

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 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

(State or other jurisdiction of  
organization)

81-1847117

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

1360 Post Oak Boulevard, Suite 1800, Houston, TX

(Address of principal executive offices)

77056

(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	USWS	NASDAQ Capital Market
WARRANTS	USWSW	NASDAQ Capital Market

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant computed as of June 28, 2019 (the last business day of the registrant's most recent completed second fiscal quarter) based on the closing price of the Class A common stock on the Nasdaq Capital Market was \$92,974,894.

As of March 2, 2020, the registrant had 62,857,624 shares of Class A Common Stock and 5,500,692 shares of Class B Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required to be disclosed in Part III of this report is incorporated by reference from the registrant's definitive proxy statement or an amendment to this report, which will be filed with the SEC not later than 120 days after the end of the fiscal year covered by this report.

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### Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K (“Annual Report”) contains “forward-looking statements” as defined in Section 27A of the United States Securities Act of 1933, as amended (the “Securities Act”), 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. All statements, other than statements of historical information, should be deemed to be forward-looking statements. Forward-looking statements are often identified by the words such as “believes,” “expects,” “intends,” “estimates,” “projects,” “anticipates,” “will,” “plans,” “may,” “should,” “would,” “foresee,” 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. Known material factors that could cause actual results to differ materially from those contemplated in the forward-looking statements include those set forth in “Item 1A. Risk Factors” and elsewhere in this Annual Report. We caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events, or otherwise, except to the extent required by law.

## PART I

### Item 1. Business.

#### Overview

We are a growth-oriented and technology-focused oilfield service company focused exclusively on hydraulic fracturing for oil and natural gas exploration and production (“E&P”) companies in the United States. We are one of the first companies to develop and commercially deploy electric-powered hydraulic fracturing technology, which we believe is an industry-changing technology. Currently, we provide our services in the Appalachian Basin, the Eagle Ford, and the Permian Basin. We have demonstrated the capability to expeditiously deploy our fleets to new oil and gas basins when requested by customers. Our customers include Apache, Diamondback, Equinor, Marathon, Range Resources, Shell, and other leading E&P companies.

#### Company Formation

On February 21, 2012, U.S. Well Services, LLC (“USWS LLC”) was formed as a Delaware limited liability company. We are a Houston, Texas-based oilfield service provider that grew organically from one diesel powered hydraulic fracturing fleet (“Conventional Fleets”) in April 2012 to 13 available fleets representing 684,545 hydraulic horsepower (“HHP”); five of which utilize our patented electric-powered hydraulic fracturing technology (the “Clean Fleets”).

As part of a corporate restructuring (the “Restructuring”) in February 2017, all of the outstanding equity interest of USWS LLC (“Predecessor”) was acquired by a newly-formed entity, USWS Holdings, LLC (“Successor” or “USWS Holdings”), a Delaware limited liability company that was formed for the purposes of effecting the Restructuring and that had no operations of its own. The Restructuring was accounted for as a business combination under the acquisition method of accounting. USWS Holdings was acquired by U.S. Well Services, Inc. (f/k/a Matlin & Partners Acquisition Corporation) on November 9, 2018, as discussed further under *Business Combination* herein.

#### Business Combination

On March 10, 2016, Matlin & Partners Acquisition Corporation was incorporated in Delaware as a special purpose acquisition company (SPAC) 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 March 15, 2017, Matlin & Partners Acquisition Corporation consummated its initial public offering (the “IPO”), following which its shares began trading on the Nasdaq Capital Market (“Nasdaq”).

On November 9, 2018 (the “Closing Date”), Matlin & Partners Acquisition Corporation acquired USWS Holdings (the “Transaction”) pursuant to a Merger and Contribution Agreement, dated as of July 13, 2018 (as amended, the “Merger and Contribution Agreement”). The Transaction was accounted for as a reverse recapitalization. Under this method of accounting, USWS Holdings is treated as the acquirer and Matlin & Partners Acquisition Corporation is treated as the acquired party.

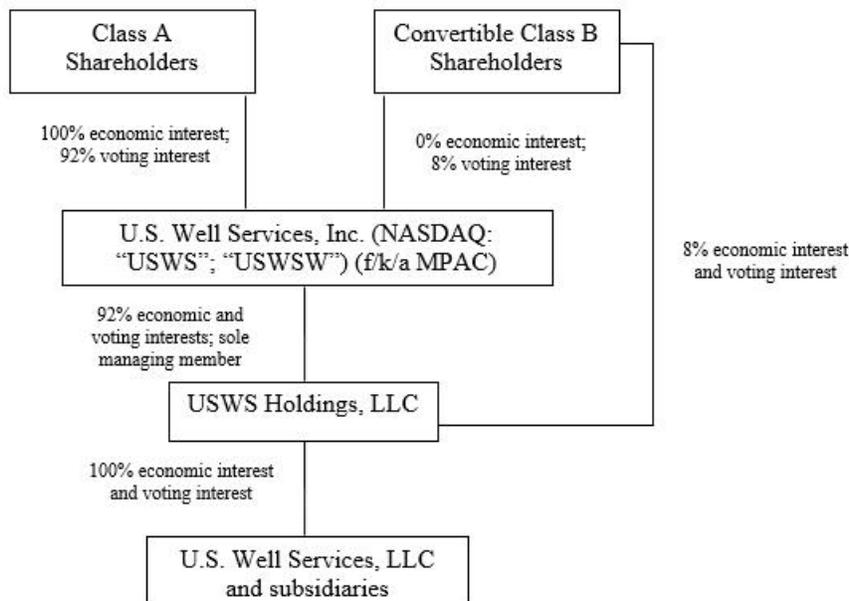
In connection with the closing of the Transaction, Matlin & Partners Acquisition Corporation changed its name to U.S. Well Services, Inc. (“USWS Inc.”) and its trading symbols on Nasdaq from “MPAC,” and “MPACW,” to “USWS” and “USWSW”. Unless the context otherwise requires, “we,” “us,” “our,” “Company” and the “Registrant” 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 USWS Inc. and its subsidiaries, including USWS Holdings and its subsidiaries.

Pursuant to the Merger and Contribution Agreement, on the Closing Date, USWS Inc. issued Class A common stock to certain members of USWS Holdings in exchange for their interests in USWS Holdings and Class B common stock to certain members of USWS Holdings who retained their interests in USWS Holdings.

Following the completion of the Transaction, the Company was organized as an “Up-C” structure, meaning that substantially all of the Company’s assets and operations are held and conducted by USWS LLC. The Company’s only assets are equity interests representing 92% ownership of USWS Holdings as of December 31, 2019. The Transaction did not include a tax receivable agreement.

**Organizational Structure**

The following diagram illustrates the ownership structure of the Company as of December 31, 2019:



Each share of Class B common stock has no economic rights in USWS Inc., but entitles its holder to one vote on all matters to be voted on by shareholders generally. Holders of Class A common stock and Class B common stock will vote together as a single class on all matters presented to our shareholders for their vote or approval, except as otherwise required by applicable law. We do not intend to list the Class B common stock on any exchange.

Under the Amended and Restated Limited Liability Company Agreement of USWS Holdings, each share of Class B common stock of USWS Inc., together with one unit of USWS Holdings and subject to certain limitations, is exchangeable (the "Exchange Right") for one share of Class A common stock of USWS Inc. or, at the Company's election, the cash equivalent to the market value of one share of Class A common stock of USWS Inc. The exchange is subject to conversion rate adjustments for stock splits, stock dividends, reclassifications and other similar transactions. In addition, upon a change in control of USWS Inc., USWS Inc. has the right to require each holder of USWS Holdings units (other than USWS Inc.) to exercise its Exchange Right with respect to some or all of such holder's USWS Holdings units. An exchange of Class B common stock of USWS Inc., together with the corresponding one unit of USWS Holdings, will result in both being cancelled.

**Operations**

Our operations are organized into a single business segment, which consists of hydraulic fracturing services, and we have one reportable geographical business segment, the United States.

## Services

We provide hydraulic fracturing services to E&P companies. Hydraulic fracturing services are performed to enhance the production of oil and natural gas from formations with low permeability and restricted flow of hydrocarbons. Our customers benefit from our expertise in fracturing of horizontal and vertical oil and natural gas-producing wells in shale and other unconventional geological formations.

The process of hydraulic fracturing involves pumping a pressurized stream of fracturing fluid — typically a mixture of water, chemicals and proppant — into a well casing or tubing in order to cause the underground mineral formation to fracture or crack. Fractures release trapped hydrocarbon particles and provide a conductive channel for the oil or natural gas to flow freely to the wellbore for collection. The propping agent, or proppant, becomes lodged in the cracks created by the hydraulic fracturing process, “propping” them open to facilitate the flow of hydrocarbons from the reservoir to the well.

Our fleets consist of mobile hydraulic fracturing units and other auxiliary heavy equipment to perform fracturing services. We have two designs for our hydraulic fracturing units: (1) our Conventional Fleets, which are powered by diesel fuel and utilize traditional internal combustion engines, transmissions, and radiators and (2) our 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. We refer to the group of pump trailers and other equipment necessary to perform a typical fracturing job as a “fleet,” and the personnel assigned to each fleet as a “crew.”

### Clean Fleet® Technology

Our Clean Fleets combine natural gas turbine generators with electric motors and existing industry equipment to provide fracturing services with numerous advantages over conventional fleets. Our Clean Fleet® technology is a proven technology that has been in commercial operations since July 2014, making us a leading provider of electric-powered hydraulic fracturing services. Our Clean Fleet® technology is supported by a robust intellectual property portfolio. We have been granted, or have received notice of allowance, for 30 patents and have an additional 104 patents pending.

We believe Clean Fleet® technology provides the Company with a distinct competitive advantage over our competitors because of the following characteristics:

- **Environmental benefits.** Clean Fleet® technology can substantially reduce emissions of air pollutants as compared to conventional fleets, reducing the environmental impact of hydraulic fracturing operations.
- **Fuel cost savings.** The use of natural gas directly from the field allows our Clean Fleets to eliminate diesel fuel costs including cost of delivery to wellsite, providing significant fuel cost savings versus a conventional diesel-powered fleet.
- **Improved operational efficiency.** The elimination of diesel delivery results in simpler logistics, reduced truck traffic and congestion on location and in the community. The reduction of routine maintenance services (e.g., oil changes) along with the inherent stability of the electric system maximizes productive time at the wellsite, allowing our Clean Fleets to pump more hours per day versus a conventional diesel-powered fleet, resulting in fewer days on location. In addition to the cost of the completion crew, our customers incur significant costs for ancillary equipment and service providers each day on site. The reduction in days on site creates additional economic benefit to our customers by reducing these costs.
- **Reduced repair and maintenance cost.** Clean Fleet® technology eliminates the use of diesel engines and transmissions, which require on-going maintenance in the form of routine oil and filter changes, component replacements and eventual rebuilds. In addition to having a materially longer rebuild cycle, the cost to rebuild an electric motor is significantly less than the cost to rebuild a conventional engine, transmission and radiator.

- **Longer equipment useful life.** Natural gas-powered generators are proven, long-lived assets that have operated in harsh environments for decades. In conjunction with the turbine generators, Clean Fleet® technology uses electric motors that have fewer mechanical parts relative to the conventional diesel-powered engines and transmissions. Similar to the generators, these electric motors have been in-use in other heavy-duty industrial applications for decades with a demonstrated useful life of at least 15 years.
- **Reduced noise pollution.** Clean Fleet® technology offers a dramatic reduction in sound pressure and low frequency noise as compared to conventional fracturing fleets, which benefits the surrounding communities and improves worksite conditions for our employees and customers.
- **Enhanced safety features.** Clean Fleet® technology reduces heat and noise emissions, making the wellsite safer for our employees and all personnel at the wellsite. Additionally, by eliminating diesel truck deliveries, Clean Fleet® technology decreases the danger from refueling operations, reduces traffic in the communities in which we operate and limits wellsite crowding.

### Competitive Strengths

We believe that the following strengths will position us to provide high-quality service to our customers and create value for our stockholders:

- **Proprietary Clean Fleet® technology.** We are a market leader in electric fracturing technology, with five all-electric hydraulic fracturing fleets. Our Clean Fleets provide substantial cost savings by replacing diesel fuel with natural gas and offer considerable operational, safety and environmental advantages. Clean Fleet® technology offers superior operational efficiency resulting from reduced non-productive time due to repairs, maintenance and failures associated with diesel-powered engines and transmissions. Additionally, Clean Fleet® technology can substantially reduce emissions of air pollutants and noise from the wellsite. We believe that adoption of this technology in the near term will materially increase and allow us to continue to significantly expand our market share over the next several years.
- **Strong customer relationships supported by contracts and dedications.** We have cultivated strong relationships with a diverse group of customers as a result of the quality of our service, safety performance and ability to work with customers to establish mutually beneficial service agreements. Our contracts and dedications provide customers with certainty of service pricing, allowing them to efficiently budget and plan the development of their wells. Additionally, our contracts and dedications allow us to maintain higher utilization of our fleet and generate revenue and cash flow through industry cycles. We believe our relationships and the structure of our contracts and dedications position us to continue to build long-term partnerships with customers and support stable financial performance.
- **Modern, high-quality equipment and rigorous maintenance program.** Our hydraulic fracturing fleets consist of modern, well-maintained equipment. We invest in high-quality equipment from leading original equipment manufacturers. Moreover, we take proactive measures to maintain the quality of our equipment, using specialized equipment to monitor frac pump integrity and our proprietary FRAC MD® data analytics platform to support preventative maintenance efforts. We believe the quality of our equipment is critical to our ability to provide high quality service to our customers.
- **Strong, employee-centered culture.** Our employees are critical to our success and are a key source of our competitive advantage. We continuously invest in training and development for our employees, and as a result, we are able to provide consistent, high-quality service and safe working conditions for both employees and customers. During the last industry downturn, we maintained higher levels of utilization and were able to operate without making significant reductions in force. The continuity of our workforce has ensured a consistent culture and the high quality of service for which we are known.

