

ADAMS RESOURCES & ENERGY, INC.

Form 10-Q

November 06, 2015

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

Commission File Number 1-7908

ADAMS RESOURCES & ENERGY, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

74-1753147
(I.R.S. Employer
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 x NO o

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 x No o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

A total of 4,217,596 shares of Common Stock were outstanding at November 5, 2015.

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 | | Three Months Ended | |
|---|-------------------|-------------|--------------------|-------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| REVENUES: | | | | |
| Marketing | \$1,541,999 | \$3,219,457 | \$423,014 | \$1,153,249 |
| Transportation | 49,921 | 52,490 | 15,748 | 17,538 |
| Oil and natural gas | 4,104 | 11,143 | 1,131 | 3,183 |
| | 1,596,024 | 3,283,090 | 439,893 | 1,173,970 |
| COSTS AND EXPENSES: | | | | |
| Marketing | 1,511,258 | 3,190,264 | 416,517 | 1,145,758 |
| Transportation | 41,018 | 43,383 | 12,938 | 14,192 |
| Oil and natural gas | 6,451 | 6,277 | 2,746 | 1,958 |
| Oil and natural gas property sale (gain) | - | (2,198) | - | (2,198) |
| General and administrative | 7,750 | 6,701 | 2,101 | 2,300 |
| Depreciation depletion and amortization | 18,086 | 18,443 | 5,968 | 6,228 |
| | 1,584,563 | 3,262,870 | 440,270 | 1,168,238 |
| Operating earnings (loss) | 11,461 | 20,220 | (377) | 5,732 |
| Other income (expense): | | | | |
| Interest income | 237 | 205 | 64 | 118 |
| Interest expense | (5) | (2) | (1) | (2) |
| Earnings (loss) before income taxes | 11,693 | 20,423 | (314) | 5,848 |
| Income tax (provision) benefit | (4,564) | (7,230) | 6 | (1,993) |
| Net earnings (loss) | \$7,129 | \$13,193 | \$(308) | \$3,855 |
| EARNINGS (LOSS) PER SHARE: | | | | |
| Basic and diluted net earnings (loss) per common share | \$1.69 | \$3.13 | \$(.07) | \$.92 |
| DIVIDENDS PER COMMON SHARE | \$.66 | \$.66 | \$.22 | \$.22 |

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

ADAMS RESOURCES & ENERGY, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands)

| | September 30, 2015 | December 31, 2014 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$95,235 | \$80,184 |
| Accounts receivable, net of allowance for doubtful accounts of \$154 and \$179, respectively | 95,637 | 144,434 |
| Inventory | 14,815 | 13,481 |
| Fair value contracts | 192 | 936 |
| Income tax receivable | - | 970 |
| Prepayments | 7,150 | 10,940 |
| Total current assets | 213,029 | 250,945 |
| Property and Equipment | | |
| Marketing | 65,196 | 65,865 |
| Transportation | 64,722 | 63,239 |
| Oil and gas (successful efforts method) | 87,836 | 88,661 |
| Other | 187 | 186 |
| | 217,941 | 217,951 |
| Less – Accumulated depreciation, depletion and amortization | (148,075) | (133,080) |
| | 69,866 | 84,871 |
| Other Assets: | | |
| Cash deposits and other | 5,906 | 4,998 |
| | \$288,801 | \$340,814 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$101,700 | \$160,743 |
| Accounts payable – related party | 16 | 51 |
| Fair value contracts | 357 | 943 |
| Accrued and other liabilities | 10,680 | 6,208 |
| Current deferred income taxes | 611 | 658 |
| Total current liabilities | 113,364 | 168,603 |
| Other Liabilities: | | |
| Asset retirement obligations | 2,463 | 2,464 |
| Deferred taxes and other liabilities | 11,132 | 12,250 |
| | 126,959 | 183,317 |
| Commitments and Contingencies (Note 5) | | |
| Shareholders' Equity: | | |

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

| | | |
|---|-----------|-----------|
| Preferred stock - \$1.00 par value, 960,000 shares authorized, none outstanding | - | - |
| 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 | 149,727 | 145,382 |
| Total shareholders' equity | 161,842 | 157,497 |
| | \$288,801 | \$340,814 |

