

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2019

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 001-38025

**U.S. WELL SERVICES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

81-1847117

(State or other jurisdiction of  
organization)

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

1360 Post Oak Boulevard, Suite 1800, Houston, TX

77056

(Address of principal executive offices)

(Zip Code)

**Registrant's telephone number, including area code (832) 562-3730**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
CLASS A COMMON SHARES \$0.0001, par value WARRANTS	USWS USWSW	NASDAQ Capital Market NASDAQ Capital Market

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 every Interactive Data File required to be submitted 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 such files).  Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 4, 2019, the registrant had 54,588,775 shares of Class A Common Stock and 13,775,400 shares of Class B Common Stock outstanding.

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**U.S. WELL SERVICES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share and per share amounts)*  
*(unaudited)*

<b>ASSETS</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 20,712	\$ 29,529
Restricted cash	12,084	507
Accounts receivable (net of allowance for doubtful accounts of \$22 and \$189 in 2019 and 2018, respectively)	108,050	58,026
Inventory, net	10,488	9,413
Prepays and other current assets	14,867	16,437
Total current assets	<u>166,201</u>	<u>113,912</u>
Property and equipment, net	461,529	331,387
Intangible assets, net	22,191	27,890
Goodwill	4,971	4,971
Deferred financing costs, net	1,108	2,070
<b>TOTAL ASSETS</b>	<b><u>\$ 656,000</u></b>	<b><u>\$ 480,230</u></b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 78,559	\$ 89,360
Accrued expenses and other current liabilities	29,453	17,044
Notes payable, current portion	7,250	4,560
Current portion of long-term equipment financing	7,886	3,263
Current portion of long-term capital lease obligation	13,286	25,338
Current portion of long-term debt	5,000	900
Total current liabilities	<u>141,434</u>	<u>140,465</u>
Notes payable, less current portion	1,867	-
Long-term equipment financing	11,926	8,304
Long-term capital lease obligation	1,330	-
Long-term debt	275,154	91,112
Deferred rent	166	-
<b>TOTAL LIABILITIES</b>	<b><u>431,877</u></b>	<b><u>239,881</u></b>
Commitments and contingencies (NOTE 16)		
<b>MEZZANINE EQUITY</b>		
Series A Convertible Redeemable Preferred Stock, par value \$0.0001 per share; 55,000 shares authorized, issued and outstanding as of September 30, 2019; aggregate liquidation preference of \$57,330 as of September 30, 2019	31,968	-
<b>STOCKHOLDERS' EQUITY</b>		
Class A Common Stock, par value of \$0.0001 per share; 400,000,000 shares authorized; 54,588,775 shares and 49,254,760 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	5	5
Class B Common Stock, par value of \$0.0001 per share; 20,000,000 shares authorized; 13,775,400 shares and 13,937,332 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	1	1
Additional paid in capital	232,080	204,928
Accumulated deficit	(78,008)	(17,383)
Total stockholders' equity attributable to U.S. Well Services, Inc.	<u>154,078</u>	<u>187,551</u>
Noncontrolling interest	38,077	52,798
Total Stockholders' Equity	<u>192,155</u>	<u>240,349</u>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 656,000</u></b>	<b><u>\$ 480,230</u></b>

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

**U.S. WELL SERVICES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(in thousands, except per share amounts)*  
*(unaudited)*

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	\$ 130,884	\$ 166,173	\$ 422,075	\$ 530,411
Costs and expenses:				
Cost of services (excluding depreciation and amortization)	90,792	137,452	307,841	427,243
Depreciation and amortization	39,723	26,765	117,888	77,547
Selling, general and administrative expenses	8,216	5,248	24,474	14,863
Loss (gain) on disposal of assets	4,976	(126)	15,884	7,990
Income (loss) from operations	(12,823)	(3,166)	(44,012)	2,768
Interest expense, net	(8,449)	(7,387)	(21,384)	(21,672)
Loss on extinguishment of debt	-	-	(12,558)	-
Other income	62	9	1,774	331
Loss before income taxes	(21,210)	(10,544)	(76,180)	(18,573)
Income tax expense	39	-	469	-
Net loss	(21,249)	(10,544)	(76,649)	(18,573)
Net loss attributable to noncontrolling interest	(4,280)	-	(15,929)	-
Net loss attributable to U.S. Well Services, Inc.	(16,969)	(10,544)	(60,720)	(18,573)
Dividends accrued on Series A preferred stock	(1,670)	-	(2,330)	-
Deemed and imputed dividends on Series A preferred stock	(4,406)	-	(5,966)	-
Net loss attributable to U.S. Well Services, Inc. common stockholders	<u>\$ (23,045)</u>	<u>\$ (10,544)</u>	<u>\$ (69,016)</u>	<u>\$ (18,573)</u>
Loss per common share (See Note 12):				
Basic and diluted	\$ (0.45)	\$ (0.21)	\$ (1.36)	\$ (0.37)
Weighted average common shares outstanding:				
Basic and diluted	50,250	47,940	49,182	47,940

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

**U.S. WELL SERVICES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*  
*(unaudited)*

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (76,649)	\$ (18,573)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	117,888	77,547
Provision for losses on accounts receivable	307	569
Provision for losses on inventory obsolescence	-	93
Non-cash interest	-	7,196
Loss on disposal of assets	15,884	7,990
Amortization of discount on debt	1,373	-
Deferred financing costs amortization	1,049	1,569
Loss on extinguishment of debt	12,558	-
Share-based compensation expense	5,672	2,802
Changes in assets and liabilities:		
Accounts receivable	(50,331)	2,794
Inventory	(2,036)	1,364
Prepays and other current assets	1,795	(4,514)
Accounts payable	2,243	800
Accrued liabilities	1,487	4,477
Accrued interest	11,090	-
<b>Net cash provided by operating activities</b>	<b>42,330</b>	<b>84,114</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(194,114)	(58,557)
Insurance proceeds from damaged property and equipment	706	8,011
<b>Net cash used in investing activities</b>	<b>(193,408)</b>	<b>(50,546)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of revolving credit facility	49,134	-
Repayment of revolving credit facility	(65,000)	-
Proceeds from issuance of long-term debt	285,000	-
Repayments of long-term debt	(75,000)	-
Payment of fees related to debt extinguishment	(6,560)	-
Repayments of long-term debt to related party	-	(3,420)
Proceeds from issuance of notes payable	9,117	6,513
Repayments of note payable	(4,560)	(2,145)
Repayments of amounts under equipment financing	(66,872)	(12,484)
Principal payments under finance lease obligation	(12,494)	(7,144)
Proceeds from issuance of preferred stock and warrants, net	54,524	-
Cash distribution to partners	-	(9)
Deferred financing costs	(13,451)	-
<b>Net cash provided by (used in) financing activities</b>	<b>153,838</b>	<b>(18,689)</b>
Net increase in cash and cash equivalents and restricted cash	2,760	14,879
Cash and cash equivalents and restricted cash, beginning of period	30,036	6,426
Cash and cash equivalents and restricted cash, end of period	<b>\$ 32,796</b>	<b>\$ 21,305</b>

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

**U.S. WELL SERVICES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
*(in thousands)*  
*(unaudited)*

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Supplemental cash flow disclosure:		
Interest paid	\$ 7,853	\$ 12,586
Income tax paid	353	-
Non-cash investing and financing activities:		
Beneficial conversion feature of Series A preferred stock	20,132	-
Issuance of warrants to purchase common stock associated with preferred stock offering	10,720	-
Deemed and imputed dividends on Series A preferred stock	5,966	-
Accrued Series A preferred stock dividends	2,330	-
Changes in accrued and unpaid capital expenditures	13,045	49,199
Assets under finance lease obligations	10,451	-
Financed equipment purchases	66,342	3,893

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

**U.S. WELL SERVICES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
*(in thousands, except share amounts)*  
*(unaudited)*

	Class A Common Stock		Class B Common Stock		Additional Paid in Capital	Members' Interest	Members' Accumulated Deficit	Accumulated Deficit	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
<b>Balance, December 31, 2017</b>	-	\$ -	-	\$ -	\$ -	\$ 137,885	\$ (93,622)	\$ -	\$ -	\$ 44,263
Deemed contribution related to unit-based compensation	-	-	-	-	-	2,802	-	-	-	2,802
Cash distribution to partners	-	-	-	-	-	(9)	-	-	-	(9)
Net loss	-	-	-	-	-	-	(18,573)	-	-	(18,573)
<b>Balance, September 30, 2018</b>	-	\$ -	-	\$ -	\$ -	\$ 140,678	\$ (112,195)	\$ -	\$ -	\$ 28,483

	Class A Common Stock		Class B Common Stock		Additional Paid in Capital	Members' Interest	Members' Accumulated Deficit	Accumulated Deficit	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
<b>Balance, December 31, 2018</b>	49,254,760	\$ 5	13,937,332	\$ 1	\$ 204,928	\$ -	\$ -	\$ (17,383)	\$ 52,798	\$ 240,349
Adoption of ASC 606 as of January 1, 2019 (Note 2)	-	-	-	-	-	-	-	95	27	122
Exercise of warrants	2,925,712	-	-	-	-	-	-	-	-	-
Conversion of Class B common stock to Class A common stock	161,932	-	(161,932)	-	-	-	-	-	-	-
Restricted stock granted to employees	2,218,183	-	-	-	-	-	-	-	-	-
Class A Common stock granted to board members	46,875	-	-	-	331	-	-	-	87	418
Share-based compensation	-	-	-	-	4,265	-	-	-	1,094	5,359
Restricted stock forfeitures	(18,687)	-	-	-	-	-	-	-	-	-
Issuance of warrants to purchase common stock associated with preferred stock offering	-	-	-	-	10,720	-	-	-	-	10,720
Beneficial conversion feature of Series A preferred stock	-	-	-	-	20,132	-	-	-	-	20,132
Deemed and imputed dividends on Series A preferred stock	-	-	-	-	(5,966)	-	-	-	-	(5,966)
Accrued Series A preferred stock dividends	-	-	-	-	(2,330)	-	-	-	-	(2,330)
Net loss	-	-	-	-	-	-	-	(60,720)	(15,929)	(76,649)
<b>Balance, September 30, 2019</b>	54,588,775	\$ 5	13,775,400	\$ 1	\$ 232,080	\$ -	\$ -	\$ (78,008)	\$ 38,077	\$ 192,155

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

**U.S. WELL SERVICES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)**  
*(in thousands, except share amounts)*  
*(unaudited)*

	Class A Common Stock		Class B Common Stock		Additional Paid in Capital	Members' Interest	Members' Accumulated Deficit	Accumulated Deficit	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
<b>Balance, June 30, 2018</b>	-	\$ -	-	\$ -	\$ -	\$ 139,792	\$ (101,651)	\$ -	\$ -	\$ 38,141
Deemed contribution related to										
unit-based compensation	-	-	-	-	-	895	-	-	-	895
Cash distribution to partners	-	-	-	-	-	(9)	-	-	-	(9)
Net loss	-	-	-	-	-	-	(10,544)	-	-	(10,544)
<b>Balance, September 30, 2018</b>	-	\$ -	-	\$ -	\$ -	\$ 140,678	\$ (112,195)	\$ -	\$ -	\$ 28,483

	Class A Common Stock		Class B Common Stock		Additional Paid in Capital	Members' Interest	Members' Accumulated Deficit	Accumulated Deficit	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
<b>Balance, June 30, 2019</b>	54,607,462	\$ 5	13,775,400	\$ 1	\$ 236,398	\$ -	\$ -	\$ (61,039)	\$ 41,914	\$ 217,279
Share-based compensation	-	-	-	-	1,758	-	-	-	443	2,201
Restricted stock forfeitures	(18,687)	-	-	-	-	-	-	-	-	-
Deemed and imputed dividends on Series A preferred stock	-	-	-	-	(4,406)	-	-	-	-	(4,406)
Accrued Series A preferred stock dividends	-	-	-	-	(1,670)	-	-	-	-	(1,670)
Net loss	-	-	-	-	-	-	(16,969)	(4,280)	-	(21,249)
<b>Balance, September 30, 2019</b>	54,588,775	\$ 5	13,775,400	\$ 1	\$ 232,080	\$ -	\$ -	\$ (78,008)	\$ 38,077	\$ 192,155

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

**U.S. WELL SERVICES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(unaudited)*

**NOTE 1 – DESCRIPTION OF BUSINESS**

U.S. Well Services, Inc. (the “Company”), f/k/a Matlin & Partners Acquisition Corp (“MPAC”), is a Houston, Texas-based oilfield service provider of well stimulation services to the upstream oil and natural gas industry. The Company engages in high-pressure hydraulic fracturing in oil and natural gas basins in the United States. The fracturing process consists of pumping a specially formulated fluid into perforated well casing, tubing or open holes under high pressure, causing the underground formation to crack or fracture, allowing nearby hydrocarbons to flow more freely up the wellbore.