- **Track record for safety.** Safety is a critical element of our operations. We focus on providing customers with the highest quality of service by employing a trained and motivated workforce that is rigorously focused on safety. We continuously review safety data and work to develop and implement policies and procedures that ensure the safety and wellbeing of our employees, customers and the communities in which we operate. Our field operators are empowered to stop work and question the safety of a situation or task performed. We use specialized technology to improve safety for our truck drivers, and employ measures to mitigate the risk of respirable silica dust exposure on the wellsite. We believe our record of safe operations makes us an attractive partner for both our customers and our employees.
- **Proven, cycle-tested management team.** Our management team has a proven track record for building and operating oilfield service companies. As a result of our strategy, we have grown the business organically. Our operating and commercial teams have significant industry experience and longstanding relationships with our clients. We believe our management team's experience and relationships position us to generate business and create value for stockholders.

#### **Customer Concentration**

Our customers include a broad range of leading E&P companies. For the year ended December 31, 2019, Apache Corporation, Hawkwood Energy, and Sable Permian Resources each comprised greater than 10% of our consolidated revenues.

#### **Suppliers**

We purchase a wide variety of raw materials, parts and components that are manufactured and supplied for our operations. We currently rely on a limited number of suppliers from which we procure major equipment components used to maintain, build or upgrade our custom Clean Fleet® hydraulic fracturing equipment. In addition, some of these components have few suppliers and long lead times to acquire. Historically, we have generally been able to obtain the equipment, parts and supplies necessary to support our operations on a timely basis. While we believe that we will be able to make satisfactory alternative arrangements in the event of any interruption in the supply of these materials and/or equipment by one of our suppliers, we may not always be able to do so. In addition, certain materials for which we do not currently have long-term supply agreements could experience shortages and significant price increases in the future. As a result, we may be unable to mitigate any future supply shortages and our results of operations, prospects and financial condition could be adversely affected.

#### **Competition**

The markets in which we operate are very competitive. We provide services in various geographic regions across the United States, and our competitors include many large and small oilfield service providers, including some of the largest integrated service companies. Our hydraulic fracturing services compete with large, integrated companies such as Halliburton Company and Schlumberger Limited as well as other companies including BJ Services Company, Calfrac Well Services Ltd., FTS International Inc., Liberty Oilfield Services Inc., NexTier Oilfield Solutions Inc., Patterson-UTI Energy Inc., ProPetro Services Inc., and RPC Inc. In addition, our industry is highly fragmented and we compete regionally with a significant number of smaller service providers.

We believe that the principal competitive factors in the markets we serve are technical expertise, equipment capacity, workforce competency, efficiency, safety record, reputation, experience and price. Additionally, projects are often awarded on a bid basis, which tends to create a highly competitive environment.

#### **Cyclical Nature of Industry**

We operate in a cyclical industry. The key factor driving demand for our services is the level of well completions by E&P companies, which in turn depends largely on the current and anticipated economics of new well completions. Global supply and demand for oil and the domestic supply and demand for natural gas are critical in assessing industry outlook. Demand for oil and natural gas is cyclical and subject to large, rapid fluctuations. E&P companies tend to increase capital expenditures in response to increases in oil and natural gas prices, which generally results in greater revenues and profits for oilfield service companies like us. Increased E&P capital expenditures ultimately lead to greater production, which historically has resulted in increased supplies and reduced prices which in turn tend to reduce demand for oilfield services. For these reasons, the results of our operations may fluctuate from quarter to quarter and from year to year, and these fluctuations may distort comparisons of results across periods.

## Seasonality

Our results of operations have historically reflected seasonal tendencies, generally in the fourth quarter, relating to holiday seasons, inclement weather, and the conclusion of our customers' annual drilling and completion capital expenditure budgets, during which we may experience declines in our operating results.

## Insurance

Although we maintain insurance coverage of types and amounts that we believe to be customary in the industry, we are not fully insured against all risks, either because insurance is not available or because of the high premium costs relative to perceived risk. Further, insurance rates have in the past been subject to wide fluctuation and changes in coverage could result in less coverage, increases in cost or higher deductibles and retentions. Liabilities for which we are not insured, or which exceed the policy limits of their applicable insurance, could have a material adverse effect on our business and financial condition.

## Environmental and Occupational Health and Safety Regulations

Our operations are subject to stringent laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection, and occupational health and safety. Numerous federal, state and local governmental agencies issue regulations that often require difficult and costly compliance measures that could carry substantial administrative, civil and criminal penalties and may result in permit revocations or modifications, operational disruptions, or injunctive obligations for noncompliance. These laws and regulations may, for example, restrict the types, quantities and concentrations of various substances that can be released into the environment, limit or prohibit construction or drilling activities on certain lands lying within wilderness, wetlands, ecologically or seismically-sensitive areas and other protected areas, or require action to prevent or remediate pollution from current or former operations. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances, hydrocarbons or other waste products into the environment. Changes in environmental, health and safety laws and regulations occur frequently, and any changes in the laws or regulations or the interpretation thereof that result in more stringent and costly requirements could materially adversely affect our operations and financial position. We have not experienced any material adverse effect from compliance with these requirements. This trend, however, may not continue in the future.

Below is an overview of some of the more significant environmental, health and safety requirements with which we must comply. Our customers' operations are subject to similar laws and regulations. Any material adverse effect of these laws and regulations on our customers' operations and financial position may also have an indirect material adverse effect on our operations and financial position.

**Waste Handling.** We handle, transport, store and dispose of wastes that are subject to the Resource Conservation and Recovery Act ("RCRA") and comparable state laws and regulations, which impose requirements regarding the generation, transportation, treatment, storage, disposal and cleanup of hazardous and nonhazardous wastes. With federal approval, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with our own, more stringent requirements. Although certain petroleum production wastes are exempt from regulation as hazardous wastes under RCRA, such wastes may constitute "solid wastes" that are subject to the less stringent requirements of nonhazardous waste provisions.

Administrative, civil and criminal penalties can be imposed for failure to comply with waste handling requirements. Moreover, the Environmental Protection Agency ("EPA") or state or local governments may adopt more stringent requirements for the handling of nonhazardous wastes or re-categorize some nonhazardous wastes as hazardous for future regulation. Indeed, legislation has been proposed from time to time in Congress to re-categorize certain oil and natural gas exploration, development and production wastes as hazardous. Several environmental organizations have also petitioned the EPA to modify existing regulations to re-categorize certain oil and natural gas exploration, development and production wastes as hazardous. Any such changes in these laws and regulations could have a material adverse effect on our capital expenditures and operating expenses. Although we do not believe the current costs of managing our wastes, as presently classified, to be significant, any legislative or regulatory reclassification of oil and natural gas exploration and production wastes could increase our costs to manage and dispose of such wastes.

**Remediation of Hazardous Substances.** The Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA” or “Superfund”) and analogous state laws generally impose liability without regard to fault or legality of the original conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment or, under some state CERCLA-analogous laws, the release of solid waste. These persons include the current owner or operator of a contaminated facility, a former owner or operator of the facility at the time of contamination, those persons that disposed or arranged for the disposal of the substance at the facility, and transporters who selected the disposal site. Liability for the costs of removing or remediating previously disposed wastes or contamination, damages to natural resources, and the costs of conducting certain health studies, amongst other things, is strict and joint and several. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. In the course of our operations, we use materials that, if released, would be subject to CERCLA and comparable state laws. Therefore, governmental agencies or third parties may seek to hold us responsible under CERCLA and comparable state statutes for all or part of the costs to clean up sites at which such substances have been released.

**NORM.** In the course of our operations, some of our equipment may be exposed to naturally occurring radioactive materials (“NORM”) associated with oil and gas deposits and accordingly may result in the generation of wastes and other materials containing NORM. NORM exhibiting levels of naturally occurring radiation in excess of established state standards are subject to special handling and disposal requirements, and any storage vessels, piping and work area affected by NORM may be subject to remediation or restoration requirements.

**Water Discharges.** The Clean Water Act, Safe Drinking Water Act, Oil Pollution Act and analogous state laws and regulations impose restrictions and strict controls regarding the unauthorized discharge of pollutants, including produced waters and other gas and oil wastes, into regulated waters. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA, the U.S. Army Corps of Engineers (the “Corps”), or the applicable state. The Clean Water Act has been interpreted by these agencies to apply broadly. The EPA and the Corps released a rule to revise the definition of “waters of the United States,” or WOTUS, for all Clean Water Act programs, which went into effect in August 2015. Litigation and political maneuverings surrounding the revised WOTUS definition have been ongoing since that time. More recently, on October 22, 2019, the EPA and the Corps issued a final rule to repeal the 2015 Clean Water Rule and re-codify the regulatory text that existed prior to 2015 (the “Step One Rule”). The Step One Rule became effective on December 23, 2019. On January 23, 2020, the EPA and the Corps announced the final Navigable Waters Protection Rule, which would revise and narrow the WOTUS definition. The Navigable Waters Protection Rule will become effective 60 days after its publication in the Federal Register, at which time it will replace the Step One Rule. We expect litigation regarding the WOTUS definition to continue, creating uncertainty as to what constitutes a protected “water of the United States.” In addition, spill prevention, control and countermeasure plan requirements require appropriate containment berms and similar structures to help prevent the contamination of regulated waters.

**Air Emissions.** The Clean Air Act (“CAA”) and comparable state laws and regulations, regulate emissions of various air pollutants through the issuance of permits and the imposition of other emissions control requirements. The EPA has developed, and continues to develop, stringent regulations governing emissions of air pollutants from specified sources. New facilities may be required to obtain permits before work can begin, and existing facilities may be required to obtain additional permits and incur capital costs in order to remain in compliance. These and other laws and regulations may increase the costs of compliance for some facilities where we operate. Obtaining or renewing permits also has the potential to delay the development of oil and natural gas projects.

**Climate Change.** The EPA has determined that greenhouse gasses (“GHGs”) present an endangerment to public health and the environment because such gases contribute to warming of the Earth’s atmosphere and other climatic changes. Based on these findings, the EPA has adopted and implemented, and continues to adopt and implement, regulations that restrict emissions of GHGs under existing provisions of the CAA. The EPA also requires the annual reporting of GHG emissions from certain large sources of GHG emissions in the United States, including certain oil and gas production facilities. The U.S. Congress has from time to time considered adopting legislation to reduce emissions of GHGs and almost one-half of the states have already taken legal measures to reduce emissions of GHGs primarily through the development of GHG emission inventories and/or regional GHG cap and trade programs and through the establishment of emissions reduction targets. In December 2015, the United States joined the international community at the 21<sup>st</sup> Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France. The resulting Paris Agreement calls for the parties to undertake “ambitious efforts” to limit the average global temperature, and to conserve and enhance sinks and reservoirs of greenhouse gases. The Paris Agreement entered into force in November 2016. On June 1, 2017, the United States President announced that the U.S. planned to withdraw from the Paris Agreement and to seek negotiations either to reenter the Paris Agreement on different terms or establish a new framework agreement. The United States formally began the process of withdrawing from the Paris Agreement on November 4, 2019 by submitting a notification to the United Nations. Per the U.S. Department of State, the withdrawal will take effect one year from delivery of this notification, on or about November 4, 2020.

Moreover, climate change may cause more extreme weather conditions and increased volatility in seasonal temperatures. Extreme weather conditions can interfere with our operations and increase our costs, and damage resulting from extreme weather may not be fully insured.

**Endangered and Threatened Species.** Environmental laws such as the Endangered Species Act (“ESA”) and analogous state laws may impact exploration, development and production activities in areas where we operate. The ESA provides broad protection for species of fish, wildlife and plants that are listed as threatened or endangered. Similar protections are offered to migratory birds under the Migratory Bird Treaty Act and various state analogs. The U.S. Fish and Wildlife Service may identify previously unidentified endangered or threatened species or may designate critical habitat and suitable habitat areas that it believes are necessary for survival of a threatened or endangered species, which could cause us or our customers to incur additional costs or become subject to operating restrictions or operating bans in the affected areas.

**Regulation of Hydraulic Fracturing and Related Activities.** Hydraulic fracturing is an important and common practice that is used to stimulate production of hydrocarbons, particularly natural gas, from tight formations, including shales. The process, which involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production, is typically regulated by state oil and natural gas commissions. However, federal agencies have asserted regulatory authority over certain aspects of the process. For example, beginning in August 2012, the EPA issued a series of rules under the CAA that establish new emission control requirements for certain oil and natural gas production and natural gas processing operations and associated equipment. However, in June 2017, the EPA proposed a two year stay of the fugitive emissions monitoring requirements, pneumatic pump standards, and closed vent system certification requirements in the 2016 New Source Performance Standards rule for the oil and gas industry while it reconsiders these aspects of the rule. On September 11, 2018, the EPA proposed targeted improvements to the rule, including amendments to the rule's fugitive emissions monitoring requirements, and expects to "significantly reduce" the regulatory burden of the rule in doing so. On September 24, 2019, the EPA proposed additional amendments to the 2016 New Source Performance Standards that would rescind certain methane control requirements and may remove the transmission and storage segment from the oil and natural gas source category. To date, none of these proposed amendments to the 2016 New Source Performance Standards has been finalized. The U.S. Department of Interior's Bureau of Land Management ("BLM") finalized similar rules in November 2016 that limit methane emissions from new and existing oil and natural gas operations on federal lands through limitations on the venting and flaring of gas, as well as enhanced leak detection and repair requirements. The BLM adopted final rules in January 2017. Operators generally had one year from the January 2017 effective date to come into compliance with the rule's requirements. In December 2017, the BLM temporarily suspended or delayed certain of these requirements set forth in its Venting and Flaring Rule until January 2019, and in September 2018, the BLM published a final rule which scaled back the waste-prevention requirements of the 2016 rule. Environmental groups sued in federal district court a day later to challenge the legality of aspects of the revised rule, and the outcome of this litigation is currently uncertain. Moreover, in March 2015, the BLM issued a final rule that imposes requirements on hydraulic fracturing activities on federal and Indian lands, including new requirements relating to public disclosure, wellbore integrity and handling of flowback water. However, the BLM rescinded this rule in December 2017. In January 2018, California and a coalition of environmental groups filed suit in the Northern District of California to challenge the BLM's rescission of the 2015 rule. This litigation is ongoing and future implementation of the rule is uncertain at this time.