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

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2015 | 2014 |
| CASH PROVIDED BY OPERATIONS: | | |
| Net earnings | \$7,129 | \$13,193 |
| Adjustments to reconcile net earnings to net cash from operating activities - | | |
| Depreciation, depletion and amortization | 18,086 | 18,443 |
| Property sales (gains) oil and gas | - | (2,198) |
| Property sales (gains) other | (522) | (297) |
| Dry hole costs incurred | 803 | 1,028 |
| Impairment of oil and gas properties | 1,191 | 572 |
| Provision for doubtful accounts | (25) | (123) |
| Deferred income taxes | (1,151) | (2,455) |
| Net change in fair value contracts | 158 | 405 |
| Decrease (increase) in accounts receivable | 48,822 | 17,933 |
| Decrease (increase) in inventories | (1,334) | 4,292 |
| Decrease (increase) in income tax receivable | 970 | 1,136 |
| Decrease (increase) in prepayments | 3,790 | 8,346 |
| Increase (decrease) in accounts payable | (58,594) | (6,210) |
| Increase (decrease) in accrued liabilities | 5,122 | 4,393 |
| Other changes, net | (884) | (999) |
| Net cash provided by operating activities | 23,561 | 57,459 |
| INVESTING ACTIVITIES: | | |
| Property and equipment additions | (6,347) | (22,655) |
| Insurance and state collateral (deposits) refunds | (39) | (467) |
| Proceeds from property sales | 660 | 5,149 |
| Net cash (used in) investing activities | (5,726) | (17,973) |
| FINANCING ACTIVITIES | | |
| Dividend payments | (2,784) | (2,784) |
| Net cash (used in) financing activities | (2,784) | (2,784) |
| Increase (decrease) in cash and cash equivalents | 15,051 | 36,702 |
| Cash and cash equivalents at beginning of period | 80,184 | 60,733 |
| Cash and cash equivalents at end of period | \$95,235 | \$97,435 |

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, 2015, its results of operations for the nine months and three months ended September 30, 2015 and 2014 and its cash flows for the nine months ended September 30, 2015 and 2014. 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, 2015, 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 the Gulf Coast region of the United States. 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 and other were as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|--|--------------------------|-------------------------|
| Cash collateral deposits for commodity purchases | \$4,055 | \$7,872 |
| Insurance premiums | 2,162 | 2,316 |
| Rents, license and other | 933 | 752 |
| | \$7,150 | \$10,940 |

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, 2015, the Company had no unevaluated or suspended exploratory drilling costs.

Depreciation, depletion and amortization of the cost of proved oil and gas properties are calculated using the unit-of-production method. The reserve base 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. 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. 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.

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 and, as such, data inputs are categorized as "unobservable" or "Level 3" inputs. 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 on producing and non-producing oil and gas properties were as follows (in thousands):

| | Nine Months Ended | | Three Months Ended | |
|------------------------------------|-------------------|-------|--------------------|-------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Producing property impairments | \$207 | \$- | \$- | \$- |
| Non-producing property impairments | 984 | 572 | 568 | 168 |
| Total | \$1,191 | \$572 | \$568 | \$168 |

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

| | September 30, 2015 | December 31, 2014 |
|--------------------------------------|--------------------|-------------------|
| South Texas Project acreage | \$358 | \$357 |
| Napoleonville, Louisiana acreage | 49 | 48 |
| North Dakota and other acreage areas | 207 | 554 |
| Total Non-producing Leasehold Costs | \$614 | \$959 |

The South Texas and Napoleonville acreage areas have active or scheduled drilling operations underway and holding the underlying acreage is essential to the ongoing exploration effort. The "other acreage areas" category consists of smaller onshore interests dispersed over a wide geographical area. Since the Company is generally not the operator of its oil and gas property interest, 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.

Capitalized cost activity on the "North Dakota and other acreage areas" was as follows (in thousands):

| | Leasehold Costs | |
|------------------------------|--------------------|-------------------|
| | September 30, 2015 | December 31, 2014 |
| Net book value January 1 | \$554 | \$411 |
| Property additions | 68 | 580 |
| Impairments | (415) | (437) |
| Net book value end of period | \$207 | \$554 |

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, 2015 | December 31, 2014 |
|-------------------------------|--------------------------|-------------------------|
| Insurance collateral deposits | \$5,413 | \$4,536 |
| State collateral deposits | 154 | 155 |
| Materials and supplies | 339 | 307 |
| | \$5,906 | \$4,998 |

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 September 30, | | Three Months Ended September 30, | |
|------------------|------------------------------------|-------------|-------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue gross-up | \$388,936 | \$1,054,350 | \$122,273 | \$271,749 |

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.