The Company’s fleets consist of mobile hydraulic fracturing units and other auxiliary heavy equipment to perform fracturing services. The Company has two designs for hydraulic fracturing units: (1) Conventional Fleets, which utilize traditional internal combustion engines, transmissions, radiators and are powered by diesel fuel and (2) Clean Fleets which replace the traditional engines, transmissions, and radiators with electric motors powered by electricity generated by natural gas fueled turbine generators. Both designs utilize high-pressure hydraulic fracturing pumps mounted on trailers. The Company refers to the group of pump trailers and other equipment necessary to perform a typical fracturing job as a “fleet”.

The Company was incorporated in Delaware in March 2016 as a special purpose acquisition company, formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses.

On November 9, 2018 (the “Closing Date”), MPAC acquired USWS Holdings LLC, a Delaware limited liability company (“USWS Holdings”), pursuant to the Merger and Contribution Agreement, dated as of July 13, 2018, and subsequently amended (as amended, the “Merger and Contribution Agreement”). The acquisition, together with the other transactions contemplated by the Merger and Contribution Agreement are referred to herein as the “Transaction”. In connection with the closing of the Transaction, MPAC changed its name to U.S. Well Services, Inc.

Following the completion of the Transaction, substantially all of the Company’s assets and operations are held and conducted by U.S. Well Services, LLC (“USWS LLC”), a wholly owned subsidiary of USWS Holdings, and the Company’s only assets are equity interests representing 79.8% ownership of USWS Holdings as of September 30, 2019.

Unless the context otherwise requires, “the Company”, “USWS”, “we,” “us,” and “our” refer, for periods prior to the completion of the Transaction, to USWS Holdings and its subsidiaries and, for periods upon or after the completion of the Transaction, to U.S. Well Services, Inc. and its subsidiaries, including USWS Holdings and its subsidiaries.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, these financial statements do not include all information or notes required by generally accepted accounting principles for annual financial statements and should be read in conjunction with the annual financial statements included in the Company’s 2018 Annual Report on Form 10-K (the “Annual Report”).

The accompanying unaudited condensed consolidated financial statements and accompanying notes present the consolidated financial position, results of operations, cash flows, and equity of the Company as of September 30, 2019 and December 31, 2018, and for the three and nine months ended September 30, 2019 and 2018. The interim data includes all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim period. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results of operations expected for the entire fiscal year ended December 31, 2019.

### ***Principles of Consolidation***

The condensed consolidated financial statements comprise the financial statements of the Company, its wholly owned subsidiaries, and its subsidiaries that it controls due to ownership of a majority voting interest. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. All significant intercompany balances and transactions are eliminated upon consolidation.

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We regularly evaluate estimates and judgments based on historical experience and other relevant facts and circumstances. Significant estimates included in these financial statements primarily relate to allowance for doubtful accounts, allowance for inventory obsolescence, estimated useful lives and valuation of property and equipment and intangibles, impairment assessments of goodwill and other intangibles, Level 2 inputs used in fair value estimation of term loans, accounting for business combination, and the assumptions used in our Black-Scholes and Monte Carlo option pricing models associated with the valuation of share-based compensation and certain equity instruments. Actual results could differ from those estimates.

### ***Restricted Cash***

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements, or are reserved for a specific purpose, that is not readily available for immediate or general use are recorded in restricted cash in our condensed consolidated balance sheets. The restricted cash in our condensed consolidated balance sheet represents cash transferred into a trust account to support our workers' compensation obligations and cash held for use in capital expenditures related to approved fleet expansion amounting to \$0.5 million and \$11.6 million, respectively, as of September 30, 2019, and \$0.5 million and nil, respectively, as of December 31, 2018.

The following table provides a reconciliation of the amount of cash and cash equivalents reported on the condensed consolidated balance sheets to the total of cash and cash equivalents and restricted cash shown on the consolidated statements of cash flows (*in thousands*):

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Cash and cash equivalents	\$ 20,712	\$ 29,529
Restricted cash	12,084	507
Cash and cash equivalents and restricted cash	<u>\$ 32,796</u>	<u>\$ 30,036</u>

### ***Inventory***

Inventory consists of proppant, chemicals, and other consumable materials and supplies used in our high-pressure hydraulic fracturing operations. Inventories are stated at the lower of cost or net realizable value. Cost is determined principally on a first-in-first-out cost basis. All inventories are purchased for use by the Company in the delivery of its services with no inventory being sold separately to outside parties. Inventory quantities on hand are reviewed regularly and write-downs for obsolete inventory are recorded based on our forecast of the inventory item demand in the near future. As of September 30, 2019 and December 31, 2018, the Company had reserves of \$0.3 million and \$0.6 million, respectively, for obsolete and slow-moving inventory.

In certain contracts with our proppant vendors, we take ownership of proppant as it leaves the sand mines. These in transit inventories are recognized as part of Inventory in our condensed consolidated balance sheets. As of September 30, 2019 and December 31, 2018, in transit inventories were nil and \$0.3 million, respectively.

### ***Fair Value of Financial Instruments***

Fair value is defined under Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels are defined as follows:

Level 1—inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—inputs are unobservable for the asset or liability.

The following is a summary of the carrying amounts and estimated fair values of our financial instruments as of September 30, 2019 and December 31, 2018:

*Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and other current liabilities.* These carrying amounts approximate fair value because of the short maturity of the instruments or because the carrying value is equal to the fair value of those instruments on the balance sheet dates.

*Senior Secured Term Loan and Second Lien Term Loan.* The carrying value of the Senior Secured Term Loan and Second Lien Term Loan approximates fair value as its terms are consistent with and comparable to current market rates as of September 30, 2019 and December 31, 2018, respectively.

*Equipment financing.* The carrying value of the equipment financing approximates fair value as its terms are consistent with and comparable to current market rates as of September 30, 2019 and December 31, 2018, respectively.

### ***Revenue Recognition***

Effective January 1, 2019, the Company adopted a comprehensive new revenue recognition standard, ASC 606, *Revenue from Contracts with Customers*. The details of the significant changes to accounting policies resulting from the adoption of the new standard are set out below. The Company adopted the standard using a modified retrospective method, allowing the Company to apply the cumulative effect of the standard in the most current period presented as an adjustment to retained earnings. As a result of the change in accounting principle, the Company recorded a \$0.1 million increase in retained earnings due to the timing of expense recognition related to certain sales commissions considered to be costs of acquiring customer contracts.

Under the new standard, revenue recognition is based on the customer's ability to benefit from the services rendered in an amount that reflects the consideration expected to be received in exchange for those services. Taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore excluded from revenues in the Company's financial statements.

The Company's revenues consist of providing hydraulic fracturing services for either a pre-determined term or number of stages/wells to exploration and production companies operating in the onshore oil and natural gas basins of the United States. Revenues are earned as services are rendered, which is generally on a per stage or fixed monthly rate basis. Customers are invoiced according to contract terms either upon the completion of a stage, the completion of a well or monthly with payment due typically 30 days from invoice date.

Hydraulic fracturing is a well-stimulation technique intended to optimize hydrocarbon flow paths during the completion phase of wellbores. The process involves the injection of water, sand and chemicals under high pressure into shale formations. The Company's performance obligations are satisfied over time, typically measured in number of stages completed or the number of pumping days a fleet is available to pump for a customer in a month. A field ticket is created for each stage completed that records all services performed, including any chemicals and proppant consumed in completing the stage. The field ticket is signed by a customer representative and evidences the amounts to which the Company has a right to invoice and thus to recognize as revenue. All revenue is recognized when a contract with a customer exists, collectability of amounts subject to invoice is probable, the performance obligations under the contract have been satisfied over time, and the amount to which the Company has the right to invoice has been determined. Contract fulfillment costs, such as mobilization costs and shipping and handling costs, are expensed as incurred and are recorded in cost of services in the unaudited condensed consolidated statements of operations. A portion of the Company's contracts contain variable consideration; however, this variable consideration is typically unknown at the time of contract inception, and is not

known until the job is complete, at which time the variability is resolved. Examples of variable consideration include the amount of consumables (such as chemicals and proppants) that will be used to complete a job.

The Company has elected to use the “as invoiced” practical expedient to recognize revenue based upon the amount it has a right to invoice upon the completion of each performance obligation per the terms of the contract. The practical expedient permits an entity to recognize revenue in the amount to which it has a right to invoice the customer if that amount corresponds directly with the value to the customer of the entity’s performance completed to date. The Company believes that this is an accurate reflection of the value transferred to the customer as each incremental obligation is performed.

The Company has elected to expense sales commissions paid upon the successful signing of a new customer contract as incurred if the related contract will be fully satisfied within one year. For contracts that will not be fully satisfied within one year, these incremental costs of obtaining a contract with a customer will be recognized as a contract asset and amortized on a straight-line basis over the life of the contract.

#### **Accounts Receivable**

Accounts receivable are recorded at their outstanding balances adjusted for an allowance for doubtful accounts. The allowance for doubtful accounts is determined by analyzing the payment history and credit worthiness of each customer. Receivable balances are charged off when they are considered uncollectible by management. Recoveries of receivables previously charged off are recorded as income when received. Accounts receivable charged off against the allowance was \$0.4 million for the three and nine months ended September 30, 2019, and nil for the three and nine months ended September 30, 2018. The Company held a reserve for doubtful accounts of a nominal amount and \$0.2 million as of September 30, 2019 and December 31, 2018, respectively.

#### **Major Customer and Concentration of Credit Risk**

The concentration of our customers in the oil and natural gas industry may impact our overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic and industry conditions. We perform ongoing credit evaluations of our customers and do not generally require collateral in support of our trade receivables.