Further, legislation to amend the Safe Drinking Water Act to repeal the exemption for hydraulic fracturing (except when diesel fuels are used) from the definition of "underground injection" and require federal permitting and regulatory control of hydraulic fracturing have been proposed in recent sessions of Congress. Several states and local jurisdictions in which we or our customers operate also have adopted or are considering adopting regulations that could require disclosure of the chemical constituents of the fluids used in the fracturing process, restrict or prohibit hydraulic fracturing in certain circumstances, impose more stringent operating standards and/or require the disclosure of the composition of hydraulic fracturing fluids.

More recently, federal and state governments have begun investigating whether the disposal of produced water into underground injection wells has caused increased seismic activity in certain areas. For example, in December 2016, the EPA released its final report regarding the potential impacts of hydraulic fracturing on drinking water resources, concluding that "water cycle" activities associated with hydraulic fracturing may impact drinking water resources under certain circumstances such as water withdrawals for fracturing in times or areas of low water availability, surface spills during the management of fracturing fluids, chemicals or produced water, injection of fracturing fluids into wells with inadequate mechanical integrity, injection of fracturing fluids directly into groundwater resources, discharge of inadequately treated fracturing wastewater to surface waters, and disposal or storage of fracturing wastewater in unlined pits. The results of these studies could lead the federal government and has led some state governments to develop and implement additional regulations, including stricter regulatory requirements relating to the location and operation of underground injection wells or requirements regarding the permitting of produced water disposal wells or otherwise.

Increased regulation of hydraulic fracturing and related activities (whether as a result of the EPA study results or resulting from other factors) could subject us and our customers to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and recordkeeping obligations, and plugging and abandonment requirements. New requirements could result in increased operational costs for us and our customers and reduce the demand for our services.

**OSHA Matters.** The Occupational Safety and Health Act (“OSHA”) and comparable state statutes regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities, and the public.

#### **Employees**

As of December 31, 2019, we had 871 full-time employees and no part-time employees. We are not a party to any collective bargaining agreements and have not experienced any strikes or work stoppages. We believe our relationships with our employees are excellent. From time to time, we will utilize the services of independent contractors to perform various field and/or other services.

#### **Intellectual Property**

We have been granted or have received notice of allowance for 30 patents, which begin to expire in late 2033, and have an additional 104 patents pending. Our patents protect our Clean Fleet® technology from being duplicated by competitors. These patents help provide unique competitive advantages in operating areas where noise and emissions are key concerns. We also use proprietary FRAC MD® technology to support our preventative maintenance program and prolong equipment useful life. This technology utilizes specialized equipment to capture and analyze vibrations in order to identify component stress so maintenance can be performed prior to catastrophic failures.

#### **Availability of Information**

We file or furnish annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (the “SEC”) under the Exchange Act. The SEC maintains an internet website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers, including us, that file electronically with the SEC.

We also make available free of charge through our website, [www.uswellservices.com](http://www.uswellservices.com), electronic copies of certain documents that we file with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information on our website or any other website is not incorporated by reference into, and does not constitute a part of, this Annual Report.

## Item 1A. Risk Factors.

*The following risk factors apply to our business and operations and the industry in which we operate. These risk factors are not exhaustive, and investors are encouraged to perform their own investigation with respect to our business, financial condition and prospects. You should carefully consider the following risk factors in addition to the other information included in this Annual Report, including matters addressed in the section entitled "Cautionary Note Regarding Forward-Looking Statements." We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business, financial condition or prospects. The following discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report.*

### Risks Related to Our Business and Industry

*Our business depends on the level of capital spending and exploration and production activity by the onshore oil and natural gas industry in the United States, and the level of such activity is affected by industry conditions that are beyond our control.*

Our business is directly affected by the willingness of our customers to make expenditures to explore for, develop and produce oil and natural gas from onshore resources in the United States. The willingness of our customers to undertake these activities depends largely upon prevailing industry conditions that are influenced by numerous factors over which we have no control, including:

- prices, and expectations about future prices, for oil and natural gas;
- domestic and foreign supply of, and demand for, oil and natural gas and related products;
- the level of global and domestic oil and natural gas inventories;
- the supply of and demand for hydraulic fracturing and other oilfield services and equipment in the United States;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- available pipeline, storage and other transportation capacity;
- lead times associated with acquiring equipment and products and availability of qualified personnel;
- the discovery rates of new oil and natural gas reserves;
- federal, state and local regulation of hydraulic fracturing and other oilfield service activities, as well as exploration and production activities, including public pressure on governmental bodies and regulatory agencies to regulate our industry;
- the availability of water resources, suitable proppant and chemicals in sufficient quantities for use in hydraulic fracturing fluids;
- geopolitical developments and political instability in oil and natural gas producing countries;
- actions of the Organization of the Petroleum Exporting Countries ("OPEC"), its members and other state-controlled oil companies relating to oil price and production controls;
- advances in exploration, development and production technologies or in technologies affecting energy consumption;
- the price and availability of alternative fuels and energy sources;
- weather conditions, natural disasters and other catastrophic events such as an epidemic or pandemic disease outbreak;

- uncertainty in capital and commodities markets and the ability of oil and natural gas producers to raise equity capital and debt financing; and
- U.S. federal, state and local and non-U.S. governmental regulations and taxes.

The oil and natural gas industry is volatile. A prolonged economic slowdown or recession in the United States, adverse events relating to the energy industry or regional, national and global economic conditions and factors, could negatively impact exploration and production activity and the level of drilling and completion activity by some of our customers. This volatility may result in a decline in the demand for, or adversely affect the price of, our services. In addition, material declines in oil and natural gas prices, the development of oil and natural gas reserves in our market areas or drilling or completion activity in the U.S. oil and natural gas shale regions, could have a material adverse effect on our business, financial condition, prospects, results of operations and cash flows.

*The volatility of oil and natural gas prices may adversely affect the demand for our services and negatively impact our results of operations.*

The demand for our services is substantially influenced by current and anticipated crude oil and natural gas commodity prices and the related levels of capital spending and drilling activity in the areas in which we have operations. Volatility or weakness in crude oil and natural gas commodity prices (or the perception that crude oil and natural gas commodity prices will decrease) affects the spending patterns of our customers, and the products and services we provide are, to a substantial extent, deferrable in the event oil and natural gas companies reduce capital expenditures. As a result, we may experience lower utilization of, and may be forced to lower our rates for, our equipment and services.

Historical prices for crude oil and natural gas have been extremely volatile and are expected to continue to be volatile. The market prices for crude oil and natural gas depend on factors beyond our control, including worldwide and domestic supplies of crude oil and natural gas and actions taken by foreign oil and gas producing nations. Crude oil and natural gas prices and, therefore, the level of exploration, development and production activity, experienced a sustained decline from the highs in the latter half of 2014 to the lows in 2016. Although commodity prices improved in late 2016 through the first part of 2018, prices significantly decreased during the third and fourth quarter of 2018 and throughout 2019, and continue to remain volatile.

As a result of declines and volatility in commodity prices, exploration and production companies moved to significantly cut costs, both by decreasing drilling and completion activity and by demanding price concessions from their service providers, including providers of hydraulic fracturing services. In turn, service providers, including hydraulic fracturing service providers, were forced to lower their operating costs and capital expenditures, while continuing to operate their businesses in an extremely competitive environment. Prolonged periods of price instability in the oil and natural gas industry will adversely affect the demand for our products and services, our financial condition, prospects and results of operations and our ability to service our debt or fund capital expenditures.

Additionally, fuel conservation measures, alternative fuel requirements and increasing consumer demand for alternatives to oil and natural gas could reduce the demand for oil and natural gas products, creating downward pressure on commodity prices and the prices we are able to charge for our services.

***Our level of current and future indebtedness could adversely affect our financial condition.***

As of December 31, 2019, we had \$40.1 million of borrowings outstanding, with available capacity of \$11.0 million, under our ABL credit facility, and \$250.0 million of borrowings outstanding under our senior secured term loan. We are required to make quarterly principal payments of 2.0% per annum of the initial principal balance of our senior secured term loan, commencing on January 15, 2020, with final payment due at maturity on May 7, 2024. Our ABL credit facility is scheduled to mature on February 6, 2024. Upon maturity of our ABL credit facility and senior secured term loan, we will be required to repay, extend or refinance our indebtedness. We may not be able to extend, replace or refinance either one or both of our existing debt financing agreements on terms reasonably acceptable to us, or at all. Our obligations under both our ABL credit facility and senior secured term loan are secured by substantially all of our assets. In addition, we have entered into several security agreements with financial institutions for the purchase of certain fracturing equipment. As of December 31, 2019, the aggregate outstanding balance under our equipment financing arrangements was \$16.1 million, of which \$5.6 million is due within one year. Our equipment financing arrangements are secured by certain of our fracturing equipment. If we are unable to meet our debt service obligations, our lenders under our ABL credit facility, senior secured term loan, or equipment financing arrangements can seek to foreclose on our assets. For more information about our debt financing agreements and equipment financing arrangements, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

Our ability to meet our debt service obligations will be dependent upon future performance, which in turn will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our business may not continue to generate sufficient cash flow from operations to pay our debt service obligations when due. Moreover, we may incur additional indebtedness, which would increase the amount of cash flow we need to service debt obligations. If we are unable to generate sufficient cash flow from operations, we may be required to sell assets, to restructure or refinance all or a portion of such indebtedness or to obtain additional financing. We cannot assure you, however, that we would be able to sell assets, restructure or refinance all or a portion of our indebtedness or obtain additional financing on commercially reasonable terms or at all. Moreover, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms. To the extent inadequate liquidity or other considerations require us to seek to restructure or refinance our indebtedness, our ability to do so will depend on numerous factors, including many beyond our control, such as the condition of the capital markets and our financial condition at such time. Any refinancing or restructuring of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

***Our debt financing agreements subject us to financial and other restrictive covenants. These restrictions may limit our operational or financial flexibility and could subject us to potential defaults under our credit facilities.***

Our debt financing agreements subject us to restrictive covenants, including, among other things, limitations (each of which is subject to certain exceptions) on our ability to incur debt, grant liens, enter into transactions resulting in fundamental changes (such as mergers or sales of all or substantially all of our assets) and asset sales or other types of dispositions, restrict subsidiary dividends or other subsidiary distributions, enter into transactions with affiliates and swap counterparties, make investments and restricted payments, permit subsidiaries to provide guarantees to other material debt, and enter into leases and sale and lease back arrangements.

Additionally, our ABL credit facility is subject to a springing fixed charge coverage covenant. For a description of the covenants under our ABL credit facility, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.” If we are unable to remain in compliance with the covenants of our ABL credit facility, then amounts outstanding thereunder may be accelerated and become due immediately. We might not have, or be able to obtain, sufficient funds to make these accelerated payments, and any such acceleration could have a material adverse effect on our financial condition and results of operations.

Moreover, subject to the limits contained in our debt financing agreements, we may incur substantial additional debt from time to time. Any borrowings we may incur in the future would have several important consequences for our future operations, including that:

- covenants contained in the documents governing such indebtedness may require us to meet or maintain certain financial tests, which may affect our flexibility in planning for, and reacting to, changes in our industry, such as being able to take advantage of acquisition opportunities when they arise;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited;
- we may be competitively disadvantaged to our competitors that are less leveraged or have greater access to capital resources; and
- we may be more vulnerable to adverse economic and industry conditions.

***Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect our ability to refinance our indebtedness.***

Financial regulators are working to transition away from the London Interbank Offered Rate (“LIBOR”) as a reference rate for financial contracts. On July 27, 2017, the Financial Conduct Authority announced that it would phase out LIBOR as a benchmark by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. While our ABL credit facility and senior secured term loan are scheduled to mature in February 2024 and May 2024, respectively, potential changes, or uncertainty related to such potential changes in interest rate benchmarks may adversely affect our ability to refinance our indebtedness. There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have an adverse effect on our business, financial condition and results of operations.

***Our operations are subject to unforeseen interruptions and hazards inherent in the oil and natural gas industry, for which we may not be adequately insured.***

Our operations are exposed to the risks inherent to our industry, such as equipment defects, vehicle accidents, fires, explosions, blowouts, surface cratering, uncontrollable flows of gas or well fluids, pipe or pipeline failures, abnormally pressured formations and various environmental hazards, such as oil spills and releases of, and exposure to, hazardous substances. For example, our operations are subject to risks associated with hydraulic fracturing, including any mishandling, surface spillage or potential underground migration of fracturing fluids, including chemical additives. In addition, our operations are exposed to potential natural disasters, including blizzards, tornadoes, storms, floods, other adverse weather conditions and earthquakes. The occurrence of any of these events could result in substantial losses to our business due to personal injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage or other damage resulting in curtailment or suspension of our operations. Litigation arising from operations where our services are provided, may cause us to be named as a defendant in lawsuits asserting potentially large claims including claims for exemplary damages. The cost of managing such risks may be significant, and the frequency and severity of such incidents may affect operating costs, insurability and relationships with customers, employees and regulators. In particular, our customers may elect not to purchase our services if they view our environmental or safety record as unacceptable, which could cause us to lose customers and substantial revenues.

Our insurance may not be adequate to cover all losses or liabilities we may suffer, and the insurance coverage may not be adequate to cover claims that may arise. We are not fully insured against all risks, either because insurance is not available or coverage is excluded from our policy, or because of the high premium costs relative to perceived risk. Furthermore, we may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates. Insurance rates in the past have been subject to wide fluctuation and changes in coverage could result in less coverage, increases in cost or higher deductibles and retentions or the imposition of sub-limits for certain risks. In addition, we may not be able to secure additional insurance or bonding that might be required by new governmental regulations. If we were to incur a significant liability for which we are not fully insured, it could have a material adverse effect on our business, results of operations and financial condition.

