | 48,575 |
| | \$ 878,219 | \$ 882,572 |

Basic had \$16.0 million in borrowings and \$51.3 million of letters of credit outstanding under its \$300 million Amended and Restated Credit Agreement, dated as of November 26, 2014, as amended by Amendment No. 1 dated as of December 15, 2014 (the "Credit Agreement") as of March 31, 2015, giving Basic \$229.5 million of available borrowing capacity on a pro forma basis.

Basic's interest expense consisted of the following (in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2015 | 2014 |
| Cash payments for interest | \$ 18,875 | \$ 18,933 |
| Commitment and other fees paid | 407 | 585 |
| Amortization of debt issuance costs and discount or premium on notes | 681 | 740 |
| Change in accrued interest | (2,989) | (3,405) |
| Other | (111) | 6 |
| | \$ 16,863 | \$ 16,859 |

6. Commitments and Contingencies

Environmental

Basic is subject to various federal, state and local environmental laws and regulations that establish standards and requirements for protection of the environment. Basic cannot predict the future impact of such standards and requirements, which are subject to change and can have retroactive effectiveness. Basic continues to monitor the status of these laws and regulations. Management believes that the likelihood of any of these items resulting in a material adverse impact to Basic's financial position, liquidity, capital resources or future results of operations is remote.

Currently, Basic has not been fined, cited or notified of any environmental violations that would have a material adverse effect upon its financial position, liquidity or capital resources. However, management does recognize that by the very nature of its business, material costs could be incurred in the near term to bring Basic into total compliance. The amount of such future expenditures is not determinable due to several factors, including the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions which may be required, the determination of Basic's liability in proportion to other responsible parties and the extent to which such expenditures are recoverable from insurance or indemnification.

Litigation

From time to time, Basic is a party to litigation or other legal proceedings that Basic considers to be a part of the ordinary course of business. Basic is not currently involved in any legal proceedings that it considers probable or reasonably possible, individually or in the aggregate, to result in a material adverse effect on its financial condition, results of operations or liquidity.

Self-Insured Risk Accruals

Basic is self-insured up to retention limits as it relates to workers' compensation, general liability claims, and medical and dental coverage of its employees. Basic generally maintains no physical property damage coverage on its workover rig fleet, with the exception of certain of its 24-hour workover rigs and newly manufactured rigs. Basic has deductibles per occurrence for workers' compensation, general liability claims, and medical and dental coverage of \$5.0 million, \$1.0 million, and \$400,000, respectively. Basic has lower deductibles per occurrence for automobile liability. Basic

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maintains accruals in the accompanying consolidated balance sheets related to self-insurance retentions based upon third-party data and claims history.

At March 31, 2015 and December 31, 2014, self-insured risk accruals totaled approximately \$34.9 million and \$33.4 million, respectively.

7. Stockholders' Equity

Common Stock

In March 2015, Basic granted various employees 888,104 restricted shares of common stock that vest over a three-year period.

During the three months ended March 31, 2015, Basic issued 103,750 shares of common stock from treasury stock for the exercise of stock options.

Treasury Stock

During the first three months of 2015, Basic repurchased 513,600 shares for a total price of approximately \$3.4 million (an average of approximately \$6.67 per share), inclusive of commissions and fees. As of March 31, 2015, Basic may purchase up to an additional \$10.5 million of Basic's shares of common stock under the repurchase program.

Basic has acquired treasury shares through net share settlements for payment of payroll taxes upon the vesting of restricted stock. Basic acquired a total of 194,930 shares through net share settlements during the first three months of 2015 and 250,461 shares through net share settlements during the first three months of 2014.

8. Incentive Plan

During the three months ended March 31, 2015 and 2014, compensation expense related to share-based arrangements was approximately \$4.0 million and \$3.4 million, respectively. For compensation expense recognized during the three months ended March 31, 2015 and 2014, Basic recognized a tax benefit of approximately \$1.4 million and \$799,000, respectively.

As of March 31, 2015, there was approximately \$25.5 million of total unrecognized compensation related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.5 years. The total fair value of share-based awards vested during the three months ended March 31, 2015 and 2014 was approximately \$4.8 million and \$20.3 million, respectively. During the three months ended March 31, 2015 and 2014 there was no excess tax benefit due to the net operating loss carryforwards ("NOL"). If there was no NOL, there would have been no excess tax benefit at March 31, 2015 and there would have been an excess tax benefit of approximately \$4.2 million at March 31, 2014.

Stock Option Awards

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. Options granted under the Plan expire 10 years from the date they are granted, and generally vest over a three- to five-year service period.

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The following table reflects the summary of stock options outstanding at March 31, 2015 and the changes during the three months then ended:

Weighted
Average