The following table shows the percentage of revenues from our significant customers for the three and nine months ended September 30, 2019 and 2018:

	<b>Three Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Customer A	*	30.5%
Customer B	*	17.9%
Customer C	*	10.6%
Customer D	16.1%	15.1%
Customer E	*	15.7%
Customer F	21.8%	*
Customer G	20.0%	*
Customer H	10.1%	*
Customer I	*	10.1%

  

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Customer A	10.9%	28.9%
Customer B	*	21.3%
Customer C	*	11.3%
Customer D	17.4%	13.3%
Customer E	*	12.9%
Customer F	16.3%	*
Customer G	16.9%	*

*An asterisk indicates that revenue is less than ten percent.*

The following table shows the percentage of trade receivables from our significant customers as of September 30, 2019 and December 31, 2018:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Customer A	*	18.4%
Customer B	*	17.7%
Customer C	*	10.8%
Customer D	*	26.1%
Customer E	17.1%	*
Customer F	10.3%	13.0%
Customer G	41.1%	*

*An asterisk indicates that trade receivable is less than ten percent.*

#### ***Fair Value of Preferred Stock***

The fair value of preferred stock is estimated by calculating the present value of its one-year redemption cost to the Company and then discounted for lack of marketability.

#### ***Embedded Conversion Features***

The Company evaluates embedded conversion features within a convertible instrument under ASC 815 *Derivatives and Hedging* to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings. If the conversion feature does not require treatment under ASC 815, the instrument is evaluated under ASC 470-20 *Debt with Conversion and Other Options* for consideration of any beneficial conversion features.

The Company records a beneficial conversion feature (“BCF”) when the convertible instrument is issued with conversion features at fixed or adjustable rates that are below market value when issued. The BCF for convertible instruments is recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The intrinsic value is generally calculated at the commitment date as the difference between the conversion price and the fair value of the common stock or other securities into which the security is convertible, multiplied by the number of shares into which the security is convertible. If certain other securities are issued with the convertible security, the proceeds are allocated among the different components. The portion of the proceeds allocated to the convertible security is divided by the contractual number of the conversion shares to determine the effective conversion price, which is used to measure the BCF. The effective conversion price is used to compute the intrinsic value. The value of the BCF is limited to the basis that is initially allocated to the convertible security.

The BCF for the convertible instrument is recorded as a reduction, or discount, to the carrying amount of the convertible instrument equal to the fair value of the conversion feature. The discount is then amortized as deemed dividends over the period from the date of the convertible instrument’s issuance to the earliest redemption date, provided that the convertible instrument is not currently redeemable but probable of becoming redeemable in the future.

#### ***Warrants Issued with Convertible Instruments***

The Company calculates the fair value of warrants issued with the convertible instruments using the Black-Scholes valuation method. The Company allocates the value of the proceeds received from a convertible instrument transaction between the conversion feature and any other detachable instruments (such as warrants) on a relative fair value basis. The allocated fair value is recorded as discount or premium.

### ***Income Taxes***

Prior to the completion of the Transaction, the Company was a limited liability company and treated as a partnership for federal and certain state income tax purposes. As such, the results of operations were allocated to the members for inclusion in their income tax returns and therefore no provision or benefit for federal or certain state income taxes was included in our financial statements prior to the completion of the Transaction.

The Company, under ASC 740, uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (ii) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at September 30, 2019. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is subject to income tax examinations by major taxing authorities since inception.

### **NOTE 3 – ACCOUNTING STANDARDS**

#### ***Recently Adopted Accounting Pronouncements***

The Company is an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933, as amended, (the “Securities Act”), as modified by the Jumpstart our Business Startups Act of 2012, (the “JOBS Act”), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company’s financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. The new guidance will be effective for emerging growth companies for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019; however, early adoption is permitted. The Company adopted this new guidance as of April 1, 2019 which resulted in the presentation of the cash portion of the loss on extinguishment of debt amounting to \$6.6 million as cash used in financing activities rather than operating activities in the condensed consolidated statement of cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* and subsequent amendments thereto. This pronouncement requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods and services. The new guidance will be effective for emerging growth companies for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019; however, early adoption is permitted. The Company adopted the guidance on January 1, 2019 which did not have a material impact on the condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-1, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new guidance will be effective for emerging growth companies for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company adopted the guidance as of January 1, 2019 which did not have an impact on the condensed consolidated financial statements.

#### ***Recent Accounting Pronouncements Not Yet Adopted***

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* and subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842). Topic 842 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. We expect to adopt Topic 842 using the effective date of January 1, 2021 as the date of our initial application of the standard. We are currently evaluating the impact of our adoption of Topic 842 on our consolidated financial statements. We expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of Topic 842, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption. The Company will use the modified retrospective with applied transition method upon adoption of the standard. Under this adoption method, all leases that are in effect and in existence as of, and subsequent to transition date will be applied as of the transition date, with a cumulative impact to retained earnings in that period. Prior period financial statements would be stated under the old guidance ASC 840 with no change to prior periods or disclosures associated with prior period.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which changes the impairment model for most financial assets and certain other instruments. Specifically, this new guidance requires using a forward-looking, expected loss model for trade and other receivables, held-to-maturity debt securities, loans and other instruments. This will replace the currently used model and may result in an earlier recognition of allowance for losses. The new guidance will be effective for emerging growth companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the second step of the previous two-step quantitative test of goodwill impairment. Under the new guidance, the quantitative test consists of a single step in which the carrying amount of the reporting unit is compared to its fair value. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the amount of the impairment would be limited to the total amount of goodwill allocated to the reporting unit. The guidance does not affect the existing option to perform the qualitative assessment for a reporting unit to determine whether the quantitative impairment test is necessary. The new guidance will be effective for emerging growth companies for fiscal years beginning after December 15, 2021; however, early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

**NOTE 4 – PREPAIDS AND OTHER CURRENT ASSETS**

Prepays and other current assets as of September 30, 2019 and December 31, 2018 consisted of the following *(in thousands)*:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Prepaid insurance	\$ 10,937	\$ 6,011
Recoverable costs from insurance	-	3,540
Sales tax receivable	781	1,987
Other receivables	-	895
Income tax receivable	810	810
Other current assets	2,339	3,194
<b>Total prepaid expenses and other current assets</b>	<b>\$ 14,867</b>	<b>\$ 16,437</b>

In March 2017, some of our turbine equipment that we use to operate our Clean Fleets were damaged in an accident. As a result, we incurred costs primarily to rent replacement equipment in order to continue our operations. Recoverable costs from insurance as of December 31, 2018 included costs of \$2.9 million we incurred as of December 31, 2018, which was recovered from the insurance company in January 2019.

In June 2018, we experienced a fire on one of our conventional hydraulic fracturing fleets operating in Pennsylvania, damaging a portion of hydraulic fracturing equipment. We received insurance proceeds during the nine months ended September 30, 2019 amounting to \$2.4 million as final settlement to cover the cost of replacing damaged equipment and reimbursement of certain operating expenses incurred due to the fire. Of this amount, reimbursement of certain expenses incurred in the prior year amounting to \$1.6 million was recorded as other income in the condensed consolidated statement of operations for the nine months ended September 30, 2019.

**NOTE 5 – INTANGIBLE ASSETS**

A summary of intangible assets as of September 30, 2019 and December 31, 2018 consisted of the following *(in thousands)*:

	<b>Estimated Useful Life (in years)</b>	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>As of September 30, 2019</b>				
Order backlog	3	\$ 15,345	\$ 15,345	\$ -
Trademarks	10	3,132	835	2,297
Patents	20	22,955	3,061	19,894
Covenants not to compete	2	1,524	1,524	-
Customer relationship	1	132	132	-
		<u>\$ 43,088</u>	<u>\$ 20,897</u>	<u>\$ 22,191</u>
<b>As of December 31, 2018</b>				
Order backlog	3	\$ 15,345	\$ 10,742	\$ 4,603
Trademarks	10	3,132	600	2,532
Patents	20	22,955	2,200	20,755
Covenants not to compete	2	1,524	1,524	-
Customer relationship	1	132	132	-
		<u>\$ 43,088</u>	<u>\$ 15,198</u>	<u>\$ 27,890</u>

The intangible assets are amortized over the period the Company expects to receive the related economic benefit. Amortization expense related to amortizable intangible assets for the three months ended September 30, 2019 and 2018 was \$1.9 million and \$2.1 million, respectively, and is included as part of depreciation and amortization in the consolidated statements of operations. Amortization expense related to amortizable intangible assets for the nine months ended September 30, 2019 and 2018 was \$5.7 million and \$6.3 million, respectively.

The estimated amortization expense for future periods is as follows (*in thousands*):

Fiscal Year	Estimated Amortization Expense
Remainder of 2019	\$ 365
2020	1,461
2021	1,461
2022	1,461
2023	1,461
Thereafter	15,982
<b>Total</b>	<b>\$ 22,191</b>

**NOTE 6 – PROPERTY AND EQUIPMENT, NET**

Property and equipment as of September 30, 2019 and December 31, 2018 consisted of the following (*in thousands*):

	Estimated Useful Life (in years)	September 30, 2019	December 31, 2018
		\$	\$
Fracturing equipment	1.5 to 25 years	642,410	449,685
Light duty vehicles	5 years	7,940	6,455
Furniture and fixtures	5 years	277	231
IT equipment	3 years	6,721	5,339
Auxiliary equipment	2 to 20 years	36,968	24,118
Leasehold improvements	Term of lease	725	335
		695,041	486,163
Less: Accumulated depreciation and amortization		(233,512)	(154,776)
<b>Property and equipment, net</b>		<b>\$ 461,529</b>	<b>\$ 331,387</b>

Depreciation and amortization expense for the three months ended September 30, 2019 and 2018 was \$37.8 million and \$24.7 million, respectively. Depreciation and amortization expense for the nine months ended September 30, 2019 and 2018 was \$112.2 million and \$71.2 million, respectively.

*Capital leases.* In November 2018 and January 2019, we entered into two capital leases. The equipment under the capital lease in November 2018 was received at the end of December 2018 and placed into service in 2019. The total amount capitalized under these capital leases was \$29.8 million, presented as part of fracturing equipment in property and equipment, and the related accumulated depreciation was \$17.1 million and nil as of September 30, 2019 and December 31, 2018, respectively.

In January 2019, through equipment financing, we purchased certain equipment that were previously under capital leases entered into in August and September 2017. As a result, a difference of \$0.1 million between the purchase price and the carrying amount of the capital lease obligation was recorded as adjustment to the carrying amount of the equipment. The total amount capitalized under this equipment financing was \$7.6 million, presented as part of fracturing equipment in property and equipment.

The future minimum lease payments related to the capital leases as of September 30, 2019 amounts to \$15.2 million, of which \$9.3 million and \$5.9 million are due in the remainder of 2019 and in 2020, respectively. Included in these amounts is imputed interest totaling \$0.6 million.

**NOTE 7 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities as of September 30, 2019 and December 31, 2018 consisted of the following *(in thousands)*:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Accrued payroll and benefits	\$ 8,674	\$ 7,087
Accrued taxes	7,472	8,119
Accrued interest	11,090	-
Other current liabilities	2,217	1,838
Accrued expenses and other current liabilities	<u>\$ 29,453</u>	<u>\$ 17,044</u>

**NOTE 8 – NOTES PAYABLE**

On September 15, 2019, the Company obtained insurance for its workers' compensation, pollution, umbrella, general liability, and auto coverage needs. The Company made an initial down payment and entered into a premium finance agreement with a credit finance institution to pay the remainder of the premiums. The aggregate amount of the premiums financed was \$9.1 million at an interest rate of 4.75%. Under the terms of the agreement, the Company agreed to pay 15 equal monthly payments of \$0.6 million beginning October 15, 2019 through maturity on December 15, 2020. The payments include interest expense of \$0.3 million. The note had an outstanding balance of \$9.1 million as of September 30, 2019, of which \$7.2 million was due within one year from the balance sheet date.