***Our long-term contracts are subject to certain risks, including counterparty payment risks, inability to renew or replace at favorable economic terms, and changing market conditions that result in higher costs without offsetting revenue escalations.***

We generally have long-term written contractual arrangements with our customers on the majority of our equipment. The counterparties to our contractual arrangements are subject to various market risks that impact their businesses and, as a result, they may be unable to make payments to us pursuant to the payment terms set forth in such contractual arrangements. Additionally, as contracts with our customers come up for replacement or renewal, changing market conditions may prevent us from replacing or renewing the contracts on comparable terms. Our ability to achieve favorable terms under these expiring contracts could be affected by many factors, including prolonged reduced commodity prices, decrease in demand for our services or increased competition in the markets we serve. If we are unable to replace or renew the expiring agreements on comparable terms, it could materially adversely affect our business, financial condition, results of operations and cash flows, including our ability to make cash distributions to our shareholders.

With no long-term contract in place, such customers could cease buying our services at any time, for any reason, with little or no recourse. If multiple customers or a material customer with whom we did not have a long-term contract in place elected not to purchase our services, our business prospects, financial condition and results of operations could be adversely affected.

***Competition within the oilfield services industry may adversely affect our ability to market our services.***

The oilfield services industry is highly competitive and includes several large companies that compete in many of the markets we serve, as well as numerous small companies that compete with us on a local basis. Our larger competitors' greater resources allow them to better withstand industry downturns and compete more effectively on the basis of technology, geographic scope and retained skilled personnel. Several of our competitors provide a broader array of services and have a stronger presence in more geographic markets.

We believe the principal competitive factors in the market areas we serve are price, equipment quality, supply chains, balance sheet strength and financial condition, product and service quality, safety record, availability of crews and equipment and technical proficiency. Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better features, performance, prices or other characteristics than our products and services or expand into service areas where we operate. Competitive pressures or other factors may also result in significant price competition, particularly during industry downturns. During such downturns, we experience reductions in the prices we can charge for our services based on reduced demand and resulting overcapacity, including an intensified competitive environment as a result of an industry downturn and oversupply of oilfield services. Any inability to compete effectively with our competitors or overcapacity in the markets which we serve could adversely affect our business and results of operations.

***We are dependent on a few customers in a single industry. The loss of one or more significant customers could adversely affect our financial condition, prospects and results of operations.***

Our customers are engaged in the oil and natural gas E&P business in the United States. Historically, we have been dependent upon a few customers for a significant portion of our revenue. For the year ended December 31, 2019, Apache Corporation, Hawkwood Energy, and Sable Permian Resources, each accounted for greater than 10% of total consolidated revenues. For the year ended December 31, 2018, Antero Resources, Southwestern Energy, Hawkwood Energy, Wildhorse Resources, and CNX Resources, each accounted for greater than 10% of total consolidated revenues. It is likely that we will continue to derive a significant portion of our revenue from a relatively small number of customers in the future. Additionally, the oil and natural gas industry is characterized by frequent consolidation activity and, recently by frequent financial distress and bankruptcy filings. Changes in ownership of our customers or bankruptcy filings by our customers may result in the loss of, or reduction in, business from those customers. If we were to lose any material customer, or if a major customer fails to pay or delays in paying for our services, we may not be able to redeploy our equipment at similar utilization or pricing levels or within a short period of time and such loss could have a material adverse effect on our business, financial condition, prospects and results of operations.

***We currently rely on a limited number of suppliers for major equipment to build new and upgrade existing electric fleets to our current custom Clean Fleet® design, and our reliance on these vendors exposes us to risks including price and timing of delivery.***

We currently rely on a limited number of suppliers for major equipment to build our new fleets and upgrade any existing electric fleets as needed to our current custom Clean Fleet® design. During periods in which fracturing services are in high demand, we have experienced delays in obtaining certain parts that are used in fabricating and assembling our fleets. If demand for hydraulic fracturing fleets or the components necessary to build such fleets increases or these vendors face financial distress or bankruptcy, these vendors may not be able to provide the new or upgraded fleets on schedule or at the current price. If this were to occur, we could be required to seek other suppliers for major equipment to build or upgrade our fleets, which may adversely affect our revenues or increase our costs.

***Our assets require significant amounts of capital for maintenance, upgrades and refurbishment and may require significant capital expenditures for new equipment.***

Our fleets and other completion service-related equipment require significant capital investment in maintenance, upgrades and refurbishment to maintain their competitiveness. The costs of components and labor may increase in the future which will require us to incur additional costs to maintain, upgrade and/or refurbish our fleets. Our fleets and other equipment typically do not generate revenue while they are undergoing maintenance, upgrades or refurbishment. Any maintenance, upgrade or refurbishment project for our assets could increase our indebtedness or reduce cash available for other opportunities. Furthermore, such projects may require proportionally greater capital investments as a percentage of total asset value, which may make such projects difficult to finance on acceptable terms. To the extent we are unable to fund such projects, we may have less equipment available for service or our equipment may not be attractive to potential or current customers. Additionally, competition or advances in technology within our industry may require us to update or replace existing fleets or build or acquire new fleets. Such demands on our capital or reductions in demand for our fleets and the increase in cost of labor necessary for such maintenance and improvement, in each case, could have a material adverse effect on our business, liquidity position, financial condition, prospects and results of operations and may increase our costs.

***We are subject to federal, state and local laws and regulations regarding issues of health, safety and protection of the environment, including with respect to our hydraulic fracturing operations. Under these laws and regulations, we may become liable for penalties, damages or costs of remediation or other corrective measures. Any changes in laws or government regulations could increase our costs of doing business.***

Our operations are subject to stringent federal, state, and local laws and regulations relating to, among other things, protection of natural resources, clean air and drinking water, endangered species, GHGs, nonattainment areas, the environment, health and safety, chemical use and storage, waste management, waste disposal and transportation of waste and other hazardous and nonhazardous materials. Our operations involve risks of environmental liability, including leakage from an operator's casing during our operations or accidental spills onto or into surface or subsurface soils, surface water or groundwater. Some environmental laws and regulations may impose strict liability, joint and several liability, or both. In some situations, we could be exposed to liability as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, third parties without regard to whether we caused or contributed to the conditions. Additionally, environmental concerns, including clean air, drinking water contamination and seismic activity, have prompted investigations that could lead to the enactment of regulations, limitations, restrictions or moratoria that could potentially result in the shutdown of our operations, fines and penalties (administrative, civil or criminal), revocations of permits to conduct business, expenditures for remediation or other corrective measures and/or claims for liability for property damage, exposure to hazardous materials, exposure to hazardous waste, nuisance or personal injuries. Sanctions for noncompliance with applicable environmental laws and regulations may also include the assessment of administrative, civil or criminal penalties, revocation of permits and temporary or permanent cessation of operations in a particular location and issuance of corrective action orders. Such claims or sanctions and related costs could cause us to incur substantial costs or losses and could have a material adverse effect on our business, financial condition, prospects and results of operations. Additionally, an increase in regulatory requirements, limitations, restrictions or moratoria on oil and natural gas exploration and completion activities at a federal, state or local level or changes in the way these requirements are interpreted or enforced could significantly delay or interrupt our operations, limit the amount of work we can perform, increase our costs of compliance, or increase the cost of our services, thereby possibly having a material adverse impact on our financial condition. For more information about regulations and laws regarding issues of health, safety and protection of the environment in our industry, please see "Item 1. Business - Environmental and Occupational Health and Safety Regulations."

In December 2016, the EPA issued a study of the potential impacts of hydraulic fracturing on drinking water and groundwater. The EPA report states that there is scientific evidence that hydraulic fracturing activities can impact drinking resources under some circumstances and identifies certain conditions in which the EPA believes the impact of such activities on drinking water and groundwater can be more frequent or severe. The EPA study could spur further initiatives to regulate hydraulic fracturing. Additionally, state legislatures, state regulatory agencies and local municipalities may consider legislation, regulations or ordinances, respectively that could affect all aspects of the oil and natural gas industry and occasionally take action to restrict or further regulate hydraulic fracturing operations. Some states, counties and municipalities have enacted or are considering moratoria on hydraulic fracturing or zoning ordinances, which could impose a de facto ban on drilling and hydraulic fracturing operations. At this time, it is not possible to estimate the potential impact on our business of these state and municipal actions or the enactment of additional federal or state legislation or regulations affecting hydraulic fracturing. Compliance, stricter regulations or the consequences of any failure to comply by us could have a material adverse effect on our business, financial condition, prospects and results of operations. For more information about regulations relating to hydraulic fracturing, please see “Item 1. Business - Environmental and Occupational Health and Safety Regulations.”

Furthermore, many states in which we operate require the disclosure of some or all of the chemicals used in our hydraulic fracturing operations. Certain aspects of one or more of these chemicals may be considered proprietary by us or our chemical suppliers. Disclosure of our proprietary chemical information to third parties or to the public, even if inadvertent, could diminish the value of our trade secrets or those of our chemical suppliers and could result in competitive harm to us, which could have an adverse impact on our business, financial condition, prospects and results of operations. Additionally, our business could be affected by a moratorium or increased regulation of companies in our supply chain, such as sand mining by our proppant suppliers, which could limit our access to supplies and increase the costs of our raw materials. At this time, it is not possible to estimate how these various restrictions could affect our ongoing operations.

Many regulatory and legislative bodies routinely evaluate the adequacy and effectiveness of laws and regulations affecting the oil and gas industry. The oil and gas industry is one of the sectors designated for increased enforcement by the EPA, which will continue to regulate our industry in the years to come. Laws and regulations protecting the environment, especially those related to GHGs and climate change, generally have become more stringent over time, and we expect them to continue to do so. This could lead to material increases in our costs and liability exposure for future environmental compliance and remediation and may negatively impact demand for our services. For example, oil and natural gas exploration and production may decline as a result of environmental requirements, including land use policies responsive to environmental concerns. Additionally, if we expand the size or scope of our operations, we could be subject to regulations that are more stringent than the requirements under which we are currently allowed to operate or require additional authorizations to continue operations. Compliance with this additional regulatory burden could increase our operating or other costs.

Additionally, failure to comply with government, industry or our own health and safety laws and regulations, or failure to comply with our compliance or reporting requirements, could tarnish our reputation for safety and quality and have a material adverse effect on our competitive position. In addition, customers maintain their own compliance and reporting requirements, and if we do not perform in accordance with their requirements, we could lose business from our customers, many of whom have an increased focus on environmental and safety issues.

***Climate change legislation, regulations restricting emissions of greenhouse gases or other action taken by public or private entities related to climate change could result in increased operating costs and reduced demand for the crude oil and natural gas produced by our customers.***

In response to findings that emissions of carbon dioxide, methane and other GHGs present an endangerment to public health and the environment, the EPA has issued regulations to restrict emissions of GHGs under existing provisions of the Clean Air Act. From time to time, the Congress has considered legislation to reduce emissions of GHGs but no such legislation has yet been adopted by Congress. Some states have individually or in regional cooperation, imposed restrictions on GHG emissions under various policies and approaches, including establishing a cap on emissions, requiring efficiency measures, or providing incentives for pollution reduction, use of renewable energy sources, or use of replacement fuels with lower carbon content. In the future, the United

States may also choose to adhere to international agreements targeting GHGs reductions. The adoption of legislation or regulatory programs to reduce emissions of GHGs could require us to incur increased operating costs, such as costs to purchase and operate emissions control systems, to acquire emissions allowances or to comply with new regulatory or reporting requirements. Any such legislation or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, the oil and natural gas our customers produce. Consequently, legislation and regulatory programs to reduce emissions of GHGs could have an adverse effect on our business, financial condition and results of operations. For more information about climate change legislation, please see “Item 1. Business - Environmental and Occupational Health and Safety Regulations.”

Furthermore, increasing attention to the risks of climate change has resulted in an increased possibility of lawsuits or investigations brought by public and private entities against oil and natural gas companies in connection with their GHGs emissions. Should we be targeted by any such litigation or investigations, we may incur liability, which, to the extent that societal pressures or political or other factors are involved, could be imposed without regard to the causation of or contribution to the asserted damage, or to other mitigating factors. The ultimate impact of GHGs emissions-related agreements, legislation and measures on our Company’s financial performance is highly uncertain because we are unable to predict with certainty, for a multitude of individual jurisdictions, the outcome of political decision-making processes and the variables and tradeoffs that inevitably occur in connection with such processes.

***If we are unable to fully protect our intellectual property rights, we may suffer a loss in our competitive advantage or market share.***

We have been granted or have received notice of allowance for 30 patents, and have an additional 104 patents pending. If we are not able to maintain the confidentiality of our trade secrets or fail to adequately protect our intellectual property rights we have now or acquire in the future, our competitive advantage would be diminished. Additionally, competitors may be able to replicate our technology or services protected by our intellectual property rights. We cannot assure you that any patents we may obtain in the future would provide us with any significant commercial benefit or would allow us to prevent our competitors from employing comparable technologies or processes.

***We may be adversely affected by disputes regarding intellectual property rights of third parties.***

Third parties from time to time may initiate litigation against us by asserting that the conduct of our business infringes, misappropriates or otherwise violates intellectual property rights. If any third parties bring a claim of intellectual property infringement against us, we may be subject to costly and time-consuming litigation, diverting the attention of management and our employees. We may not prevail in any such legal proceedings related to such claims, and our products and services may be found to infringe, impair, misappropriate, dilute or otherwise violate the intellectual property rights of others. If we are unsuccessful in defending such claims, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any legal proceeding concerning intellectual property could be protracted and costly regardless of the merits of any claim and is inherently unpredictable and could have a material adverse effect on our financial condition, regardless of its outcome.

If we were to discover that our technologies or products infringe valid intellectual property rights of third parties, we may need to obtain licenses from these parties or substantially re-engineer our products in order to avoid infringement. We may not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. If our inability to obtain required licenses for our technologies or products prevents us from selling our products, it could adversely impact our financial condition and results of operations.