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 or four 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 of those 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 a sixty million dollar stand-by letter of credit facility that is used to support the Company's crude oil purchases.

This facility is collateralized by certain eligible accounts receivable and outstanding amounts were as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|----------------------------|--------------------------|-------------------------|
| Stand-by letters of credit | \$1,000 | \$15,300 |

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, | | Three Months Ended September 30, | |
|---------------------|------------------------------------|---------|-------------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest paid | \$5 | \$2 | \$1 | \$2 |
| Taxes paid (refund) | \$4,038 | \$8,140 | \$2,431 | \$(113) |

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):

| | September 30, | | December 31, | |
|----------------------------------|---------------|---------|--------------|---------|
| | 2015 | 2014 | 2014 | 2013 |
| Property and equipment additions | \$3 | \$3,315 | \$1,137 | \$1,507 |

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 2015 and 2014. 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".

The estimated fair value of forward month commodity contracts (derivatives) is reflected in the accompanying Unaudited Condensed Consolidated Balance Sheet as of September 30, 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 | \$363 | \$- | \$- | \$- |
| Liability Derivatives | | | | |
| - Fair Value Forward Hydrocarbon Commodity | | | | |
| Contracts at Gross Valuation | - | - | 528 | - |
| Less Counterparty Offsets | (171) | - | (171) | - |
| As Reported Fair Value Contracts | \$192 | \$- | \$357 | \$- |

As of September 30, 2015, two commodity purchase and sale contracts comprise the Company's derivative valuations. These contracts encompass approximately 129 barrels per day of crude oil from October 2015 through December 31, 2015 plus 65 barrels per day of diesel fuel from October 2015 through March 2016.

Forward month commodity contracts (derivatives) are reflected in the accompanying Unaudited Condensed Consolidated Balance Sheet as of December 31, 2014 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 | \$1,332 | \$- | \$- | \$- |
| Liability Derivatives | | | | |
| - Fair Value Forward Hydrocarbon Commodity | | | | |
| Contracts at Gross Valuation | - | - | 1,339 | - |
| Less Counterparty Offsets | (396) | - | (396) | - |
| As Reported Fair Value Contracts | \$936 | \$- | \$943 | \$- |

As of December 31, 2014, three purchase and sale contracts comprised the Company's derivative valuations. The purchase and sale contracts encompass approximately 294 barrels of crude oil per day in each of January and February 2015 and 129 barrels of crude oil per day in March through December 2015.

The Company only enters into commodity contracts with credit worthy counterparties or obtains collateral support for such activities. As of September 30, 2015 and December 31, 2014, 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 Statements of Operations for the nine months and three months ended September 30, 2015 and 2014 as follows (in thousands):

| | Earnings (Loss) | | Earnings (Loss) | |
|----------------------|-------------------|-------|--------------------|---------|
| | Nine Months Ended | | Three Months Ended | |
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues – Marketing | \$(158) | \$310 | \$(208) | \$(74) |

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.

As of September 30, 2015, the Company's fair value assets and liabilities that comprise derivative financial instruments are summarized and categorized as follows (in thousands):

| | Market Data Inputs | | | | |
|-----------------------|--------------------|---------------|---------------|--------------|----------|
| | Gross Level 1 | Gross Level 2 | Gross Level 3 | Counterparty | |
| | Quoted Prices | Observable | Unobservable | Offsets | Total |
| Derivatives | | | | | |
| - Current assets | \$- | \$363 | \$ - | \$ (171) | \$192 |
| - Current liabilities | - | (528) | - | 171 | (357) |
| Net Value | \$- | \$(165) | \$ - | \$ - | \$(165) |

As of December 31, 2014, the Company's fair value assets and liabilities that comprise derivative financial instruments are summarized and categorized as follows (in thousands):

| | Market Data Inputs | | | | |
|-----------------------|--------------------|---------------|---------------|--------------|--------|
| | Gross Level 1 | Gross Level 2 | Gross Level 3 | Counterparty | |
| | Quoted Prices | Observable | Unobservable | Offsets | Total |
| Derivatives | | | | | |
| - Current assets | \$- | \$1,332 | \$ - | \$ (396) | \$936 |
| - Current liabilities | - | (1,339) | - | 396 | (943) |
| Net Value | \$- | \$(7) | \$ - | \$ - | \$(7) |

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, 2015 and December 31, 2014, 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 Pronouncement

In July 2015, the FASB amended the existing accounting standards for inventory to provide for the measurement of inventory at the lower of cost or "net realizable value," as defined in the standard. 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 an impact on the consolidated financial statements.