Notes payable outstanding as of December 31, 2018 totaling \$4.6 million relating to premium finance agreements for the Company's directors and officers liability, workers' compensation, pollution, umbrella, general liability, and auto coverage needs were paid in full as of September 30, 2019.

**NOTE 9 – DEBT**

Long-term debt as of September 30, 2019 and December 31, 2018 consisted of the following *(in thousands)*:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Senior Secured Term Loan	\$ 250,000	\$ -
ABL Credit Facility	40,109	-
First Lien Credit Facility	-	\$ 55,975
Second Lien Term Loan	-	40,000
Equipment financing	19,812	11,567
Capital leases	14,616	25,338
Total debt	<u>324,537</u>	<u>132,880</u>
Unamortized discount on debt and debt issuance costs	(9,955)	(3,963)
Current maturities	<u>(26,172)</u>	<u>(29,501)</u>
Net Long-term debt	<u>\$ 288,410</u>	<u>\$ 99,416</u>

*Senior Secured Term Loan*

On May 7, 2019, USWS LLC (the "Borrower"), a subsidiary of the Company, and all of the other subsidiaries of the Company entered into a \$250.0 million Senior Secured Term Loan Credit Agreement (as amended, the "Senior Secured Term Loan"). The Company is required to make quarterly principal payments of 2.0% per annum of the initial principal balance, commencing on January 15, 2020, with final payment due at maturity on May 7, 2024.

The Senior Secured Term Loan will bear interest at a variable rate per annum equal to the applicable LIBOR rate, subject to a 2.0% floor, plus 8.25%.

The Senior Secured Term Loan is not subject to financial covenants but is subject to certain non-financial covenants, including but not limited to reporting, insurance, notice and collateral maintenance covenants as well as limitations on the incurrence of indebtedness, permitted investments, liens on assets, dispositions of assets, paying dividends, transactions with affiliates, mergers and consolidations.

The Senior Secured Term Loan requires mandatory prepayments upon certain dispositions of property or issuance of other indebtedness, as defined, and quarterly a percentage of excess cash flow, if any, equal to 25% to 100% (depending on total debt outstanding) commencing in September 2019. Certain mandatory prepayments (excluding excess cash flows sweep) and optional prepayments are subject to a yield maintenance fee for the first two years and prepayment premium of 2% in year three and 1% in year four. Upon the final payment and termination of the Senior Secured Term Loan, the Borrower is subject to an exit fee equal to 2.0% of the principal amount of loans then outstanding and the aggregate optional prepayment of principal amounts repaid during the 120 days that occurred prior to such final payment.

Proceeds from the Senior Secured Term Loan were used to repay the outstanding balances of the First Lien Credit Facility, Second Lien Term Loan, and certain equipment financings, fund a cash account reserved solely for future expansion capital expenditures, and pay associated fees and expenses. The First Lien Credit Facility and Second Lien Term Loan were both terminated and accounted for as debt extinguishments which resulted in a \$6.5 million loss on early repayment of debt, write off of \$1.7 million of unamortized debt issue costs related to the First Lien Credit Facility and write off of \$4.3 million of unamortized original issue discount and debt issuance costs related to the Second Lien Term Loan, all of which were presented as part of loss on extinguishment of debt in the condensed consolidated statement of operations.

The Senior Secured Term Loan was issued at a \$5.0 million discount and the Company incurred \$5.8 million in debt issuance costs with both amounts recorded as a direct deduction to the face amount of the Senior Secured Term Loan. The debt issuance costs and debt discount related to the Senior Secured Term Loan are being amortized to interest expense based on the effective interest rate method over the term of the Senior Secured Term Loan.

As of September 30, 2019, the outstanding principal balance of the Senior Secured Term Loan was \$250.0 million, of which \$5.0 million was due within one year from the balance sheet date.

#### *ABL Credit Facility*

On May 7, 2019, the Company entered into a \$75.0 million ABL Credit Agreement (the "ABL Credit Facility") which matures on February 6, 2024. The ABL Credit Facility is subject to a borrowing base which is calculated based on a formula referencing the Loan Parties' eligible accounts receivables. Borrowings under the ABL Credit Facility bear interest at LIBOR, plus an applicable LIBOR rate margin of 1.5% to 2.0% or base rate margin of 0.5% to 1.0% as defined in the ABL Credit Facility. The unused portion of the ABL Credit Facility is subject to an unused commitment fee of 0.250% to 0.375%.

All borrowings under the ABL Credit Facility are subject to the satisfaction of customary conditions, including the absence of a default and the accuracy of representations and warranties and certifications regarding sales of certain inventory, and to a borrowing base (described above). In addition, the ABL Credit Facility includes a consolidated fixed charge coverage ratio of 1.00 to 1.00 but only when a financial covenant trigger period is in effect as defined in the ABL Credit Agreement. Borrowings under the ABL Credit Facility are fully and unconditionally guaranteed jointly and severally by the Loan Parties, other than future unrestricted subsidiaries.

In connection with the ABL Credit Facility, the Company incurred \$1.2 million in debt issuance costs, recorded as deferred financing costs, net in the condensed consolidated balance sheet. Debt issuance costs related to the ABL Credit Facility are being amortized to interest expense ratably over the term of the ABL Credit Facility.

As of September 30, 2019, the borrowing base was \$68.8 million and the outstanding revolver loan balance was \$40.1 million, classified as long-term debt in the condensed consolidated balance sheets.

#### *Equipment Financing*

From 2016 through 2019, the Company entered into security agreements with financing institutions for the purchase of certain fracturing equipment. As of September 30, 2019 and December 31, 2018, these financing agreements with maturities through 2023 had a total balance of \$19.8 million and \$11.6 million, respectively, of which \$7.9 million and \$3.3 million, respectively, was due within one year.

The weighted average interest rate for these agreements was 6.4% and 6.3% per annum as of September 30, 2019 and December 31, 2018, respectively.

*Payments of Debt Obligations due by Period*

Presented in the following table is a schedule of the repayment requirements of long-term debt as of September 30, 2019 (*in thousands*):

	<b>Principal Amount of Long-term Debt</b>
Remainder of 2019	\$ 12,762
2020	17,416
2021	10,594
2022	9,157
2023	5,749
Thereafter	268,859
<b>Total</b>	<b>\$ 324,537</b>

**NOTE 10 – MEZZANINE EQUITY**

***Series A Convertible Redeemable Preferred Stock***

The Company is authorized to issue up to 10,000,000 shares of preferred stock, par value \$0.0001 per share. On May 23, 2019, the Company entered into a Purchase Agreement (the “Purchase Agreement”) with certain institutional investors (collectively, the “Purchasers”) to issue and sell in a private placement 55,000 shares of newly created series of convertible redeemable preferred stock of the Company (“Series A preferred stock”), for an aggregate purchase price of \$1,000 per share, for total gross proceeds of \$55.0 million.

At the initial closing on May 24, 2019 (“Closing Date”), the Purchasers purchased all of the Series A preferred stock and 2,933,333 initial warrants exercisable for shares of Class A common stock. Subject to there being Series A preferred stock outstanding, the Company will issue an additional 4,399,992 warrants to the Purchasers in quarterly installments of 488,888 warrants beginning nine months after the Closing Date. Crestview III USWS, L.P. and Crestview III USWS TE, LLC, two of the Purchasers, are part of an affiliate group which, prior to the Closing Date, held an aggregate 29.80% ownership interest in the Company and is entitled to designate for nomination by the Company for election two directors to serve on the Company’s Board of Directors.

Holders of shares of Series A preferred stock are entitled to receive cumulative dividends, compounding and accruing quarterly in arrears, from the Closing Date until the second anniversary of the Closing Date, at an annual rate of 12.0%, and thereafter, 16% of the stated value of \$1,000 per share, subject to increase in connection with the payment of dividends in kind. Dividends are payable, at the Company’s option, in cash from legally available funds or in kind by increasing the stated value of the outstanding Series A preferred stock by the amount per share of the dividend on February 24, May 24, August 24, and November 24 of each year. On August 24, 2019, the Company’s Board of Directors did not declare a dividend on the Series A preferred stock resulting in the dividends for this period being paid-in-kind in accordance with the Series A preferred stock’s Certificate of Designations.

The Series A preferred stock is redeemable by the Company at any time for cash equal to the stated value per share on the date of redemption, except for a redemption occurring prior to the nine-month anniversary of the Closing Date, in which case the redemption price shall be \$1,092.73 per share. If the Company notifies the holders that it has elected to redeem the Series A preferred stock, the holder may instead elect to convert such shares into Class A common stock. If the Company funds the redemption with proceeds of an equity offering within one year of the Closing Date, then any converting shares will convert at a ratio that is based on the higher of the price to the public in the offering or the ordinary conversion price of \$6.67. Otherwise, such converting shares will convert by reference to the ordinary conversion price. In any event, the Series A preferred stock converting in response to a redemption notice will net settle for a combination of cash and Class A common stock.

Following the first anniversary of the Closing Date, each holder of Series A preferred stock may convert all or any portion of its shares of Series A preferred stock into Class A common stock based on the then-applicable liquidation preference at a conversion price of \$6.67, subject to anti-dilution adjustments, at any time, but not more than once per quarter, so long as any conversion is for at least \$1.0 million.

The Company has the option to force a conversion of any then outstanding Series A preferred stock following the third anniversary of the Closing Date, and contingent upon (i) the closing price of the Company's Class A common stock being greater than 130 % of the Conversion Price for 20 trading days during any 30-day consecutive trading day period, (ii) the average daily trading volume of the Class A common stock exceeding 250,000 for 20 trading days and (iii) the Company having an effective registration statement on file with the Securities and Exchange Commission ("SEC") covering resales of the underlying Class A common stock to be received upon such conversion

In connection with the Series A preferred stock offering, there were 55,000 shares of Series A preferred stock and 2,933,333 warrants outstanding as of September 30, 2019. The Series A preferred stock was recorded as Mezzanine Equity, net of issuance cost, on the condensed consolidated balance sheets because it has redemption features upon certain triggering events that are outside the Company's control, such as change in control.

The Company has determined that the warrants should be accounted as a component of stockholders' equity. On the Closing Date, the Company estimated the fair value of the warrants at \$12.8 million using the Black-Scholes option pricing model using the following primary assumptions: contractual term of 6.5 years, volatility rate of 53.0%, risk-free interest rate of 2.2% and expected dividend rate of 0%. Based on the warrant's relative fair value to the fair value of the Series A preferred stock, approximately \$10.8 million of the \$12.8 million of aggregate value was allocated to the warrants, creating a corresponding preferred stock discount in the same amount.

Due to the reduction of allocated proceeds to Series A preferred stock, the effective conversion price was approximately \$5.40 per share creating a beneficial conversion feature of \$20.1 million which further reduced the carrying value of the Series A preferred stock. Since the Holders' conversion option of the Series A preferred stock could only be exercisable after the first anniversary of the Closing Date, the discount resulting from the beneficial conversion feature will be accreted over one year as deemed preferred dividends using the effective yield method, resulting in a corresponding increase in the carrying value of the Series A preferred stock over the same time period.