***We may be subject to interruptions or failures in our information technology systems.***

We rely on sophisticated information technology systems and infrastructure to support our business, including process control technology. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, usage errors by employees, computer viruses, cyberattacks or other security breaches, or similar events. The failure of any of our information technology systems may cause disruptions in our operations, which could adversely affect our sales and profitability.

***We are subject to cybersecurity risks. A cyber incident could occur and result in information theft, data corruption, operational disruption and/or financial loss.***

The oil and natural gas industry has become increasingly dependent on digital technologies to conduct certain processing activities. For example, we depend on digital technologies to perform many of our services and to process and record financial and operating data. At the same time, cyber incidents, including deliberate attacks, have increased. The U.S. government has issued public warnings that indicate that energy assets might be specific targets of cyber security threats. Our technologies, systems and networks, and those of our vendors, suppliers and other business partners, may become the target of cyberattacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary and other information, or other disruption of business operations. In addition, certain cyber incidents, such as surveillance, may remain undetected for an extended period. In the past, we have experienced data security breaches resulting from unauthorized access to our systems, which to date have not had a material impact on our operations; however, there is no assurance that such impacts will not be material in the future. Our systems and insurance coverage for protecting against cyber security risks may not be sufficient. As cyber incidents continue to evolve, we will likely be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents. Our insurance coverage for cyberattacks may not be sufficient to cover all the losses we may experience as a result of such cyberattacks.

***Changes in transportation regulations may increase our costs and negatively impact our results of operations.***

We are subject to various transportation regulations, including as a motor carrier by the U.S. Department of Transportation and by various federal and state agencies, whose regulations include certain permit requirements of highway and safety authorities. These regulatory authorities exercise broad powers over our trucking operations, generally governing such matters as the authorization to engage in motor carrier operations, safety, equipment testing, driver requirements and specifications and insurance requirements. The trucking industry is subject to possible regulatory and legislative changes that may impact our operations, such as changes in fuel emissions limits, hours of service regulations that govern the amount of time a driver may drive or work in any specific period and limits on vehicle weight and size. As the federal government continues to develop and propose regulations relating to fuel quality, engine efficiency and GHG emissions, we may experience an increase in costs related to truck purchases and maintenance, impairment of equipment productivity, a decrease in the residual value of vehicles, unpredictable fluctuations in fuel prices and an increase in operating expenses. Increased truck traffic may contribute to deteriorating road conditions in some areas where our operations are performed. Our operations, including routing and weight restrictions, could be affected by road construction, road repairs, detours and state and local regulations and ordinances restricting access to certain routes or times on specific roadways. Proposals to increase federal, state or local taxes, including taxes on motor fuels, are also made from time to time, and any such increase would increase our operating costs. We cannot predict whether, or in what form, any legislative or regulatory changes or municipal ordinances applicable to our logistics operations will be enacted and to what extent any such legislation or regulations could increase our costs or otherwise adversely affect our business or operations.

***We may be unable to employ a sufficient number of key employees, technical personnel and other skilled or qualified workers. In addition, the absence or loss of certain key employees could adversely affect our business.***

The delivery of our services requires personnel with specialized skills and experience who can perform physically demanding work. Additionally, our ability to successfully operate our business is dependent upon the efforts of certain key personnel, including our senior management. The demand for skilled workers in our areas of operations can be high, the supply may be limited, and we may be unable to relocate our employees from areas of lower utilization to areas of higher demand. If we are unable to retain or meet growing demand for skilled technical personnel, our operating results and our ability to execute our growth strategies may be adversely affected. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. Further, a significant decrease in the wages paid by us or our competitors as a result of reduced industry demand could result in a reduction of the available skilled labor force, and there is no assurance that the availability of skilled labor will improve following a subsequent increase in demand for our services or an increase in wage rates.

We are subject to the Fair Labor Standards Act, which governs such matters as minimum wage, overtime and other working conditions, and require full compliance with the Immigration Reform and Control Act of 1986 and other laws concerning immigration and the hiring of legally documented workers. In some cases, it may be necessary to obtain a required work authorization from the U.S. Department of Homeland Security or similar government agency prior to a foreign national working as an employee for us. There may be costs that arise in the course of our efforts to comply with various current or future labor and employment related regulations.

In addition, many key responsibilities within our business have been assigned to a small number of employees. The unexpected loss or unavailability of key members of management or technical personnel, in particular one or more members of our executive team, including our chief executive officer, chief financial officer, chief administrative officer and chief operating officer, may have a material adverse effect on our business, financial condition, prospects or results of operations. We do not maintain “key person” life insurance policies on any of our employees. As a result, we are not insured against any losses resulting from the death of our key employees.

***Anti-indemnity provisions enacted by many states may restrict or prohibit a party’s indemnification of us.***

We typically enter into agreements with our customers governing the provision of our services, which usually include certain indemnification provisions for losses resulting from operations. Such agreements may require each party to indemnify the other against certain claims regardless of the negligence or other fault of the indemnified party; however, many states place limitations on contractual indemnity agreements, particularly agreements that indemnify a party against the consequences of its own negligence. Furthermore, certain states, including Texas, have enacted statutes generally referred to as “oilfield anti-indemnity acts” expressly prohibiting certain indemnity agreements contained in or related to oilfield services agreements. Such anti-indemnity acts may restrict or void a party’s indemnification of us, which could have a material adverse effect on our business, financial condition, prospects and results of operations.

***A terrorist attack or armed conflict could harm our business.***

Terrorist activities, anti-terrorist efforts and other armed conflicts involving the United States could adversely affect the U.S. and global economies and could prevent us from meeting financial and other obligations. We could experience loss of business, delays or defaults in payments from payors or disruptions of fuel supplies and markets if wells, operations sites or other related facilities are direct targets or indirect casualties of an act of terror or war. Such activities could reduce the overall demand for oil and gas, which, in turn, could also reduce the demand for our products and services. Terrorist activities and the threat of potential terrorist activities and any resulting economic downturn could adversely affect our results of operations, impair our ability to raise capital or otherwise adversely impact our ability to realize certain business strategies.

***We are exposed to the credit risk of our customers, and any material nonpayment or nonperformance by our customers could adversely affect our financial results.***

We are subject to the risk of loss resulting from nonpayment or nonperformance by our customers, many of whose operations are concentrated solely in the domestic E&P industry which, as described above, is subject to volatility and, therefore, credit risk. Our credit procedures and policies may not be adequate to fully reduce customer credit risk. If we are unable to adequately assess the creditworthiness of existing or future customers or unanticipated deterioration in their creditworthiness, any resulting increase in nonpayment or nonperformance by them and our inability to re-market or otherwise use our equipment could have a material adverse effect on our business, financial condition, prospects or results of operations.

***We rely on a limited number of third parties for sand, proppant and chemicals, and delays in deliveries of such materials, increases in the cost of such materials or our contractual obligations to pay for materials that we ultimately do not require could harm our business, results of operations and financial condition.***

We have established relationships with a limited number of suppliers of our raw materials (such as sand, proppant and chemicals). Should any of our current suppliers be unable to provide the necessary materials or otherwise fail to deliver the materials in a timely manner and in the quantities required, any resulting delays in the provision of services could have a material adverse effect on our business, results of operations and financial condition. Additionally, increasing and volatile costs of such materials may negatively impact demand for our services or the profitability of our business operations. In the past, our industry faced sporadic proppant shortages associated with hydraulic fracturing operations requiring work stoppages, which adversely impacted the operating results of several competitors. We may not be able to mitigate any future shortages of materials, including proppant. Additionally, we have purchase commitments with certain vendors to supply a majority of the proppant used in our operations. Some of these agreements are “take or pay” agreements with minimum purchase obligations. If demand for our services decreases, demand for the raw materials we supply as part of these services will also decrease. Additionally, some of our customers have bought, and in the future may buy, proppant directly from vendors, reducing our need for proppant. If demand decreases enough, or our customers buy proppant directly from vendors, we could have contractual minimum commitments that exceed the required amount of goods we need to supply to our customers. To the extent our contracts require us to purchase more materials, including proppant, than we ultimately require, we may be forced to pay for the excess amount under “take or pay” contract provisions.

***Delays or restrictions in obtaining permits by us for our operations or by our customers for their operations could impair our business.***

Our operations and the operations of our oil and natural gas producing customers require permits from one or more governmental agencies in order to perform drilling and completion activities, secure water rights, or engage in other regulated activities. Such permits are typically issued by state agencies, but federal and local governmental permits may also be required. The requirements for such permits vary depending on the location where such regulated activities will be conducted. As with all governmental permitting processes, there is a degree of uncertainty as to whether a permit will be granted, the time it will take for a permit to be issued, and the conditions that may be imposed in connection with the granting of the permit. Therefore, our customers’ operations in certain areas of the United States may be interrupted or suspended for varying lengths of time, causing a loss of revenue to us and adversely affecting our results of operations in support of those customers.

***Oil and natural gas companies’ operations using hydraulic fracturing are substantially dependent on the availability of water. Restrictions on the ability to obtain water for exploration and production activities and the disposal of flowback and produced water may impact their operations and have a corresponding adverse effect on our business, results of operations and financial condition.***

Water is an essential component of shale oil and natural gas production during both the drilling and hydraulic fracturing processes. Our oil and natural gas producing customers’ access to water to be used in these processes may be adversely affected due to reasons such as periods of extended drought, private, third-party competition for water in localized areas or the implementation of local or state governmental programs to monitor or restrict the beneficial use of water subject to their jurisdiction for hydraulic fracturing to assure adequate local water supplies. The occurrence of these or similar developments may result in limitations being placed on allocations of water due to needs by third-party businesses with more senior contractual or permitting rights to the water. Our customers’ inability to locate or contractually acquire and sustain the receipt of sufficient amounts of water could adversely impact their exploration and production operations and have a corresponding adverse effect on our business, results of operations and financial condition.

Moreover, the imposition of new environmental regulations and other regulatory initiatives could include increased restrictions on our producing customers' ability to dispose of flowback and produced water generated in hydraulic fracturing or other fluids resulting from exploration and production activities. For more information about water-related regulations, please see "Item 1. Business - Environmental and Occupational Health and Safety Regulations." Compliance with current and future environmental regulations and permit requirements governing the withdrawal, storage and use of surface water or groundwater necessary for hydraulic fracturing of wells and any inability to secure transportation and access to disposal wells with sufficient capacity to accept all of our flowback and produced water on economic terms may increase our customers' operating costs and cause delays, interruptions or termination of our customers' operations, the extent of which cannot be predicted. In addition, the legal requirements related to the disposal of produced water into a non-producing geologic formation by means of underground injection wells are subject to change based on concerns of the public or governmental authorities regarding such disposal activities. One such concern arises from recent seismic events near underground disposal wells that are used for the disposal by injection of produced water resulting from oil, natural gas and natural gas liquids activities. In response to concerns regarding induced seismicity, regulators in some states have imposed, or are considering imposing, additional requirements in the permitting of produced water disposal wells to assess any relationship between seismicity and the use of such wells. Among other things, these rules require companies seeking permits for disposal wells to provide seismic activity data in permit applications, provide for more frequent monitoring and reporting for certain wells and allow the state to modify, suspend or terminate permits on grounds that a disposal well is likely to be, or determined to be, causing seismic activity. States may issue orders to temporarily shut down or to curtail the injection depth of existing wells in the vicinity of seismic events.

Another consequence of seismic events may be lawsuits alleging that disposal well operations have caused damage to neighboring properties or otherwise violated state and federal rules regulating waste disposal. These developments could result in additional regulation and restrictions on the use of injection wells by us. Increased regulation and attention given to induced seismicity could also lead to greater opposition, including litigation to limit or prohibit oil, natural gas and natural gas liquids activities utilizing injection wells for produced water disposal.

Any one or more of these developments may result in us or our vendors having to limit disposal well volumes, disposal rates and pressures or locations, or require us or our vendors to shut down or curtail the injection into disposal wells, which events could have a material adverse effect on our business, financial condition and results of operations.

*Our ability to expand our operations relies in part on our ability to market our Clean Fleet® technology, and advancements in well service technologies, including those involving hydraulic fracturing, could have a material adverse effect on our business, financial condition and results of operations.*

The hydraulic fracturing industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies, some of which may be subject to patent or other intellectual property protections. For example, we use our patented Clean Fleet® technology as a competitive advantage in the markets we serve. As competitors and others use or develop new or comparable technologies in the future, we may lose market share or be placed at a competitive disadvantage. Further, we may face competitive pressure to develop, implement or acquire certain new technologies at a substantial cost. Some of our competitors may have greater financial, technical and personnel resources than we do, which may allow them to gain technological advantages or implement new technologies before we can. Additionally, we may be unable to implement new technologies or services at all, on a timely basis or at an acceptable cost. New technology could also make it easier for our customers to vertically integrate their operations, thereby reducing or eliminating the need for our services. Limits on our ability to effectively use or implement new technologies may have a material adverse effect on our business, financial condition and results of operations.

*We may record losses or impairment charges related to idle assets or assets that we sell.*

Prolonged periods of low utilization, changes in technology or the sale of assets below their carrying value may cause us to experience losses. These events could result in the recognition of impairment charges that negatively impact our financial results. Significant impairment charges as a result of a decline in market conditions or otherwise could have a material adverse effect on our results of operations in future periods.