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 and 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 an impact on the consolidated financial statements.

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, 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 |
| Period Ended September 30, 2014 | | | | |
| Marketing | \$3,219,457 | \$22,187 | \$ 7,006 | \$9,308 |
| Transportation | 52,490 | 3,594 | 5,513 | 6,280 |
| Oil and gas | 11,143 | 1,140 | 5,924 | 7,067 |
| | \$3,283,090 | \$26,921 | \$ 18,443 | \$22,655 |

- Three Month Comparison

| | Revenues | Segment Operating Earnings | Depreciation and Depletion and Amortization | Property and Equipment Additions |
|---------------------------------|-------------|----------------------------------|---|---|
| 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 |
| Period Ended September 30, 2014 | | | | |
| Marketing | \$1,153,249 | \$5,041 | \$ 2,450 | \$3,377 |

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

| | | | | |
|----------------|-------------|---------|----------|----------|
| Transportation | 17,538 | 1,464 | 1,882 | 5,851 |
| Oil and gas | 3,183 | 1,527 | 1,896 | 1,338 |
| | \$1,173,970 | \$8,032 | \$ 6,228 | \$10,566 |

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 | | Three Months Ended | |
|-----------------------------------|-------------------|-----------|--------------------|----------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Segment operating earnings | \$ 19,211 | \$ 26,921 | \$ 1,724 | \$ 8,032 |
| - General and administrative | (7,750) | (6,701) | (2,101) | (2,300) |
| Operating earnings (loss) | 11,461 | 20,220 | (377) | 5,732 |
| - Interest income | 237 | 205 | 64 | 118 |
| - Interest expense | (5) | (2) | (1) | (2) |
| Earnings (loss) before income tax | \$ 11,693 | \$ 20,423 | \$(314) | \$ 5,848 |

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

| | September 30, 2015 | December 31, 2014 |
|----------------|--------------------------|-------------------------|
| Marketing | \$ 132,721 | \$ 189,332 |
| Transportation | 32,351 | 37,643 |
| Oil and gas | 20,921 | 25,888 |
| Other | 102,808 | 87,951 |
| | \$ 288,801 | \$ 340,814 |

Intersegment sales are insignificant and all sales occurred in the United States. Other identifiable assets are primarily corporate cash, corporate accounts receivable 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 independent appraisal.

Activities with affiliates were as follows (in thousands):

| | Nine Months Ended | | Three Months Ended | |
|--------------------------------|-------------------|-------|--------------------|-------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Overhead recoveries | \$74 | \$124 | \$24 | \$42 |
| Affiliate billings to company | \$57 | \$48 | \$10 | \$- |
| Company billings to affiliates | \$29 | \$31 | \$7 | \$- |
| Rentals paid to affiliate | \$427 | \$464 | \$143 | \$162 |

Note 5 - Commitments and Contingencies

The Company maintains certain automobile and workers' compensation insurance policies. Under these 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 loss is shared with a group of similarly situated entities. The Company recognizes estimated expenses and related liabilities for losses incurred but not reported to the Company or its insurance carrier. In addition, the Company maintains a self-insurance program for managing employee medical claims. A liability for expected claims incurred is established on a monthly basis and, as claims are paid, the liability is relieved. Third party stop-loss insurance coverage for annual individual medical claims exceeding \$100,000 is obtained along with a \$2 million aggregate umbrella policy for employee medical claims exceeding approximately \$4.5 million per calendar year.