The Series A preferred stock had similar characteristics of an "Increasing Rate Security" as described by SEC Staff Accounting Bulletin Topic 5Q, Increasing Rate Preferred Stock. As a result, the discount on Series A preferred stock is considered an unstated dividend cost that is amortized over the period preceding commencement of the perpetual dividend using the effective interest method, by charging imputed dividend cost against retained earnings, or additional paid in capital in the absence of retained earnings, and increasing the carrying amount of the Series A preferred stock by a corresponding amount. The discount is therefore being amortized over two years using the effective yield method. The amortization in each period is the amount which, together with the stated dividend in the period, results in a constant rate of effective cost with regard to the carrying amount of the Series A preferred stock.

## **NOTE 11 – STOCKHOLDERS' EQUITY**

### ***Shares Authorized and Outstanding***

#### *Preferred Stock*

At the Closing Date and pursuant to the Purchase Agreement, as defined in "Note 10 – Mezzanine Equity", the Company adopted and filed with the Secretary of State of the State of Delaware the Certificate of Designations as an amendment to the Company's Second Amended and Restated Certificate of Incorporation (as amended, the "Charter") to authorize and establish the rights, preferences and privileges of the preferred stock. The preferred stock are a new class of equity interests that rank senior to the Class A common stock and Class B common stock in the Company with respect to distributions. The preferred stock will have only specified voting rights, including with respect to the issuance or creation of senior securities, amendments to the Charter that negatively impact the rights of the preferred stock and the payment of dividends on, repurchase or redemption of Class A common stock.

The Company is authorized to issue 10,000,000 shares of preferred stock with a par value of \$0.0001 per share with such designation, rights and preferences as may be determined from time to time by the Company's Board of Directors. At September 30, 2019 and December 31, 2018, there were 55,000 and no shares, respectively, of convertible redeemable preferred stock issued and outstanding.

#### *Class A Common Stock*

The Company is authorized to issue 400,000,000 shares of Class A common stock with a par value of \$0.0001 per share. At September 30, 2019 and December 31, 2018, there were 54,588,775 and 49,254,760 shares of Class A common stock issued and outstanding, respectively. At September 30, 2019, 1,000,000 outstanding shares of Class A common stock were subject to cancellation on November 9, 2024, unless the closing price per share of the Class A common stock has equaled or exceeded \$12.00 for any 20

trading days within any 30-trading day period, and 609,677 outstanding shares of Class A common stock were subject to the same cancellation provision, but at a closing price per share of \$13.50.

#### *Class B Common Stock*

The Company is authorized to issue 20,000,000 shares of Class B common stock with a par value of \$0.0001 per share. The shares of Class B common stock are non-economic; however, holders are entitled to one vote per share. Each share of Class B common stock, together with one unit of USWS Holdings, is exchangeable for one share of Class A common stock or, at the Company's election, the cash equivalent to the market value of one share of Class A common stock.

In June 2019, 161,932 shares of Class B common stock were converted to an equivalent number of shares of Class A common stock. As of September 30, 2019 and December 31, 2018, there were 13,775,400 and 13,937,332 shares, respectively, of Class B common stock issued and outstanding.

#### *Warrants*

Prior to the Transaction, 32,500,000 warrants were issued pursuant to our initial public offering and 15,500,000 warrants were sold simultaneously to Matlin & Partners Acquisition Sponsor, LLC (the "Sponsor") and Cantor Fitzgerald (the "Underwriter"). Each warrant entitles its holder to purchase one half of one share of Class A common stock at an exercise price of \$5.75 per half share, to be exercised only for a whole number of shares of our Class A common stock. The warrants became exercisable 30 days after the completion of the Transaction and expire five years after that date or earlier upon redemption or liquidation. Once the warrants became exercisable, the Company may redeem the outstanding warrants at a price of \$0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if the last sale price of the Company's common stock equals or exceeds \$24.00 per share for any 20 trading days within a 30-trading day period ending on the third business day before the Company sends the notice of redemption to the warrant holders. The private placement warrants, however, are nonredeemable so long as they are held by the Sponsor, the Underwriter or their permitted transferees.

In March 2019, the Company entered into privately negotiated warrant exchange agreements with certain warrant holders to exchange 10,864,391 public warrants for Class A common stock at a ratio of 0.13 Class A common shares per warrant. In April 2019, pursuant to a previously announced public warrant exchange offer on March 14, 2019, the Company exchanged an additional 11,640,974 public warrants for Class A common stock at a ratio of 0.13 Class A common shares per warrant. As a result of the private and public warrant exchanges, our issued and outstanding Class A common stock increased by 2,925,712 shares. In May 2019, in connection with the Purchase Agreement, as defined in "Note 10 – Mezzanine Equity", the Company issued 2,933,333 initial warrants to certain institutional investors and will issue the remaining 4,399,992 warrants to them in quarterly installments beginning nine months after the initial closing date.

As of September 30, 2019, there remained 9,994,635 public warrants and 15,500,000 private placement warrants outstanding, the total of both are exercisable for 12,747,318 shares of Class A common stock, and 2,933,333 initial warrants issued and outstanding pursuant to the Series A preferred stock Purchase Agreement as disclosed in "Note 10 – Mezzanine Equity", which are exercisable for 2,933,333 shares of Class A common stock.

#### *Noncontrolling Interest*

The Company's noncontrolling ownership interest in consolidated subsidiaries is presented in the condensed consolidated balance sheet within shareholders' equity as a separate component and represents approximately 20.2% ownership of USWS Holdings as of September 30, 2019.

#### *Long-Term Incentive Plan*

In connection with the Transaction, the Company's Board of Directors adopted the U.S. Well Services, Inc. 2018 Long Term Incentive Plan (the "LTIP"). An aggregate 8,160,500 shares of Class A common stock were initially available for issuance under the LTIP. Shares issued under the LTIP are further discussed in "Note 13 - Share-Based Compensation". The aggregate amount of shares available for issuance as of September 30, 2019 was 4,315,967.

## NOTE 12 – EARNINGS (LOSS) PER SHARE

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in the same manner as basic earnings per share except that the denominator is increased to include the number of additional common shares that could have been outstanding assuming the exercise of stock options, exercise of warrants, conversion of Series A preferred shares, conversion of Class B shares and vesting of restricted shares.

Basic and diluted net income per share excludes the income attributable to and shares associated with the 1,609,677 Class A shares that are subject to cancellation on November 9, 2024 if certain market conditions have not been met. The Company included in the calculation deemed dividends resulting from amortization of discounts related to the Series A preferred stock.

The following table sets forth the calculation of basic and diluted earnings per share for the periods indicated based on the weighted average number of common shares outstanding for the period subsequent to the corporate reorganization that occurred in connection with the Transaction (*in thousands, except share and per share amounts*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic Net Income Per Share				
Numerator:				
Net loss attributable to U.S. Well Services, Inc.	\$ (16,969)	\$ (10,544)	\$ (60,720)	\$ (18,573)
Net loss attributable to cancellable Class A shares	527	343	1,924	603
Basic net loss attributable to U.S. Well Services, Inc. shareholders	(16,442)	(10,201)	(58,796)	(17,970)
Dividends accrued on Series A preferred stock	(1,670)	-	(2,330)	-
Deemed and imputed dividends on Series A preferred stock	(4,406)	-	(5,966)	-
Basic net loss attributable to U.S. Well Services, Inc. common shareholders	\$ (22,518)	\$ (10,201)	\$ (67,092)	\$ (17,970)
Denominator:				
Weighted average shares outstanding	51,859,283	49,549,676	50,791,787	49,549,676
Cancellable Class A shares	(1,609,677)	(1,609,677)	(1,609,677)	(1,609,677)
Basic and diluted weighted average shares outstanding	50,249,606	47,939,999	49,182,110	47,939,999
Basic and dilutive net income per share attributable to Class A shareholders	\$ (0.45)	\$ (0.21)	\$ (1.36)	\$ (0.37)

A summary of securities excluded from the computation of diluted earnings per share is presented below for the applicable periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Dilutive earnings per share:				
Anti-dilutive stock options	1,068,162	-	1,068,162	-
Anti-dilutive warrants	15,680,651	-	15,680,651	-
Anti-dilutive restricted stock	2,729,496	-	2,729,496	-
Anti-dilutive Class B shares convertible into Class A common stock	13,775,400	-	13,775,400	-
Anti-dilutive Series A Preferred stock convertible into Class A common stock	8,595,172	-	8,595,172	-
Potentially dilutive securities excluded as anti-dilutive	41,848,881	-	41,848,881	-

## NOTE 13 – SHARE-BASED COMPENSATION

### *Restricted Stock*

The Company granted a total of 2,218,183 shares of restricted stock to certain employees of the Company pursuant to the Company's LTIP during the first quarter of 2019. Restricted stock is subject to restrictions on transfer and is generally subject to a risk of forfeiture if the award recipient is no longer an employee of the Company prior to the lapse of the restriction. During the third quarter of 2019, restricted stock forfeitures related to employee terminations totaled 18,687 shares. The total stock-based compensation cost associated with this award, net of forfeitures, amounts to \$19.5 million and will be recognized over the four-year vesting period.

Rollforward of restricted stock awards as of September 30, 2019 is as follows:

	<b>Unvested</b>	<b>Weighted- average grant-date fair value</b>
Units at beginning of period	530,000	\$ 8.72
Granted	2,218,183	8.91
Vested	-	-
Forfeited	(18,687)	8.91
Units at end of period	<u>2,729,496</u>	<u>\$ 8.87</u>

### *Unrestricted stock*

The Company also granted 46,875 shares of unrestricted Class A common stock under the LTIP during the first quarter of 2019 to certain board members in exchange for their services as a director of the Company, in accordance with the existing compensation plan of the Board of Directors. These shares are fully vested and the weighted-average grant-date fair value per share is \$8.91. Stock-based compensation cost amounting to \$0.4 million associated with this award will be recognized over the one-year requisite service period.

The fair value of the restricted and unrestricted stock granted under the LTIP during the first quarter of 2019 was determined using the closing price of the Company's Class A common stock on the grant date.

### *Stock Options*

The Company granted a total of 1,068,162 stock options under the LTIP to certain employees of the Company during the first quarter of 2019. The fair value of stock options on the date of grant was \$3.95 per option, which was calculated using the Black-Scholes valuation model. These stock options were granted with seven-year terms and vest over four years in equal installments each year on the anniversary of the grant date. The expected term of the options granted was based on the safe harbor rule of the SEC Staff Accounting Bulletin No. 107 "Share-Based Payment" as the Company lacks historical exercise data to estimate the expected term of these options. The expected stock price volatility is calculated based on the Company's peer group because the Company does not have sufficient historical data and will continue to use peer group volatility information until historical volatility of the Company is available to measure expected volatility for future grants. The exercise price for stock options granted equals the closing market price of the underlying stock on the date of grant. These options are time-based and are not based upon attainment of performance goals. Stock based compensation costs totaling \$4.2 million associated with this award will be recognized over the four-year vesting period.

The following table sets forth the assumptions used in the Black-Scholes valuation model:

Expected option term	4.75 years
Expected price volatility	49.0%
Expected dividend yield	0.0%
Risk-free Rate	2.63%
Grant date fair value per share	\$ 3.95
Grant date exercise price per share	\$ 8.91

For the three months ended September 30, 2019, stock-based compensation expense of \$2.3 million related to restricted and unrestricted stock grants and stock option grants was recorded, of which \$0.8 million is presented as part of cost of services, and \$1.5 million presented as part of selling, general, and administrative expenses in the condensed consolidated statement of operations.