#### **Risks Related to Our Securities**

*Our only significant assets are the ownership of a majority interest in USWS Holdings, and such ownership may not be sufficient to generate the funds necessary to meet our financial obligations.*

We have no direct operations or significant assets other than the ownership of a majority (92%) interest in USWS Holdings. We depend on USWS Holdings and its subsidiaries, including U.S. Well Services, LLC, for distributions, loans and other payments to generate the funds necessary to meet our financial obligations. Subject to certain restrictions, USWS Holdings generally will be required to (i) make pro rata distributions to its members, including us, in an amount at least sufficient to enable us to pay our taxes and (ii) reimburse us for certain corporate and other overhead expenses. However, legal and contractual restrictions in agreements governing indebtedness of USWS Holdings and its subsidiaries, as well as the financial condition and operating requirements of USWS Holdings and its subsidiaries may limit our ability to obtain cash from USWS Holdings. The earnings from, or other available assets of, USWS Holdings and its subsidiaries, may not be sufficient to enable us to satisfy our financial obligations. USWS Holdings is classified as a partnership for U.S. federal income tax purposes and, as such, will not be subject to any entity-level U.S. federal income tax. Instead, taxable income will be allocated to holders of USWS Units, including us. As a result, we generally will incur taxes on our allocable share of any net taxable income generated by USWS Holdings. Under the terms of the Amended and Restated Limited Liability Company Agreement of USWS Holdings, dated November 9, 2018 (the “A&R USWS Holdings LLC Agreement”), among MPAC and certain owners of common units in USWS Holdings, USWS Holdings is obligated to make tax distributions to holders of the USWS Units, including us, except to the extent such distributions would render USWS Holdings insolvent or are otherwise prohibited by law or the terms of any future financing agreement of USWS Holdings or its subsidiaries. In addition to our tax obligations, we also incur expenses related to our operations and our interests in USWS Holdings, including costs and expenses of being a publicly-traded company, all of which could be significant. To the extent that we require funds and USWS Holdings or its subsidiaries are restricted from making distributions under applicable law or regulation or under the terms of their financing arrangements, or are otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition, including our ability to pay our income taxes when due.

***There can be no assurance that we will be able to comply with the continued listing standards of Nasdaq.***

Our Class A common stock and warrants are currently listed on Nasdaq. There can be no assurance that we will be able to meet Nasdaq's listing requirements with respect to our Class A common stock and warrants. If our Class A common stock or warrants are delisted, there could be limited availability of market quotations for the Class A common stock and warrants and reduced liquidity in trading for these securities. Although we anticipate that these securities would be eligible for quotation and trading on the over-the-counter market, there can be no assurance that trading would be commenced or maintained on the over-the-counter market.

In addition, if we fail to meet Nasdaq's listing requirements with respect to our Class A common stock, in addition to reduced liquidity, we and our stockholders could face significant material adverse consequences including:

- a determination that our Class A common stock is a "penny stock" which will require brokers trading in our stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities;
- a limited amount of news and analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

The National Securities Markets Improvement Act of 1996, which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as "covered securities." Because our Class A common stock is listed on Nasdaq, it is a covered security. Although the states are preempted from regulating the sale of our Class A common stock, if we were no longer listed on Nasdaq, our Class A common stock would not be a covered security and we would be subject to regulation in each state in which we offer our Class A common stock.

***The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act, and the requirements of the Sarbanes-Oxley Act, increases costs and distracts management, and we may be unable to comply with these requirements in a timely or cost-effective manner.***

As a public company, we are subject to laws, regulations and requirements, certain corporate governance provisions, related regulations of the SEC and the requirements of Nasdaq, including the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act and other applicable securities rules and regulations. Compliance with these rules and regulations require us to incur significant additional legal, accounting and other expenses that we would not incur if we were not a public company.

The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act and the rules subsequently implemented by the SEC and the national securities exchanges, establish certain requirements for the corporate governance practices of public companies. For example, as a result of becoming a public company, we have additional board committees and are required to maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight are required.

We rely on a small number of key personnel to manage compliance with these regulations, and compliance with such regulations causes additional costs to our operations and diverts management's attention from implementing our growth strategy, which could prevent us from improving our business, results of operations and financial condition. We have made, and will continue to make, changes to our internal control over financial reporting, accounting systems disclosure controls and procedures, auditing functions and other procedures related to public reporting in order to meet our reporting obligations as a public company.

***We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will result in significant savings.***

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act (“JOBS Act”). For as long as we remain an “emerging growth company,” we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies.” We will remain an “emerging growth company” for up to five years or until such earlier time that we have more than \$1.07 billion in annual revenues, have more than \$700 million in market value of our common shares held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt over a three-year period. Further, there is no guarantee that the exemptions available to us under the JOBS Act will result in significant savings. To the extent we choose not to use exemptions from various reporting requirements under the JOBS Act, we may incur additional compliance costs, which may impact earnings and result in further diversion of management time and attention from revenue-generating activities.

***An active, liquid and orderly trading market for our securities may not be maintained, which could adversely affect the liquidity and price of our securities.***

An active, liquid and orderly trading market for our securities may not be maintained. Active, liquid and orderly trading markets usually result in less price volatility and more efficiency in carrying out investors’ purchase and sale orders. The market price of our securities could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our securities, you could lose a substantial part or all of your investment in our securities.

The following factors could affect the price of our securities:

- quarterly variations in our financial and operating results;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- strategic actions by our competitors;
- the failure of securities or industry analysts to cover our securities or publish research or reports about us, our business, or our market;
- changes in revenue or earnings estimates, or changes in recommendations or withdrawal of research coverage, by equity research analysts;
- speculation in the press or investment community;
- sales of our securities by us or our stockholders, or the perception that such sales may occur;
- the volume of our securities available for public sale;
- changes in accounting principles, policies, guidance, interpretations or standards;
- additions or departures of key management personnel;
- actions by our stockholders;
- general market conditions, including fluctuations in commodity prices;
- domestic and international economic, legal and regulatory factors unrelated to our performance; and
- the realization of any risks described under this “Risk Factors” section.

The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our securities. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

***Future sales or the availability for sale of substantial amounts of our Class A common stock, or the perception that these sales may occur, could adversely affect the trading price of our Class A common stock and could impair our ability to raise capital through future sales of equity securities.***

Our Second Amended and Restated Certificate of Incorporation (as amended, the "Second Amended and Restated Charter") authorizes us to issue 400,000,000 shares of Class A common stock, of which 62,857,624 shares were outstanding as of March 2, 2020, and 10,000,000 shares of preferred stock, of which 55,000 shares of Series A convertible redeemable preferred stock ("Series A preferred stock") were outstanding as of March 2, 2020. The holders of the Series A preferred stock will have the right to convert all or any portion of their shares of Series A preferred stock into shares of Class A common stock beginning in May 2020. In addition, as of March 2, 2020, warrants to purchase up to 15,680,651 shares of our Class A common stock were outstanding and immediately exercisable.

A large percentage of our shares of common stock are held by a relatively small number of investors. We entered into registration rights agreements (the "Registration Rights Agreements") with certain of those investors in connection with the Transaction and in connection with their subsequent purchase of Series A preferred stock and warrants pursuant to which we have filed registration statements with the SEC to facilitate potential future sales of such shares by them.

We may issue shares of our Class A common stock or other securities from time to time as consideration for future acquisitions and investments. If any such acquisition or investment is significant, the number of shares of our Class A common stock or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial. We may also grant registration rights covering those shares of our Class A common stock or other securities in connection with any such acquisitions and investments.

We cannot predict the effect that future sales of our Class A common stock will have on the price at which our Class A common stock trades or the size of future issuances of our Class A common stock or the effect, if any, that future issuances will have on the market price of our Class A common stock. Sales of substantial amounts of our Class A common stock, or the perception that such sales could occur, may adversely affect the trading price of our Class A common stock and could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities.

***Certain of our principal stockholders have significant influence over us.***

A large percentage of our shares of Class A common stock are held by a relatively small number of investors whose interests may conflict with that of our other common stockholders. Consequently, these holders (each of whom we refer to as a "principal stockholder") may have significant influence over all matters that require approval by our stockholders, including the election and removal of directors and the size of our Board, any amendment to our certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets. This concentration of ownership and the rights of our principal stockholders will limit the ability of our other common stockholders to influence corporate matters and, as a result, actions may be taken that they may not view as beneficial.

Furthermore, conflicts of interest could arise in the future between us, on the one hand, and our principal stockholders and their respective affiliates, including portfolio companies, on the other hand, concerning among other things, potential competitive business activities or business opportunities. Several of our principal stockholders are private equity firms or investment funds in the business of making investments in entities in a variety of industries. As a result, our principal stockholders' existing and future portfolio companies may compete with us for investment or business opportunities. Our Second Amended and Restated Charter provides that our directors and officers, including any of the foregoing who were designated by our principal stockholders, do not have any obligation to offer to us any corporate opportunity of which he or she may become aware prior to offering such opportunities to other entities with which they may be affiliated, subject to certain limited exceptions.

***We may amend the terms of our Public Warrants and Private Placement Warrants in a manner that may be adverse to holders with the approval by the holders of at least 65% of the then outstanding Public Warrants. As a result, the exercise price of these warrants could be increased, the exercise period could be shortened and the number of shares of our Class A common stock purchasable upon exercise of a warrant could be decreased, without approval by all of the warrant holders.***

We issued 32,500,000 warrants to purchase shares of our Class A common stock (the "Public Warrants") as part of our IPO and 15,500,000 warrants to purchase shares of our Class A common stock in a private placement that closed simultaneously with the closing of our IPO (the "Private Placement Warrants"). Our Public Warrants and Private Placement Warrants were issued in registered form under a warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and us. The warrant agreement provides that the terms of the warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision but requires the approval by the holders of at least 65% of the then outstanding Public Warrants to make any change that adversely affects the interests of the registered holders. Accordingly, we may amend the terms of the Public Warrants in a manner adverse to a holder if holders of at least 65% of the then outstanding Public Warrants approve of such amendment. Although our ability to amend the terms of the Public Warrants with the consent of at least 65% of the then outstanding Public Warrants is unlimited, examples of such amendments could be amendments to, among other things, increase the exercise price of the warrants, shorten the exercise period or decrease the number of shares of our Class A common stock purchasable upon exercise of a warrant.

***We may redeem unexpired Public Warrants prior to their exercise at a time that is disadvantageous to warrant holders, thereby making their Public Warrants worthless.***

We have the ability to redeem outstanding Public Warrants at any time after they become exercisable and prior to their expiration, at a price of \$0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, provided that the last reported sales price of our Class A common stock equals or exceeds \$24.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date we send the notice of redemption to the warrant holders. If, and when, the Public Warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. Redemption of the outstanding Public Warrants could force the warrant holders (i) to exercise their Public Warrants and pay the exercise price therefore at a time when it may be disadvantageous for them to do so, (ii) to sell their warrants at the then-current market price when they might otherwise wish to hold their Public Warrants or (iii) to accept the nominal redemption price which, at the time the outstanding warrants are called for redemption, is likely to be substantially less than the market value of their Public Warrants. None of the Private Placement Warrants will be redeemable by us so long as they are held by Matlin & Partners Acquisition Sponsor, LLC ("M&P LLC") or its permitted transferees.

***The exercise of our outstanding warrants could increase the number of shares eligible for future resale in the public market and result in dilution to our stockholders.***

As of December 31, 2019, we had 9,994,635 Public Warrants and 15,500,000 Private Placement Warrants outstanding that were issued concurrently with our IPO. Each warrant is exercisable to purchase one-half of one share of Class A common stock for \$5.75 per half share, or \$11.50 per whole share, commencing on December 9, 2018. In addition, 2,933,333 warrants were issued to certain institutional investors in connection with the issuance of our Series A preferred stock in May 2019, which are exercisable to purchase one share of our Class A common stock for \$7.66 per share. Additionally, subject to there being shares of Series A preferred stock outstanding, we will issue an aggregate of 488,888 additional warrants in quarterly installments beginning nine months after the closing date of our issuance of Series A preferred stock in May 2019. To the extent such warrants are exercised, additional shares of our Class A common stock will be issued, which will result in dilution to the then existing holders of our Class A common stock and increase the number of shares eligible for resale in the public market.

The Private Placement Warrants are identical to the Public Warrants, except that, so long as they are held by M&P LLC or its permitted transferees, (i) they will not be redeemable by us, (ii) they (including the Class A common stock issuable upon exercise of these warrants) could not, subject to certain limited exceptions, be transferred, assigned or sold by M&P LLC until December 9, 2018 and (iii) they may be exercised by M&P LLC or its permitted transferees for cash or on a cashless basis.

Additionally, the Company has engaged, and in the future may engage, in transactions to exchange outstanding warrants for shares of Class A common stock. Any transactions to exchange warrants for shares of Class A common stock will result in dilution to the then existing holders of our Class A common stock and increase the number of shares eligible for resale in the public market. Sales in the public market of substantial numbers of shares issued in connection with the exercise or exchange of warrants could adversely affect the market price of our Class A common stock.

***Our charter and bylaws contain provisions that could discourage acquisition bids or merger proposals, which may adversely affect the market price of the Class A common stock.***

Our Second Amended and Restated Charter authorizes our board of directors to issue preferred stock without stockholder approval. If our board of directors elects to issue preferred stock, it could be more difficult for a third party to acquire us. In addition, some provisions of the Second Amended and Restated Charter and our bylaws could make it more difficult for a third party to acquire control of us, even if the change of control would be beneficial to and desirable by our stockholders, including:

- a classified board of directors, so that only approximately one-third of our directors are elected each year;
- removal of directors by our stockholders only for cause and only by the affirmative vote of at least 66 2/3% of the voting power of all outstanding shares of our capital stock entitled to vote generally in the election of directors, voting together as a single class;
- adoption, amendment or repeal of our bylaws by our stockholders only by the affirmative vote of at least 66 2/3% of the voting power of all outstanding shares of our capital stock entitled to vote generally in the election of directors, voting together as a single class;
- amendment or repeal of the supermajority voting provisions of the Second Amended and Restated Charter described above only by the affirmative vote of at least 66 2/3% of the voting power of all outstanding shares of our capital stock entitled to vote on such amendment or repeal, in addition to any other vote of stockholders required by the Second Amended and Restated Charter or applicable law;
- inability of our stockholders to call special meetings or act by written consent; and
- advance notice provisions for stockholder proposals and nominations for elections to our board of directors to be acted upon at meetings of stockholders.