Estimated and recorded expenses and related liabilities for automobile and workers' compensation losses as well as employee medical costs that have been incurred but not reported to the Company or its insurance carriers as of the financial report dates were as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|--------------------------------------|--------------------------|-------------------------|
| Automobile and workers' compensation | \$3,477 | \$2,585 |
| Employee medical coverage | \$1,170 | \$1,057 |

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 except, all the larger defendants have settled their claims in the LePetit Chateau Deluxe matter. 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, 2015 and December 31, 2014, 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, | | | September 30, | | |
| | 2015 | 2014 | Change(1) | 2015 | 2014 | Change(1) |
| Revenues | \$ 1,541,999 | \$ 3,219,457 | (52.1)% | \$ 423,014 | \$ 1,153,249 | (63.3)% |
| Operating earnings | \$ 22,405 | \$ 22,187 | 1.0 % | \$ 3,715 | \$ 5,041 | (26.3)% |
| Depreciation | \$ 8,336 | \$ 7,006 | 19.0 % | \$ 2,782 | \$ 2,450 | 13.6 % |
| Driver commissions | \$ 17,305 | \$ 15,680 | 10.4 % | \$ 5,528 | \$ 5,421 | 2.0 % |
| Insurance | \$ 6,737 | \$ 6,227 | 8.2 % | \$ 2,166 | \$ 2,064 | 4.9 % |
| Fuel | \$ 7,909 | \$ 10,949 | (27.8)% | \$ 2,409 | \$ 3,339 | (27.9)% |

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

Supplemental volume and price information is as follows:

| | Nine Months Ended | | Three Months Ended | |
|---|-------------------|----------|--------------------|----------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Field Level Purchase Volumes – Per day(2) | | | | |
| Crude oil - barrels | 112,345 | 115,335 | 100,816 | 119,823 |
| Average Purchase Price | | | | |
| Crude oil – per barrel | \$ 47.25 | \$ 96.64 | \$ 43.26 | \$ 94.11 |

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

Crude oil revenues declined in 2015 consistent with reduced market prices for crude oil. Volumes also began to decline during the second quarter of 2015 as drilling activity in the areas where the Company operates declined due to lower prices and because certain suppliers cancelled sales to the Company in order to meet their pipeline volume commitments.

Crude Oil – Field Level Operating Earnings (Non GAAP-Measure)

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 2015, the net impact of inventory valuation was a loss as shown below. Crude oil inventory on-hand and weighted average prices were as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|------------------------|--------------------------|-------------------------|
| Inventory | | |
| Crude oil – barrels | 331,268 | 292,355 |
| Average price | | |
| Crude oil – per barrel | \$44.72 | \$46.11 |

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 value of derivative instruments at period end requires the 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 reconciliation from the GAAP to non-GAAP financial measure (in thousands):

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|--|------------------------------------|----------|-------------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| As reported segment operating earnings | | | | |
| Add (less) - | \$22,405 | \$22,187 | \$3,715 | \$5,041 |
| Inventory valuation (gains) losses | 1,031 | 1,641 | 2,536 | 4,203 |
| Derivative valuation (gains) losses | 158 | (310) | 208 | 74 |
| Field level operating earnings(1) | \$23,594 | \$23,518 | \$6,459 | \$9,318 |

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

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. The comparative field level operating earnings declined for the third quarter of 2015 stemmed from reduced purchase volumes and narrowing unit margins as competition for available supply stiffened. Operating earnings in 2015 were also suppressed due to increased depreciation charges in 2015 as a result of higher cost of newer trucks and elevated driver commissions due to longer average hauls in the more competitive marketplace.

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, 2014.

- Transportation

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

| | Nine Months Ended | | | Three Months Ended | | |
|---------------------|-------------------|----------|-----------|--------------------|----------|-----------|
| | September 30, | | | September 30, | | |
| | 2015 | 2014 | Change(1) | 2015 | 2014 | Change(1) |
| Revenues | \$49,921 | \$52,490 | (4.9)% | \$15,748 | \$17,538 | (10.2)% |
| Operating earnings | \$3,212 | \$3,594 | (10.6)% | \$918 | \$1,464 | (37.3)% |
| Depreciation | \$5,691 | \$5,513 | 3.2% | \$1,892 | \$1,882 | .5% |
| Driver commissions | \$10,350 | \$10,255 | .9% | \$3,347 | \$3,432 | (2.5)% |
| Insurance | \$4,134 | \$4,452 | (7.1)% | \$1,146 | \$1,513 | (24.3)% |
| Fuel | \$6,624 | \$10,868 | (39.1)% | \$1,930 | \$3,310 | (41.7)% |
| Maintenance expense | \$4,734 | \$4,768 | (.7)% | \$1,658 | \$1,522 | 8.9% |
| Mileage | 19,714 | 20,321 | (3.0)% | 6,326 | 6,704 | (5.6)% |