For the nine months ended September 30, 2019, stock-based compensation expense of \$5.6 million related to restricted and unrestricted stock grants and stock option grants was recorded, of which \$1.8 million is presented as part of cost of services, and \$3.8 million presented as part of selling, general, and administrative expenses in the condensed consolidated statement of operations.

As of September 30, 2019, total unrecognized compensation cost related to stock-based compensation grants under the LTIP was \$22.8 million. We expect to recognize these costs over a weighted average period of 3.7 years.

#### **NOTE 14 – EMPLOYEE BENEFIT PLAN**

In 2013, the Company established the U.S. Well Services 401(k) Plan. The Company matches 100% of employee contributions up to 6% of the employee's salary, subject to cliff vesting after two years of service. For the three months ended September 30, 2019 and 2018, matching contributions were \$1.1 million and \$0.9 million, respectively. For the nine months ended September 30, 2019 and 2018, matching contributions were \$3.8 million and \$2.5 million, respectively. The matching contributions were included in cost of services and selling, general and administrative expenses in the condensed consolidated statement of operations.

#### **NOTE 15 – INCOME TAXES**

Prior to the completion of the Transaction, the Company was a limited liability company and was taxed as a partnership for federal and certain state income tax purposes. As such, the results of operations were allocated to the members for inclusion in their income tax returns and therefore no provision or benefit for federal or certain state income taxes were included in our financial statements prior to the completion of the Transaction.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions and is subject to examination by the taxing authorities.

The Company's effective tax rate on continuing operations for the nine months ended September 30, 2019 was (0.62)%. The difference between the effective tax rate and the U.S. federal statutory rate is due to state taxes, flow-through income not subject to tax, and a valuation allowance.

We follow guidance issued by the FASB in accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

We have considered our exposure under the standard at both the federal and state tax levels. We did not record any liabilities for uncertain tax positions as of September 30, 2019 or December 31, 2018. We record income tax-related interest and penalties, if any, as a component of income tax expense. We did not incur any material interest or penalties on income taxes.

After consideration of all of the information available, management determined that a valuation allowance was appropriate, as it is more likely than not that the Company will not utilize its net deferred tax assets.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into legislation. As part of the legislation, the U.S. corporate income tax rate was reduced to 21%. Since the Company was previously a flow-through entity, no deferred tax expense was recorded as a result of the reduced tax rate.

## NOTE 16 – COMMITMENTS AND CONTINGENCIES

### *Litigation*

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

### *Sand Purchase Agreements*

The Company entered into agreements for the supply of proppant for use in its hydraulic fracturing operations. Under the terms of these agreements, the Company is subject to minimum purchase quantities on a monthly, quarterly, or annual basis at fixed prices or may pay penalties in the event of any shortfall. As of September 30, 2019, we estimated and accrued for a shortfall in quantities. This accrual is presented as part of accrued liabilities on the condensed consolidated balance sheets.

The following is a schedule of the contracted volumes in dollars and minimum commitments under the proppant supply purchase agreements as of September 30, 2019 (*in thousands*):

	<b>Contracted</b>	<b>Minimum Commitments</b>
Remainder of 2019	\$ 20,038	\$ 5,162
2020	38,992	6,998
2021	25,524	2,448
Total	<u>\$ 84,554</u>	<u>\$ 14,608</u>

The minimum commitments represent the aggregate amounts that we would be obligated to pay in the event we procured no additional proppant under the contracts subsequent to September 30, 2019.

During the first quarter of 2019, we became involved in a contract dispute with a proppant vendor resulting in the cancellation of the contract. Accordingly, as of September 30, 2019, we have excluded \$47.1 million and \$48.0 million of contracted and minimum commitments, respectively, related to this contract. The litigation involving the contract in dispute is in the discovery stage, as such no prediction can be made as to the outcome of the case at this time nor can we reasonably estimate the potential losses or range of losses resulting from this litigation, if any.

### *Operating Lease Agreements*

The Company has various operating leases for facilities with terms ranging from 24 to 76 months.

Rent expense for the three months ended September 30, 2019 and 2018 was \$0.7 million and \$0.6 million, respectively, of which \$0.6 million and \$0.5 million, respectively, are recorded as part of cost of services and \$0.1 million, \$0.1 million, respectively, are recorded as part of selling, general and administrative expenses in the condensed consolidated statements of operations.

Rent expense for the nine months ended September 30, 2019 and 2018 was \$2.0 million and \$1.6 million, respectively, of which \$1.6 million and \$1.4 million, respectively, are recorded as part of cost of services and \$0.4 million, \$0.2 million, respectively, are recorded as part of selling, general and administrative expenses in the condensed consolidated statements of operations.

The following is a schedule of minimum future payments on non-cancellable operating leases as of September 30, 2019 (*in thousands*):

	<b>Gross Amount</b>	<b>Income from Sublease</b>	<b>Net</b>
Remainder of 2019	\$ 435	\$ (43)	\$ 392
2020	1,323	(173)	1,150
2021	651	(178)	473
2022	476	(182)	294
2023	288	(31)	257
Thereafter	325	-	325
<b>Total minimum future rentals, net</b>	<b>\$ 3,498</b>	<b>\$ (607)</b>	<b>\$ 2,891</b>

On April 30, 2019, we entered into an agreement to sublease our old corporate office space. The term of the lease is for a period of 46 months commencing on May 1, 2019, with total rent throughout the term totaling \$0.6 million. The monthly base rent is subject to an escalation clause that is nominal in amount. The Company records rent income on a straight line basis, presented as other income on the condensed consolidated statements of operations.

On October 9, 2019, we entered into an agreement to extend the lease of one our office facilities. The term of the amended lease is for a period of 36 months commencing on November 1, 2019, with total rent throughout the term totaling \$1.3 million.

#### ***Self-insurance***

Beginning June 2014, the Company established a self-insured plan for employees' healthcare benefits except for losses in excess of varying threshold amounts. The Company charges to expense all actual claims made during each reporting period, as well as an estimate of claims incurred, but not yet reported. The amount of estimated claims incurred, but not reported was \$0.4 million and \$0.3 million as of September 30, 2019 and December 31, 2018, respectively, and was reported as accrued expenses in the condensed consolidated balance sheets. We believe that the liabilities we have recorded are appropriate based on the known facts and circumstances and do not expect further losses materially in excess of the amounts already accrued for existing claims.

#### **NOTE 17 – RELATED PARTY TRANSACTIONS**

During the three and nine months ended September 30, 2019, the Company purchased \$3.4 million and \$8.2 million, respectively, in chemicals used for our hydraulic fracturing operations from Rockwater Energy Solutions ("Rockwater"), a subsidiary of Select Energy Services ("Select Energy"). Rockwater is considered a related party since Select Energy and the Company share two board members and a common investor, Crestview Partners ("Crestview"). As of September 30, 2019 and December 31, 2018, the Company had \$3.3 million and \$0.3 million, respectively, in accounts payable owed to Rockwater.

Crestview purchased 20,000 shares of Series A preferred stock for a total payment of \$20.0 million. Along with the Series A preferred stock, Crestview received 1,066,666 initial warrants and the right to receive up to 1,600,002 additional warrants according to the Purchase Agreement as described in "Note 10 – Mezzanine Equity".

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of US Well Services, Inc. together with its subsidiaries (collectively "USWS," "Company," "us," "we," or "our") for the three and nine months ended September 30, 2019 should be read in conjunction with our previous annual report on Form 10-K, and the consolidated financial statements and notes thereto included in our annual reports. The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

### DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q (this "Report") contains "forward-looking statements" as defined in Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward looking statements usually relate to future events, conditions and anticipated revenues, earnings, cash flows or other aspects of our operations or operating results. Forward-looking statements are often identified by the words such as "believes," "expects," "intends," "estimates," "projects," "anticipates," "will," "plans," "may," "should," or the negative thereof. The absence of these words, however, does not mean that these statements are not forward-looking. These are based on our current expectation, belief and assumptions concerning future developments and business conditions and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All of our forward-looking statements involve risks and uncertainties (some of which are significant or beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. These factors include the effectiveness of management's strategies and decisions, our ability to obtain financing, raise capital and continue as a going concern, our ability to implement our internal growth and acquisition growth strategies, general economic and business conditions specific to our primary customers, compliance with our debt agreements and equity-related securities, volatility in market prices, changes in government regulations, our ability to effectively integrate businesses we may acquire, new or modified statutory or regulatory requirements, availability of materials and labor, inability to obtain or delay in obtaining government or third-party approvals and permits, non-performance by third parties of their contractual obligations, unforeseen hazards such as weather conditions, acts of war or terrorist acts and the governmental or military response thereto, cyber-attacks adversely affecting our operations, other geological, operating and economic factors and declining prices and market conditions, including reduced expected or realized oil and gas prices and demand for oilfield services and changes in supply or demand for maintenance, repair and operating products, equipment and service. This Report identifies other factors that could cause such differences. We cannot assure that these are all of the factors that could cause actual results to vary materially from the forward-looking statements. Factors that could cause or contribute to such differences also include, but are not limited to, those discussed in our filings with the SEC, including under "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2019. We caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. We assume no obligation and do not intend to update these forward-looking statements. Unless the context otherwise requires, references in this Report to the "Company", "USWS", "we", or "our" shall mean US Well Services, Inc. and its subsidiaries.*

### Overview

We provide high-pressure, hydraulic fracturing services in oil and natural gas basins. Both our conventional and Clean Fleets hydraulic fracturing fleets are among the most reliable and highest performing fleets in the industry, with the capability to meet the most demanding pressure and pump rate requirements in the industry. We operate in many of the active shale and unconventional oil and natural gas basins of the United States and our clients benefit from the performance and reliability of our equipment and personnel. Specifically, all of our fleets operate on a 24-hour basis and have the ability to withstand the high utilization rates that result in more efficient operations. Our senior management team has extensive industry experience providing pressure pumping services to exploration and production companies across North America.

We were originally formed in March 2016 as a special purpose acquisition company under the name Matlin & Partners Acquisition Corporation for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination involving one or more businesses. On November 9, 2018, we completed the Transaction with USWS Holdings. As part of the Transaction, we changed our name from Matlin & Partners Acquisition Corporation to U.S. Well Services, Inc. Following the completion of the Transaction, substantially all of our assets and operations are held and conducted by USWS Holdings and its subsidiaries, including U.S. Well Services, LLC, and our only assets are equity interests in USWS Holdings. We own a majority of the economic and voting interests of USWS Holdings and are the sole manager of USWS Holdings.

## How the Company Generates Revenue

We generate revenue by providing hydraulic fracturing services to our customers. We own and operate a fleet of hydraulic fracturing units to perform these services. We have written contractual arrangements with our customers. Under these contracts, we charge our customers base monthly rates, adjusted for activity and provision of materials such as proppant and chemicals or we charge a per stage amount based on the nature of the stage including well pressure, sand and chemical volumes and transportation.

## Our Costs of Conducting Business

The principal costs involved in conducting our hydraulic fracturing services are materials, transportation, labor and maintenance costs. A large portion of our costs are variable, based on the number and requirements of hydraulic fracturing jobs. We manage our fixed costs, other than depreciation and amortization, based on factors including industry conditions and the expected demand for our services.