***The Second Amended and Restated Charter designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

The Second Amended and Restated Charter provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware ("Court of Chancery") will, to the fullest extent permitted by applicable law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us or any of our directors, officers or employees of ours arising pursuant to any provision of the Delaware General Corporation Law, the Second Amended and Restated Charter or our bylaws or (iv) any action asserting a claim against us or any of our directors, officers or other employees that is governed by the internal affairs doctrine, in each case except for such claims as to which (a) the Court of Chancery determines that it does not have personal jurisdiction over an indispensable party, (b) exclusive jurisdiction is vested in a court or forum other than the Court of Chancery or (c) the Court of Chancery does not have subject matter jurisdiction. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. As a result, the exclusive forum provision will not apply to actions arising under the Exchange Act or the rules and regulations thereunder. The Court of Chancery of the State of Delaware has recently held that a Delaware corporation can only use its constitutive documents to bind a plaintiff to a particular forum where the claim involves rights or relationships that were established by or under Delaware's corporate law. As such, these exclusive forum provisions are also not meant to apply to actions arising under the Securities Act. In any case, our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capitalstock will be deemed to have notice of, and consented to, the provisions of our Second Amended and Restated Charter described in the preceding paragraph. This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and such persons. Additionally, a court could determine that the exclusive forum provision is unenforceable. If a court were to find these provisions of our Second Amended and Restated Charter inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

***Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our financial condition and results of operations.***

We will be subject to income taxes in the United States, and our domestic tax liabilities will be subject to the allocation of expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowances;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations or interpretations thereof; and
- lower than anticipated future earnings in jurisdictions where we have lower statutory tax rates and higher than anticipated future earnings in jurisdictions where we have higher statutory tax rates.

In addition, we may be subject to audits of our income, sales and other transaction taxes by U.S. federal and state authorities. Outcomes from these audits could have an adverse effect on our financial condition and results of our operations.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our principal executive offices are located at 1360 Post Oak Boulevard, Suite 1800, Houston, Texas 77056. We lease our general office space at our corporate headquarters. We have additional corporate space at 770 South Post Oak Lane, Houston, Texas 77056. This lease expires in 2023 with the option to exit the lease in 2021. We lease various other facilities, which are located across multiple basins strategically to maximize efficiency of operations and exposure to customers.

We believe that our existing facilities are adequate for our operations and our locations allow us to efficiently serve our customers. We do not believe that any single facility is material to our operations and, if necessary, we could readily obtain a replacement facility.

**Item 3. Legal Proceedings.**

We are involved in various 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 4. Mine Safety Disclosures.**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Our Class A common stock and warrants are currently quoted on Nasdaq under the symbols "USWS" and "USWSW," respectively. Through November 9, 2018, our common stock and warrants were quoted under the symbols "MPAC" and "MPACW," respectively.

Additionally, the Company is authorized to issue 20,000,000 shares of Class B common stock with a par value of \$0.0001 per share. At December 31, 2019 there were 5,500,692 shares of Class B common stock issued and outstanding. 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. There is no market for our Class B common stock.

#### Holders of our Common Stock

As of March 2, 2020, there were 107 stockholders of record of our Class A common stock and 8 stockholders of record of our Class B common stock. The number of record holders is based upon the actual number of holders registered on the books of the Company at such date and does not include holders of shares in "street name" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depositories.

#### Dividend Policy

We have not paid any dividends since our inception and we do not intend to pay regular cash dividends in the foreseeable future. We are not required to pay dividends, and our stockholders will not be guaranteed, or have contractual or other rights to receive, dividends. The declaration and payment of any future dividends will be at the sole discretion of our board of directors and will depend upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions to the extent there are any with respect to the payment of dividends, and other considerations that our board of directors deems relevant.

#### Recent Sales of Unregistered Equity Securities

We had no sales of unregistered equity securities during the period covered by this Annual Report that were not previously reported in a Current Report on Form 8-K.

#### Equity Compensation Plan Information

The following table summarizes our issuance of stock option awards under our 2018 Stock Incentive Plan as of December 31, 2019:

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,068,162	\$8.91 per share	4,321,826

## Item 6. Selected Financial Data.

The following table shows selected historical financial information of the Company for the periods and as of the dates indicated. The selected historical consolidated financial information of the Company was derived from the audited historical consolidated financial statements of the Company included elsewhere in this Annual Report.

Our historical results are not necessarily indicative of future operating results. The selected consolidated financial information should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as the historical consolidated financial statements of the Company and accompanying notes included in “Item 8. Financial Statements and Supplementary Data” in this Annual Report.

(in thousands, except per share amounts)

	Year Ended December 31, 2017				
	Successor	Successor	Successor	Predecessor	Predecessor
	Year Ended December 31, 2019	Year Ended December 31, 2018	February 2, 2017 (inception) to December 31, 2017	January 1, 2017 to February 1, 2017	Year Ended December 31, 2016
<b>Statement of Operations Data:</b>					
Revenue	\$ 514,757	\$ 648,847	\$ 466,487	\$ 32,867	\$ 294,755
<b>Costs and expenses:</b>					
Cost of services (excluding depreciation and amortization)	383,957	533,031	394,125	28,053	262,311
Depreciation and amortization	154,149	108,440	92,430	4,920	66,084
Selling, general and administrative expenses	31,856	34,497	17,601	1,281	9,837
Impairment loss on intangible assets	-	-	20,247	-	-
Loss on disposal of assets	20,065	10,848	11,958	201	6,560
Loss from operations	(75,270)	(37,969)	(69,874)	(1,588)	(50,037)
Interest expense, net	(30,099)	(32,636)	(22,961)	(4,067)	(45,376)
Loss on extinguishment of debt	(12,558)	(190)	-	-	-
Other income (expense)	1,768	333	(787)	1	9
Loss before income taxes	(116,159)	(70,462)	(93,622)	(5,654)	(95,404)
Income tax expense (benefit)	(77)	352	-	-	-
Net loss	\$ (116,082)	\$ (70,814)	\$ (93,622)	\$ (5,654)	\$ (95,404)
Loss per share	\$ (2.11)	\$ (1.33)	\$ (1.89)	\$ (0.11)	\$ (1.93)
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 33,794	\$ 29,529	\$ 5,923	(b)	\$ 5,192
Property and equipment, net	441,610	331,387	251,288	(b)	197,512
Total assets	612,782	480,230	407,596	(b)	246,895
Total debt including capital leases	315,248	133,477	264,594	(b)	300,633
Total liabilities	426,114	239,881	363,333	(b)	369,847
Total mezzanine equity	38,928	-	-	(b)	159,431
Total members' equity	147,740	240,349	44,263	(b)	(282,383)
<b>Cash Flow Statement Data:</b>					
Net cash provided (used) by operating activities	\$ 74,844	\$ 83,469	\$ 47,287	\$ (2,777)	\$ 22,719
Net cash used in investing activities	(208,294)	(139,573)	(71,565)	-	(18,792)
Net cash provided by financing activities	144,818	79,714	26,316	1,473	1,765
<b>Other Financial Data</b>					
Adjusted EBITDA (a)	\$ 117,996	\$ 117,445	\$ 67,729	\$ 4,628	\$ 24,692
Capital expenditures	209,101	147,606	(71,584)	-	19,045

- (a) Adjusted EBITDA is a non-GAAP financial measure. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net loss, see “Non-GAAP Financial Measures” below.  
(b) Balance sheet data only provided as of each calendar year end.

## Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA are non-GAAP financial measures and should not be considered as a substitute for net income (loss), operating income (loss) or any other performance measure derived in accordance with GAAP or as an alternative to net cash provided by operating activities as a measure of our profitability or liquidity. Our management believes EBITDA and Adjusted EBITDA are useful because they allow external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, to more effectively evaluate our operating performance, compare the results of our operations from period to period and against our peers without regard to our financing methods or capital structure and because it highlights trends in our business that may not otherwise be apparent when relying solely on GAAP measures. We present EBITDA and Adjusted EBITDA because we believe EBITDA and Adjusted EBITDA are important supplemental measures of our performance that are frequently used by others in evaluating companies in our industry. Because EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income (loss) and may vary among companies, the EBITDA and Adjusted EBITDA we present may not be comparable to similarly titled measures of other companies. We define EBITDA as earnings before interest, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA excluding the following: loss on disposal of assets; share-based compensation; impairments, and other items that management believes to be nonrecurring in nature.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA from net loss, our most directly comparable financial measure calculated and presented in accordance with GAAP:

(in thousands)	Year Ended				
	December 31, 2017				
	Successor	Successor	Successor	Predecessor	Predecessor
	Year Ended December 31, 2019	Year Ended December 31, 2018	February 2, 2017 (inception) to December 31, 2017	January 1, 2017 to February 1, 2017	Year Ended December 31, 2016
Net loss	\$ (116,082)	\$ (70,814)	\$ (93,622)	\$ (5,654)	\$ (95,404)
Interest expense, net	30,099	32,636	22,961	4,067	45,376
Income tax expense (benefit)	(77)	352	-	-	-
Depreciation and amortization	154,149	108,440	92,430	4,920	66,084
EBITDA	68,089	70,614	21,769	3,333	16,056
Loss on disposal of assets (a)	20,065	10,848	11,958	201	6,560
Share based compensation (b)	7,755	20,633	4,546	-	-
Impairment loss (c)	-	-	20,247	-	-
Certain non-productive time (d)	-	1,200	-	-	-
Fleet start-up and relocation costs (e)	9,085	5,056	4,190	-	-
Restructuring and transaction related costs (f)	1,738	4,391	5,019	1,094	2,076
Fleet 6 fire (g)	(1,294)	1,294	-	-	-
Loss on extinguishment of debt (h)	12,558	190	-	-	-
Terminated vendor contract (i)	-	3,219	-	-	-
Adjusted EBITDA	\$ 117,996	\$ 117,445	\$ 67,729	\$ 4,628	\$ 24,692

- (a) Represents net losses on the disposal of property and equipment.
- (b) Represents non-cash share-based compensation.
- (c) Represents a non-cash impairment loss with respect to intangible assets.
- (d) Represents revenue shortfall associated with non-productive time due to sand mine issues with a customer. The delays were caused by excessive wait times at the customer's chosen sand mine as sand mine operations were starting up and have since been addressed. Additionally, the Company has come to an agreement with the customer to better define how non-productive time caused by sand mine delays are to be split between the two parties. As such, the Company does not anticipate, nor has experienced, additional material revenue shortfalls related to delays at the customer's sand mine moving forward.
- (e) Represents non-recurring costs related to the start-up and relocation of hydraulic fracturing fleets.
- (f) Represents non-recurring third-party professional fees and other costs including costs related to the capital restructuring and the potential sale of U.S. Well Services, LLC.
- (g) Represents non-recurring costs related to a fleet fire (2018) and subsequent reimbursement via insurance proceeds (2019).
- (h) Represents non-recurring costs related to debt extinguishment.
- (i) Represents non-recurring accrued costs related to disputed charges under a vendor contract that was subsequently terminated.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included within “Item 8. Financial Statements and Supplementary Data.” In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect the Company’s plans, estimates, or beliefs. Actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, including, without limitation, those described in the sections titled “Cautionary Note Regarding Forward Looking Statements” and Part I, Item 1A “Risk Factors” of this Annual Report.*

### **Overview**

We provide high-pressure, hydraulic fracturing services in oil and natural gas basins. Both our conventional and Clean Fleet® 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.

### **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, pumping time, 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 years ended December 31, 2019, 2018 and 2017.

**Cost of Services**

(in thousands)

	Successor		Year Ended	
			December 31, 2017	
	Year Ended December 31, 2019	Year Ended December 31, 2018	Successor	Predecessor
			February 2, 2017 (inception) to December 31, 2017	January 1, 2017 to February 1, 2017
Materials	\$ 71,530	\$ 175,610	\$ 144,492	\$ 10,113
Transportation	45,681	86,611	62,060	5,231
Labor	124,204	107,014	76,436	5,083
Maintenance	65,201	64,467	45,235	2,469
Other (1)	77,341	99,329	65,902	5,157
<b>Cost of services</b>	<b>\$ 383,957</b>	<b>\$ 533,031</b>	<b>\$ 394,125</b>	<b>\$ 28,053</b>

(1) Other consists of fuel, lubes, equipment rentals, travel and lodging costs for our crews, site safety costs and other costs incurred in performing our operating activities.

**How We Evaluate Our Operations**

We use a variety of financial and operating metrics to evaluate and analyze the performance of our business, including EBITDA and Adjusted EBITDA. We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as earnings before interest, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA excluding the following: loss on disposal of assets; share-based compensation; impairments; and other items that management believes to be nonrecurring in nature. For a reconciliation of EBITDA and Adjusted EBITDA to net income (loss), the most directly comparable GAAP measure, see section entitled "Item 6. Selected Financial Data – Non – GAAP Financial Measures."

## Results of Operations

### Year 2019 Compared to Year 2018

(in thousands, except percentages)

	Year Ended December 31,					
	2019	% (1)	2018	% (1)	Variance	% Variance
Revenues	\$ 514,757	100.0%	\$ 648,847	100.0%	\$ (134,090)	(20.7)%
Costs and expenses:						
Cost of services (excluding depreciation and amortization)	383,957	74.6%	533,031	82.2%	(149,074)	(28.0)%
Depreciation and amortization	154,149	29.9%	108,440	16.7%	45,709	42.2%
Selling, general and administrative expenses	31,856	6.2%	34,497	5.3%	(2,641)	(7.7)%
Loss on disposal of assets	20,065	3.9%	10,848	1.7%	9,217	85.0%
Loss from operations	(75,270)	(14.6)%	(37,969)	(5.9)%	(37,301)	* (2)
Interest expense, net	(30,099)	(5.8)%	(32,636)	(5.0)%	2,537	(7.8)%
Loss on extinguishment of debt	(12,558)	(2.4)%	(190)	(0.0)%	(12,368)	* (2)
Other income	1,768	0.3%	333	0.1%	1,435	430.9%
Income tax expense (benefit)	(77)	(0.0)%	352	0.1%	(429)	* (2)
Net loss	\$ (116,082)	(22.6)%	\$ (70,814)	(10.9)%	\$ (45,268)	* (2)

(1) As a percentage of revenues. Percentage totals or differences in the above table may not equal the sum or difference of the components due to rounding.