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

The Company's transportation segment serves the petrochemical industry and customer demand remained strong during the first half of 2015 but began to weaken during this year's third quarter. While reported revenues for 2015 appear to have declined, excluding the impact of reduced fuel surcharge recoveries, revenues generated for the first nine months of 2015 were fairly consistent with the 2014 level. Diesel fuel prices were higher during 2014 and as a result the fuel surcharge component of revenue for the nine month and three month periods of 2014 exceeded the comparative 2015 amounts by \$3,571,000 and \$1,499,000, respectively. The Company's contracts which vary by customer generally provide a mechanism for the Company to pass along a portion of fuel cost savings or increases to its customers. The Company absorbs the difference between actual fuel costs and allowed recoveries. By the third quarter of 2015 the net savings from reduced fuel cost was substantially passed-through to customers so operating earnings for the quarter were reduced with the reduced level of activity. The Company did, however, benefit from reduced insurance cost during the third quarter of 2015 due to an improved claims experience and less activity.

This segment benefits from the present low price environment for natural gas because this commodity is a basic petrochemical industry feedstock. As the petrochemical industry continues to expand capacity, the long-term prospect for chemical hauling demand remains positive.

- 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 | | | Three Months Ended | | |
|---------------------------|-------------------|----------|-----------|--------------------|---------|-----------|
| | September 30, | | | September 30, | | |
| | 2015 | 2014 | Change(1) | 2015 | 2014 | Change(1) |
| Revenues | \$4,104 | \$11,143 | (63.2)% | \$1,131 | \$3,183 | (64.5)% |
| Operating earnings (loss) | \$(6,406) | \$1,140 | (661.9)% | \$(2,909) | \$1,527 | (290.5)% |
| Depreciation/depletion | \$4,059 | \$5,924 | (31.5)% | \$1,294 | \$1,896 | (31.8)% |

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

Oil and gas revenues and operating earnings declined during 2015 relative to the 2014 period due to reduced commodity prices and normal volume declines as shown in the table below. The Company has curtailed substantially all of its drilling activity. Depreciation and depletion expense is also reduced in 2015 consistent with reduced volumes and reduced net capitalized costs.

Production volumes and price information is as follows:

| | Nine Months Ended | | Three Months Ended | |
|--------------------------|-------------------|---------|--------------------|---------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Crude Oil(1) | | | | |
| Volume – barrels | 39,710 | 63,230 | 12,070 | 18,726 |
| Average price per barrel | \$48.07 | \$92.90 | \$41.94 | \$88.84 |
| Natural gas | | | | |
| Volume – mcf | 638,581 | 885,161 | 205,375 | 285,278 |
| Average price per mcf | \$2.78 | \$4.85 | \$2.44 | \$4.11 |
| Natural gas liquids | | | | |
| Volume – barrels | 31,679 | 33,045 | 10,338 | 12,529 |
| Average price per barrel | \$13.22 | \$29.46 | \$12.00 | \$27.64 |

(1) Crude oil volumes and prices included the value of associated natural gas liquids production.

Exploration costs primarily relate to property impairments and dry hole expense. Property impairment charges occurred in 2015 and 2014 due to declining prices. Exploration cost components were as follows (in thousands):

| | Nine Months Ended | | Three Months Ended | |
|-----------------------------------|-------------------|---------|--------------------|-------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Dry hole expense | \$803 | \$1,028 | \$770 | \$71 |
| Prospect and property impairments | 1,191 | 572 | 568 | 168 |
| Seismic and geological | 14 | 11 | 1 | 3 |
| | \$2,008 | \$1,611 | \$1,339 | \$242 |

During the first nine months of 2015, the Company successfully completed 13 wells with one dry hole originating from current year activities. Additionally, the Company has an interest in 10 wells that were in process on September 30, 2015. Completion of the currently delayed wells is pending improved crude oil and natural gas prices. No drilling is planned for the remainder of 2015.

- General and administrative

General and administrative expenses were elevated from \$6,701,000 during the nine months of 2014 to \$7,750,000 during the nine months of 2015 due to a \$1.1 million lump sum payment made during the first quarter of 2015 to the Company's former President upon retirement and termination of his previous employment agreement.