Materials include the cost of sand delivered to the basin of operations, chemicals, and other consumables used in our operations. These costs vary based on the quantity and quality of sand and chemicals utilized when providing hydraulic fracturing services. Transportation represents the costs to transport materials and equipment from receipt points to customer locations. Labor costs include payroll and benefits related to our field crews and other employees. A majority of our employees are paid on an hourly basis. Maintenance costs include preventative and other repair costs that do not require the replacement of major components of our hydraulic fracturing fleets. Maintenance and repair costs are expensed as incurred.

The following table presents our cost of services for the three and nine months ended September 30, 2019 and 2018 (in thousands):

### Cost of Services

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Materials	\$ 18,136	\$ 44,768	\$ 63,726	\$ 150,995
Transportation	9,881	23,264	37,219	71,137
Labor	29,384	27,158	97,081	75,703
Maintenance	16,356	17,189	50,244	53,852
Other	17,035	25,073	59,571	75,556
<b>Cost of services</b>	<b>\$ 90,792</b>	<b>\$ 137,452</b>	<b>\$ 307,841</b>	<b>\$ 427,243</b>

## Results of Operations

Three months ended September 30, 2019, compared to three months ended September 30, 2018

(in thousands, except percentages)

	Three Months Ended September 30,			
	2019	% (1)	2018	% (1)
Revenues	\$ 130,884	100.0%	\$ 166,173	100.0%
Costs and expenses:				
Cost of services (excluding depreciation and amortization)	90,792	69.4%	137,452	82.7%
Depreciation and amortization	39,723	30.3%	26,765	16.1%
Selling, general and administrative expenses	8,216	6.3%	5,248	3.2%
Loss (gain) on disposal of assets	4,976	3.8%	(126)	(0.1)%
Income (loss) from operations	(12,823)	(9.8)%	(3,166)	(1.9)%
Interest expense, net	(8,449)	(6.5)%	(7,387)	(4.4)%
Loss on extinguishment of debt	-	-	-	-
Other income	62	0.0%	9	0.0%
Income tax expense	(39)	(0.0)%	-	-
Net loss	<b>\$ (21,249)</b>	<b>(16.2)%</b>	<b>\$ (10,544)</b>	<b>(6.3)%</b>

(1) As a percentage of revenues.

*Revenues.* Revenues decreased by \$35.3 million, or 21.2%, to \$130.9 million for the three months ended September 30, 2019 from \$166.2 million in the prior corresponding period. The decrease was primarily attributable to more customers self-sourcing lower-margin consumables such as sand, chemicals, and sand transportation, which was partially offset by an increase in higher-margin service and equipment revenue due to improved operational efficiency. The Company expects the industry trend of E&P companies self-sourcing consumables to continue resulting in decreased lower-margin revenues for the Company as compared to years when the Company provided these consumables to its customers.

*Cost of services, excluding depreciation and amortization.* Cost of services, excluding depreciation and amortization, decreased by \$46.7 million, or 34.0%, to \$90.8 million for the three months ended September 30, 2019 from \$137.5 million in the prior corresponding period. The decrease was primarily attributable to revenue mix as discussed above. Cost of services, excluding depreciation and amortization, as a percentage of revenues decreased from 82.7% to 69.4% over this period.

*Depreciation and amortization.* Depreciation and amortization increased by \$12.9 million, or 48.1%, to \$39.7 million for the three months ended September 30, 2019 from \$26.8 million in the prior corresponding period. The increase was primarily due to depreciation related to the four hydraulic fracturing fleets added after the third quarter of 2018.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased by \$3.0 million, or 57.7%, to \$8.2 million for the three months ended September 30, 2019 from \$5.2 million in the prior corresponding period. Of this amount, \$1.4 million was mainly due to head count and salary increases associated with the Company becoming a publicly traded company, and \$1.1 million was due to share based compensation expense associated with awards granted in March 2019. In addition, for the three months ended September 30, 2018, we recorded bad debts recovery amounting to \$0.2 million related to a specific customer.

*Loss (gain) on disposal of assets.* Loss (gain) on disposal of assets increased by \$5.1 million, to \$5.0 million for the three months ended September 30, 2019 from a gain of \$0.1 million in the prior corresponding period. Majority of this increase was due to a gain on disposal recorded in the prior corresponding period amounting to \$4.1 million resulting from the excess of insurance proceeds over net book value of equipment lost in a fire on one of our hydraulic fracturing fleets.

*Interest expense, net.* Interest expense increased by \$1.1 million, or 14.9%, to \$8.5 million for the three months ended September 30, 2019 from \$7.4 million in the prior corresponding period. This increase was primarily attributable to an increase in our average debt balance resulting from the new senior secured term loan, which is described further under "Debt Agreements."

***Nine months ended September 30, 2019, compared to nine months ended September 30, 2018***

*(in thousands, except percentages)*

	<b>Nine Months Ended September 30,</b>			
	<b>2019</b>	<b>% (1)</b>	<b>2018</b>	<b>% (1)</b>
Revenues	\$ 422,075	100.0%	\$ 530,411	100.0%
Costs and expenses:				
Cost of services (excluding depreciation and amortization)	307,841	72.9%	427,243	80.5%
Depreciation and amortization	117,888	27.9%	77,547	14.6%
Selling, general and administrative expenses	24,474	5.8%	14,863	2.8%
Loss on disposal of assets	15,884	3.8%	7,990	1.5%
Income (loss) from operations	(44,012)	(10.4)%	2,768	0.5%
Interest expense, net	(21,384)	(5.1)%	(21,672)	(4.1)%
Loss on extinguishment of debt	(12,558)	(3.0)%	-	-
Other income	1,774	0.4%	331	0.1%
Income tax expense	(469)	(0.1)%	-	-
Net loss	<u>\$ (76,649)</u>	<u>(18.2)%</u>	<u>\$ (18,573)</u>	<u>(3.5)%</u>

(1) As a percentage of revenues.

*Revenues.* Revenues decreased by \$108.3 million, or 20.4%, to \$422.1 million for the nine months ended September 30, 2019 from \$530.4 million in the prior corresponding period. The decrease was primarily attributable to more customers self-sourcing lower-margin consumables such as sand, chemicals, and sand transportation, which was partially offset by an increase in higher-margin service and equipment revenue due to an increase in our active fleet count. The Company expects the industry trend of E&P companies self-sourcing consumables to continue resulting in decreased lower-margin revenues for the Company as compared to years when the Company provided these consumables to its customers.

*Cost of services, excluding depreciation and amortization.* Cost of services, excluding depreciation and amortization, decreased by \$119.4 million, or 27.9%, to \$307.8 million for the nine months ended September 30, 2019 from \$427.2 million in the prior corresponding period. The decrease was primarily attributable to revenue mix as discussed above. Cost of services, excluding depreciation and amortization, as a percentage of revenues decreased from 80.5% to 72.9% over this period.

*Depreciation and amortization.* Depreciation and amortization increased by \$40.3 million, or 51.9%, to \$117.9 million for the nine months ended September 30, 2019 from \$77.6 million in the prior corresponding period. The increase was primarily due to depreciation related to the four hydraulic fracturing fleets added after the third quarter of 2018.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased by \$9.6 million, or 64.4%, to \$24.5 million for the nine months ended September 30, 2019 from \$14.9 million in the prior corresponding period. Of this amount, \$2.6 million was mainly due to head count and salary increases associated with the Company becoming a publicly traded company, and \$2.4 million was due to share based compensation expense associated with awards granted in March 2019. In addition, \$3.6 million was mainly due to higher professional and legal fees associated with the Company becoming a publicly traded company, and \$0.6 million was mainly due to higher travel and lodging to support our growth and increased activity.

*Loss on disposal of assets.* Loss on disposal of assets increased by \$7.9 million, to \$15.9 million for the nine months ended September 30, 2019 from \$8.0 million in the prior corresponding period. Majority of this increase was due to a gain on disposal recorded in the prior corresponding period amounting to \$4.1 million resulting from the excess of insurance proceeds over net book value of equipment lost in a fire on one of our hydraulic fracturing fleets. For the remainder of the increase, the amount of loss on disposal of assets fluctuates period over period due to differences in operating conditions of our hydraulic fracturing equipment such as wellbore pressure and rate of barrels pumped per minute, that impact the timing of disposals of our hydraulic fracturing pump components and amount of gain or loss recognized.

*Interest Expense, net.* Interest expense decreased by \$0.3 million, or 1.4%, to \$21.4 million for the nine months ended September 30, 2019 from \$21.7 million in the prior corresponding period. This decrease was primarily attributable to decrease in average debt balance in the first quarter of 2019 compared to the prior corresponding period resulting from paying off our previous term loan in connection with the Transaction, which was partially offset by an increase in our average debt balance in the second and third quarter of 2019 compared to the prior corresponding periods resulting from the new senior secured term loan obtained in May 2019.

#### Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash on the balance sheet, cash flow generated from operating activities, borrowings under bank credit agreements and availability under our revolving credit facility.

We believe that our current cash position, cash generated from operations, and borrowing capacity from the new ABL Facility (as defined below) will be sufficient to satisfy the anticipated cash requirements associated with our existing operations.

#### Cash Flows

(in thousands)

	Nine Months Ended September 30,	
	2019	2018
Net cash provided by (used in):		
Operating activities	\$ 42,330	\$ 84,114
Investing activities	(193,408)	(50,546)
Financing activities	153,838	(18,689)

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities primarily represents the results of operations exclusive of non-cash expenses, including depreciation, amortization, interest, impairment losses, loss on extinguishment of debt, gains and losses on disposal of assets, and share-based compensation, and the impact of changes in operating assets and liabilities. Net cash provided by operating activities was \$42.3 million for the nine months ended September 30, 2019, a decrease of \$41.8 million from the prior corresponding period. This decrease was primarily attributable to an increase in working capital requirements driven by new fleet deployments during the first half of 2019 and diversification of our customer base with the addition of several new customers. We anticipate net cash provided by operating activities to increase moving forward from cash generated from operations and acceleration of our cash collections

*Net Cash used in Investing Activities.* Net cash used in investing activities primarily relates to the purchase of property and equipment. Net cash used in investing activities was \$193.4 million for the nine months ended September 30, 2019, primarily due to purchases of property and equipment amounting to \$194.1 million, \$59.4 million of which related to maintaining and supporting our existing hydraulic fracturing equipment, \$115.1 million of which related to growth and \$19.6 million of which related to fleet enhancements. The investment spend for the nine months ended September 30, 2019 relates to the addition of three hydraulic fracturing fleets that we placed into service in January, April, and June of 2019, and deposit payments for an expansion fleet which we plan on deploying by early 2020, maintaining and supporting the hydraulic fracturing equipment, and fleet enhancements to our existing hydraulic fracturing equipment.

*Net Cash Provided by Financing Activities.* Net cash provided by financing activities primarily relates to proceeds from our preferred stock offering, revolving credit facility, long-term debt, and notes payable, offset by repayments of amounts under equipment financing arrangements, notes payable, revolver, long-term debt, and principal payments under the finance lease obligations. Net cash provided by financing activities was \$153.8 million for the nine months ended September 30, 2019. During this period, we received proceeds of \$54.5 million from our preferred stock offering, which was net of issue costs, \$49.1 million from our revolving credit facility, \$9.1 million from issuance of notes payable, and \$285.0 million from long-term debt. We also repaid \$4.5 million of debt under notes payable, \$66.9 million of debt under equipment financing arrangements, \$12.4 million of principal under finance lease obligations, \$6.6 million of fees related to debt extinguishment, and \$13.5 million of deferred financing costs. We also repaid \$65.0 million and \$75.0 million of debt under our first lien credit facility and second lien term loan, respectively, and terminated both facilities.