- Outlook

The impact of reduced crude oil prices is causing marketing segment field level volumes to decline as the Company's suppliers curtail production and struggle to meet their volume commitments. Anticipation suggests continued volume declines within the marketing operation as well as narrowed margins as competition intensifies. Transportation service demand has softened of late but the outlook for the segment remains favorable. The oil and gas division continues to see declining volumes as drilling is curtailed and prices remain suppressed. In addition, additional impairment provisions on producing and non-producing oil and gas properties may result at year-end 2015 based on then existing hydrocarbon prices.

Liquidity and Capital Resources

The Company's liquidity primarily derives from net cash provided by operating activities and amounts for the reporting periods were as follows (in thousands):.

| | Nine Months Ended September 30, | |
|---|------------------------------------|----------|
| | 2015 | 2014 |
| Net cash provided by operating activities | \$23,561 | \$57,459 |

Net cash provided from operating activities may vary substantially from quarter to quarter due to the timing of receipts and/or payments of "early payments" with customers and suppliers. See discussion below. As of September 30, 2015 and December 31, 2014, 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. Cash balances and working capital, the excess of current assets over current liabilities, as of the reporting dates were as follows:

| | September 30, 2015 | December 31, 2014 |
|-----------------|--------------------------|-------------------------|
| Cash | \$95,235 | \$80,184 |
| Working capital | \$99,665 | \$82,342 |

The Company heavily relies on its ability to obtain open-line trade credit from its suppliers especially with respect to its crude oil marketing operation. In this regard, the Company generally maintains substantial cash balances and avoids debt obligations. Cash balances were increased during the current period as a result of operating cash earnings generated during the period.

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.

Amounts as of the reporting dates for early payments, prepayments and cash collateral were as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|-----------------------------|--------------------------|-------------------------|
| Early payments received | \$24,311 | \$57,404 |
| Cash collateral received | \$1,253 | \$8,594 |
| Prepayments to suppliers | \$4,055 | \$7,872 |
| Early payments to suppliers | \$18,357 | \$35,500 |

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 to suppliers of crude oil. The issuance of stand-by letters of credit enables the Company to avoid posting cash collateral when procuring crude oil supply and amounts outstanding were as follows (in thousands):

| | September 30, 2015 | December 31, 2014 |
|-------------------------------|--------------------------|-------------------------|
| Letters of credit outstanding | \$1,000 | \$15,300 |

The issued stand-by letters of credit are cancelled as the underlying purchase obligations are satisfied by cash payment when due. 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, which comprise substantially all of the Company’s investing cash outflows for each of the periods in this filing. The Company does not look to proceeds from property sales to fund its cash flow needs. Except for commitments totaling \$18,273,000 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 expenditures during the first nine months of 2015 included \$3,712,000 for marketing and transportation equipment additions and \$2,635,000 in property additions associated with oil and gas exploration and production activities. Currently for the remainder of 2015 and into 2016, the Company’s planned expenditures include the

investment of \$4.5 million to expand and improve the terminal facilities within the chemical hauling division plus the purchase of 10 truck-tractors and 50 trailers to expand its chemical hauling fleet at a cost of approximately \$6,000,000. Future capital projects within the crude oil marketing and oil and gas exploration segments will be evaluated as they arise.

Historically, the Company paid an annual dividend in the fourth quarter of each year until June 17, 2013 when the Company initiated payment of a quarterly dividend. A quarterly dividend of \$0.22 per common share or \$928,000 was paid during each of the first, second and third quarters of 2015 and 2014. 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, 2014.

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, 2014.

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, 2014.

Forward-Looking Statements – Safe Harbor Provisions

This quarterly report for the period ended September 30, 2015 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.

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, 2014, 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 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 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 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, 2015 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, except all the larger defendants have settled their claims in the *LePetit Chateau Deluxe* matter. 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, 2015, 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 1A. Risk Factors – There are no material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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 6, 2015

By /s/Thomas S. Smith
Thomas S. Smith
President, Chief Executive Officer
(Principal Executive Officer)

By /s/Richard B. Abshire
Richard B. Abshire
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 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 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, 2015 and 2014, (ii) the Consolidated Balance Sheets – September 30, 2015 and December 31, 2014, (iii) the Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2015 and 2014 and (iv) Notes to Consolidated Financial Statements. |