*Capital Expenditures.* Our business requires continual investments to upgrade or enhance existing property and equipment and to ensure compliance with safety and environmental regulations. Capital expenditures primarily relate to maintenance capital expenditures, growth capital expenditures and fleet enhancement capital expenditures. Maintenance capital expenditures include expenditures needed to maintain and to support our current operations. Growth capital expenditures include expenditures to generate incremental distributable cash flow. Fleet enhancement capital expenditures include expenditures on new equipment related to existing fleets that increase the productivity of the fleet. Capital expenditures for growth and fleet enhancement initiatives are discretionary.

We classify maintenance capital expenditures as expenditures required to maintain or supplement existing hydraulic fracturing fleets. We budget maintenance capital expenditures based on historical run rates and current maintenance schedules. Growth capital expenditures relate to adding additional hydraulic fracturing fleets and are based on quotes obtained from equipment manufacturers and our estimate for the timing of placing orders, disbursing funds and receiving the equipment. Fleet enhancement capital expenditures relate to technology enhancements to existing fleets that increase their productivity and are based on quotes obtained from equipment manufacturers and our estimate for the timing of placing orders, disbursing funds and receiving the equipment.

We continuously evaluate our capital expenditures and the amount we ultimately spend will depend on a number of factors, including expected industry activity levels and company initiatives. We intend to fund the majority of our capital expenditures, contractual obligations and working capital needs with cash on hand, cash generated from operations, borrowing capacity under our ABL Facility and other financing sources.

## **Debt Agreements**

### *Senior Secured Term Loan*

We have a \$250.0 million Senior Secured Term Loan that matures in May 2024. The Company is required to make quarterly principal payments of \$1.25 million commencing on January 15, 2020, with final payment due at maturity on May 7, 2024. The Senior Secured Term Loan will bear interest at a variable rate per annum equal to the applicable LIBOR rate, subject to a 2.0% floor, plus 8.25%.

The Senior Secured Term Loan requires mandatory prepayments upon certain dispositions of property or issuance of other indebtedness, as defined, and quarterly a percentage of excess cash flow, if any, equal to 25% to 100% (depending on total debt outstanding) commencing in September 2019. Certain mandatory prepayments (excluding excess cash flows sweep) and optional prepayments are subject to a yield maintenance fee for the first two years and prepayment premium of 2% in year three and 1% in year four. Upon the final payment and termination of the Senior Secured Term Loan, the Borrower is subject to an exit fee equal to 2.00% of the principal amount of loans then outstanding and the aggregate principal amount of loans repaid during the 120 days that occurred prior to such final payment.

The Senior Secured Term Loan is not subject to financial covenants but is subject to certain non-financial covenants, including but not limited to reporting, insurance, notice and collateral maintenance covenants as well as limitations on the incurrence of indebtedness, permitted investments, liens on assets, dispositions of assets, paying dividends, transactions with affiliates, mergers and consolidations.

#### *ABL Credit Facility*

We have a \$75.0 million ABL Credit Agreement (the “ABL Credit Facility”) which matures on February 6, 2024. The ABL Credit Facility is subject to a borrowing base which is calculated based on a formula referencing the Loan Parties’ eligible accounts receivables. Borrowings under the ABL Credit Facility bear interest at LIBOR, plus an applicable LIBOR rate margin of 1.5% to 2.0% or base rate margin of 0.5% to 1.0% as defined in the ABL Credit Facility. The unused portion of the ABL Credit Facility is subject to an unused commitment fee of 0.250% to 0.375%.

All borrowings under the ABL Credit Facility are subject to the satisfaction of customary conditions, including the absence of a default and the accuracy of representations and warranties and certifications regarding sales of certain inventory, and to a borrowing base (described above). Borrowings under the ABL Credit Facility are fully and unconditionally guaranteed jointly and severally by the Loan Parties, other than future unrestricted subsidiaries.

#### **Series A Convertible Redeemable Preferred Stock**

On May 23, 2019, the Company entered into a Purchase Agreement with certain institutional investors (collectively, the “Purchasers”) to issue and sell in a private placement 55,000 shares of newly created series of convertible redeemable preferred stock of the Company (“Series A preferred stock”), for an aggregate purchase price of \$1,000 per share, for total gross proceeds of \$55.0 million. Included in the offering was 2,933,333 warrants exercisable for shares of Class A common stock, and additional 4,399,992 warrants to be issued to the Purchasers subject to certain conditions as described in the Purchase Agreement. At the initial closing on May 24, 2019 (“Closing Date”), the Purchasers purchased all of the Series A preferred stock.

For more information related to the Series A preferred stock, see “Note 10 – Mezzanine Equity” in the Notes to the Condensed Consolidated Financial Statements.

#### **Contractual Obligations**

We enter into certain contractual obligations in the normal course of our business. The following table summarizes our known contractual commitments as of September 30, 2019 (*in thousands*):

	<b>Less than 1 year</b>	<b>1 - 3 Years</b>	<b>3 - 5 Years</b>	<b>Thereafter</b>	<b>Total</b>
Senior Secured Term Loan	\$ 5,000	\$ 10,000	\$ 235,000	\$ -	\$ 250,000
ABL Credit Facility	-	-	40,109	-	40,109
Equipment financing	7,886	10,251	1,675	-	19,812
Capital lease obligations (1)	13,286	1,330	-	-	14,616
Estimated interest payments (2)	31,301	58,442	44,322	-	134,065
Operating lease obligations (3)	1,310	926	524	131	2,891
Purchase commitments (4)	11,548	3,060	-	-	14,608
<b>Total</b>	<b>\$ 70,331</b>	<b>\$ 84,009</b>	<b>\$ 321,630</b>	<b>\$ 131</b>	<b>\$ 476,101</b>

- (1) Capital lease obligations consist of our obligations on capital leases of fracturing equipment.
- (2) Estimated interest payments are based on outstanding debt balances as of September 30, 2019.
- (3) Operating lease obligations are related to our facilities and office space and are net of sublease income.

- (4) Purchase commitments primarily relate to supply agreements with vendors for sand purchases. The purchase commitments disclosed represent the aggregate amounts that the Company would be obligated to pay in the event that the Company procured no additional proppant under the contracts subsequent to September 30, 2019.

#### **Off-Balance Sheet Arrangements**

The Company's off-balance sheet arrangements include the operating leases and purchase commitments disclosed in the "Contractual Obligations" section herein. For further description of such operating leases and unconditional commitments please see "Note 16 – Commitments and Contingencies" in the Notes to the Condensed Consolidated Financial Statements.

The Company does not have any interest in entities referred to as variable interest entities.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to market risks from interest rate and commodity price fluctuations. We have not entered into any derivative financial instrument transactions to manage or reduce market risk for speculative purposes. Our operations are conducted entirely in the United States; therefore, we have no significant exposure to foreign currency exchange rate risk. The consolidated financial statements are subject to concentrations of credit risk consisting primarily of accounts receivable.

We are subject to interest rate risk on our Senior Secured Term Loan entered into on May 7, 2019. This agreement is subject to an annual interest rate that is indexed to the London Interbank Offered Rate ("LIBOR"). Refer to "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." The impact of a 1% increase in interest rates on this debt would result in an increase in interest expense of approximately \$2.9 million annually.

Our material and fuel purchases expose us to commodity price risk. Our material costs primarily consist of proppants and chemicals that are consumed while providing hydraulic fracturing services. Our fuel costs primarily consist of diesel fuel used by our trucks and other equipment. Our material and fuel costs are variable and are impacted by changes in supply and demand. We generally pass along price increases to our customers; however, we may be unable to do so in the future. We do not engage in commodity price hedging activities. However, we have commitments in place with certain vendors to purchase sand. Some of these agreements have minimum purchase requirements. We could be required to purchase sand and pay prices in excess of market prices at the time of purchase. Refer to "Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations" for the contractual commitments and obligations table as of September 30, 2019.

The concentration of our customers in the oil and gas industry may impact our overall exposure to credit risk in that customers may be similarly affected by changes in economic and industry conditions. We extend credit to customers and other parties in the normal course of our business. We manage our credit exposure by performing credit evaluations of our customers and maintaining an allowance for doubtful accounts.

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

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

The Company has been engaged in the process of the design and implementation of the Company's internal control over financial reporting in a manner commensurate with the scale of the Company's operations post-Transaction. Except with respect to the changes in connection with such design and implementation, there were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II

### **Item 1. Legal Proceedings.**

As described in our quarterly report filed on the Form 10-Q for the fiscal quarter ended March 31, 2019, we were named as a defendant in a case filed on January 14, 2019 in the Superior Court of the State of Delaware (Smart Sand, Inc. v. U.S. Well Services, LLC) seeking monetary damages arising out of the cancellation of a sand contract. The litigation is in the discovery stages. As such, no prediction can be made as to the outcome of the case at this time.

We are involved in various other pending or potential legal actions in the ordinary course of our business. Management is unable to predict the ultimate outcome of these actions because of the inherent uncertainty of litigation. However, management believes that the most probable, ultimate resolution of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

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

No material changes have occurred from risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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

None.

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

Not applicable.

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

Not applicable.

### **Item 5. Other Information.**

None.

## Item 6. Exhibits

The exhibits required to be filed or furnished by Item 601 of Regulation S-K are listed below.

<u>Exhibit No.</u>	<u>Description</u>
<a href="#"><u>3.1</u></a>	<a href="#"><u>Second Amended and Restated Certificate of Incorporation of U.S. Well Services, Inc (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K (File no. 001-38025), filed with the SEC on November 16, 2018).</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Certificate of Designations, dated May 24, 2019, of U.S. Well Services, Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K (File no. 001-38025), filed with the SEC on May 24, 2019.</u></a>
<a href="#"><u>3.3</u></a>	<a href="#"><u>Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 of the Registration Statement on Form S-1 (File No. 333-216076), filed with the SEC on February 15, 2017).</u></a>
<a href="#"><u>31.1*</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934.</u></a>
<a href="#"><u>31.2*</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934.</u></a>
<a href="#"><u>32.1**</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.</u></a>
<a href="#"><u>32.2**</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.</u></a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase

\*Filed herewith.

\*\*Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on November 7, 2019.

**U.S. WELL SERVICES, INC.**

By:

/s/ Joel Broussard

Name: Joel Broussard

Title: President, Chief Executive Officer, and Director

/s/ Kyle O'Neill

Name: Kyle O'Neill

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joel Broussard, Chief Executive Officer, of U.S. Well Services, Inc. (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant (this "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - (d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Joel Broussard

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**Joel Broussard**

**Chief Executive Officer**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kyle O'Neill, Chief Financial Officer, of U.S. Well Services, Inc. (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant (this "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - (d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Kyle O'Neill

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**Kyle O'Neill**  
**Chief Financial Officer**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of U.S. Well Services, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel Broussard, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ Joel Broussard

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**Joel Broussard**  
**Chief Executive Officer**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of U.S. Well Services, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kyle O'Neill, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ Kyle O'Neill

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**Kyle O'Neill**  
**Chief Financial Officer**