(2) Not meaningful.

*Revenues.* The decrease in revenues 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 increased activity levels. We expect the industry trend of E&P companies self-sourcing consumables to continue resulting in decreased lower-margin revenues for us as compared to years in which we provided these consumables to our customers.

*Cost of services, excluding depreciation and amortization.* The decrease in cost of services, excluding depreciation and amortization both in dollars and as a percentage of revenues, was primarily attributable to the change in revenue mix discussed above.

*Depreciation and amortization.* The increase in depreciation and amortization was primarily due to depreciation related to four hydraulic fracturing fleets that were added after the third quarter of 2018.

*Selling, general and administrative expenses.* Selling, general and administrative expenses decreased due to a decrease in share-based compensation expense of \$9.4 million in 2019, resulting from a share-based bonus granted to our CEO and immediate vesting of Class G Units in connection with the completion of the Transaction in 2018. This decrease was partially offset by higher costs due to us becoming an SEC reporting company, with \$4.3 million of higher professional fees and public reporting expenses, \$2.2 million of headcount and salary increases and an increase in travel related costs, as well as costs related to the addition of a new office lease to support our growth and increased activity.

*Loss on disposal of assets.* The increase in loss on disposal of assets was partly 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 the 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 the amount of gain or loss recognized.

*Interest expense, net.* The decrease in interest expense, net was primarily attributable to the write-off of deferred financing costs in the fourth quarter of 2018 associated with the termination of certain of our debt agreements in connection with the Transaction, and the resulting lower average debt balance in the first quarter of 2019 compared to the prior corresponding period. This decrease was partially offset by an increase in our average debt balance beginning in the second quarter of 2019 compared to the previous corresponding periods due to the new senior term loan obtained in May 2019.

*Other income.* The increase in other income was primarily due to an insurance reimbursement received in 2019 of certain expenses incurred in 2018 in relation to a fire on one of our hydraulic fracturing fleets.

Information related to the comparison of our operating results between the years 2018 and 2017 is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2018 Form 10-K filed with the SEC.

#### Liquidity and Capital Resources

Our primary sources of liquidity are cash flows generated from operating activities, issuance of Series A preferred stock, borrowings under our ABL credit facility and senior secured term loan and availability under our ABL credit facility.

We believe that our current cash position, cash generated from operations, and borrowing capacity from our ABL facility (see “Debt Agreements - ABL Credit Facility” below for more information) will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for at least the next twelve months.

#### Cash Flows

(in thousands)

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net cash provided by (used in):		
Operating activities	\$ 74,844	\$ 83,469
Investing activities	(208,294 )	(139,573 )
Financing activities	144,818	79,714

*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, 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 decreased \$8.7 million in 2019 compared to 2018 due primarily to an increase in working capital requirements driven by new fleet deployments over the course of 2019 and diversification of our customer base with the addition of several new customers with longer payment terms than the customers they replaced.

*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 \$208.3 million in 2019, primarily due to purchases of property and equipment amounting to \$209.1 million, \$65.5 million of which related to maintaining and supporting our existing hydraulic fracturing equipment, \$119.3 million of which related to investment spending on additional fleets and \$24.3 million of which related to fleet enhancements. The investment spend in 2019 relates to the addition of three hydraulic fracturing fleets that we placed into service in the first half of 2019, deposit payments for an expansion fleet which we deployed in January 2020, maintaining and supporting our hydraulic fracturing equipment, and fleet enhancements to our existing hydraulic fracturing equipment. We expect similar spending on maintenance going forward and significantly less spending on growth initiatives unless supported by new customer contracts.

*Net Cash Provided by Financing Activities.* Net cash provided by financing activities primarily relates to proceeds from our Series A 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 our finance lease obligations. Net cash provided by financing activities was \$144.8 million in 2019. During this period, we received proceeds of \$54.5 million from our Series A preferred stock offering, which was net of issue costs, \$50.0 million from our revolving credit facility, \$9.9 million from issuance

of notes payable, and \$285.0 million from long-term debt. We also repaid \$6.4 million of debt under notes payable, \$0.8 million of debt under the new revolving credit facility, \$70.6 million of debt under equipment financing arrangements, \$16.7 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. Our financing activities largely went to funding our growth capital expenditures, specifically the building of four new electric fleets.

*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 Credit Facility (defined below) and other financing sources such as proceeds from the equity capital markets, sales of equity to current shareholders or equipment financing agreements.

## **Debt Agreements**

### *Senior Secured Term Loan*

We have a \$250.0 million Senior Secured Term Loan that matures in May 2024. We are 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 bears 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 certain issuances 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, we are 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 our 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 each of our subsidiaries, other than future unrestricted subsidiaries.

The ABL Credit Facility is subject to a springing financial covenant that requires us to maintain a certain consolidated fixed charge coverage ratio of at least 1.00 to 1.00 if our availability under the ABL Credit Facility falls below certain levels.

### Series A Convertible Redeemable Preferred Stock

On May 23, 2019, we entered into a Purchase Agreement with certain institutional investors (collectively, the “Purchasers”) to issue and sell in a private placement 55,000 shares of a newly designated 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 an 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 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 December 31, 2019 (in thousands):

	Less than 1 year	1 - 3 Years	3 - 5 Years	Thereafter	Total
Senior Secured Term Loan	\$ 6,250	\$ 15,000	\$ 228,750	\$ -	\$ 250,000
ABL Credit Facility	-	-	40,090	-	40,090
Equipment financing	5,564	10,501	-	-	16,065
Notes payable	8,068	-	-	-	8,068
Capital lease obligations (1)	10,474	-	-	-	10,474
Estimated interest payments (2)	45,913	83,143	11,076	-	140,132
Operating lease obligations (3)	1,743	2,185	325	-	4,253
Purchase commitments (4)	9,467	-	-	-	9,467
Sand purchase agreements (5)	16,108	960	-	-	17,068
Total	<u>\$ 103,587</u>	<u>\$ 111,789</u>	<u>\$ 280,241</u>	<u>\$ -</u>	<u>\$ 495,617</u>

(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 December 31, 2019.

(3) Operating lease obligations are related to our facilities and office space(s).

(4) Purchase commitments relate to purchase agreements with a vendor to purchase certain components for use by our fleets.

- (5) Sand purchase agreements 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 December 31, 2019.

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

Our off-balance sheet arrangements include the operating leases and unconditional purchase commitments disclosed in the “Liquidity and Capital Resources” section in the contractual obligations table above.

We do not have any interest in entities referred to as variable interest entities.

#### **Critical Accounting Policies and 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.

We discuss our significant estimates used in the preparation of the financial statements in the notes accompanying the financial statements. Listed below are the accounting policies we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved.

##### *Revenue Recognition*

We adopted Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers” on January 1, 2019 using the modified retrospective approach. As a result of adoption of ASC 606, we 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 our financial statements.

Our revenues consist of providing hydraulic fracturing services for either a pre-determined term or number of stages/wells to E&P companies operating in the onshore oil and natural gas basins of the United States. In the performance of these services, and at the request of our customers, we may also provide consumables such as chemicals and sand. Revenues are earned as services are rendered, which is generally on a per stage or 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. Our performance obligations are satisfied over time, typically measured in the 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 we provided and consumed in completing the stage. The field ticket is signed by a customer representative and evidences the amounts to which we have 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 consolidated statements of operations since their related performance obligations are typically satisfied within a month or less. Our 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.

We have elected to use the “as invoiced” practical expedient to recognize revenue based upon the amount we have 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. We

believe that this is an accurate reflection of the value transferred to the customer as each incremental obligation is performed.

We have 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*

We analyze the need for an allowance for doubtful accounts for estimated losses related to potentially uncollectible accounts receivable on a case-by-case basis throughout the year. We reserve amounts based on specific identification after considering each customer's situation, including payment patterns, current financial condition as well as general economic conditions. It is reasonably possible that our estimates of the allowance for doubtful accounts will change and that losses ultimately incurred could differ materially from the amounts estimated in determining the allowance.

#### *Property and Equipment*

We calculate depreciation based on the estimated useful lives of our assets. When assets are placed into service, we make estimates with respect to their useful lives that we believe are reasonable. However, the cyclical nature of our business, which results in fluctuations in the use of our equipment and the environments in which we operate, could cause us to change our estimates, thus affecting the future calculation of depreciation.

We continuously perform repair and maintenance expenditures on our service equipment. Expenditures for renewals and betterments that extend the lives of our service equipment, which may include the replacement of significant components of service equipment, are capitalized and depreciated. Other repairs and maintenance costs are expensed as incurred. The determination of whether an expenditure should be capitalized or expensed requires management judgment with regard to the effect of the expenditure on the useful life of the equipment.

We separately identify and account for certain significant components of our hydraulic fracturing units including the engine, transmission, and pump, which requires us to separately estimate the useful lives of these components. For our other service equipment, we do not separately identify and track depreciation of specific original components. When we replace components of these assets, we typically have to estimate the net book values of the components that are retired, which are based primarily upon their replacement costs, their ages and their original estimated useful lives.

#### *Definite-lived Intangible Assets*

At December 31, 2019, our net book value of definite-lived intangible assets was \$21.8 million and the related amortization reflected in our consolidated statement of operations was \$6.1 million for the year ended December 31, 2019. These intangible assets are primarily related to patents and trademarks acquired in a business acquisition. We calculate amortization for these assets based on their estimated useful lives. When these assets are recorded, we make estimates with respect to their useful lives that we believe are reasonable. However, these estimates contain judgments regarding the future utility of these assets and a change in our assessment of the useful lives of these assets could materially change the future calculation of amortization.

#### *Impairment of Long-Lived Assets*

Long-lived assets, such as property and equipment and amortizable identifiable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When impairment is indicated, we determine the amount by which the assets carrying value exceeds its fair value. We consider a number of factors such as estimated future cash flows, appraisals and current market value analysis in determining fair value. Assets are written down to fair value if the concluded current fair value is below the net carrying value. If actual results or performance are not consistent with our estimates and assumptions, we may be subject to additional impairment charges, which could be material to our results of operations. For example, if our results of operations significantly decline as a result of an extended decline in the price of oil, there could be a material increase in the impairment of long-lived assets in future periods.

#### *Fair Value of the Series A Preferred Stock and Warrants Issued*

The fair values of the Series A preferred stock and associated warrants issued in May 2019 were calculated using a discounted cash flow model and Black-Scholes option-pricing model, respectively, which involve significant judgments and estimates.

#### *Share-based Compensation*

We sponsor a share-based compensation program for employees and nonemployees. We account for the employee share-based awards based on the fair value of the award, and recognize the expense over the requisite service period, or upon the occurrence of certain vesting events.

Share-based awards to nonemployees are expensed over the period in which the related services are rendered. The grant-date fair value of the awards is estimated using the Black-Scholes option-pricing model, or probability-weighted discounted cash flow model and market valuation approaches. Each of these valuation approaches involves significant judgments and estimates, including estimates regarding our future operations or the determination of a comparable public company peer group.

#### *Income Taxes*

Prior to the completion of the Transaction, the Company was a limited liability company and was 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.

Post-Transaction, the Company 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. Our deferred tax calculation and valuation allowance requires us to make certain estimates about future operations. Changes in state or federal tax laws, as well as changes in our financial condition or the carrying value of existing assets and liabilities, could affect those estimates. The effect of a change in tax rates is recognized as income or expense in the period that the rate is enacted.

#### **Recent Accounting Pronouncements**

See Note 3 – Accounting Standards to our audited consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” for further discussion regarding recently issued accounting standards.

#### **Related Party Transactions**

See Note 17 – Related Party Transactions to our audited consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” for further discussion regarding related party transactions.

**Item 7A. 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 and ABL Credit Facility. These agreements are subject to an annual interest rate that is indexed to the London Interbank Offered Rate (“LIBOR”). Refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Debt Agreements.” The impact of a 1% increase in interest rates on our outstanding debt would have resulted in an increase in interest expense of approximately \$2.9 million for the year ended December 31, 2019.

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 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations” for the contractual commitments and obligations table as of December 31, 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 8. Financial Statements and Supplementary Data.**

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors

U.S. Well Services, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of U.S. Well Services, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2019 and 2018 (Successor), for the period February 2, 2017 to December 31, 2017 (Successor), and for the period January 1, 2017 to February 1, 2017 (Predecessor), and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years ended December 31, 2019 and 2018 (Successor), for the period February 2, 2017 to December 31, 2017 (Successor), and for the period January 1, 2017 to February 1, 2017 (Predecessor), in conformity with U.S. generally accepted accounting principles.

*New Basis for Presentation*

As discussed in note 1 to the consolidated financial statements, on February 2, 2017, the Company completed a transaction to restructure its capital structure and applied acquisition method accounting in conformity with Accounting Standards Codification Topic 805, Business Combinations. Accordingly, the accompanying consolidated financial statements for the Successor periods includes assets acquired and liabilities assumed that were recorded at fair value having carrying amounts not comparable with prior periods, as discussed in note 2 to the consolidated financial statements.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2012.

Houston, Texas  
March 5, 2020

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

	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 33,794	\$ 29,529
Restricted cash	7,610	507
Accounts receivable (net of allowance for doubtful accounts of \$22 and \$189 in 2019 and 2018, respectively)	79,542	58,026
Inventory, net	9,052	9,413
Prepays and other current assets	13,332	16,437
Total current assets	<u>143,330</u>	<u>113,912</u>
Property and equipment, net	441,610	331,387
Intangible assets, net	21,826	27,890
Goodwill	4,971	4,971
Deferred financing costs, net	1,045	2,070
<b>TOTAL ASSETS</b>	<u>\$ 612,782</u>	<u>\$ 480,230</u>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 70,170	\$ 89,360
Accrued expenses and other current liabilities	40,481	17,044
Notes payable	8,068	4,560
Current portion of long-term equipment financing	5,564	3,263
Current portion of long-term capital lease obligation	10,474	25,338
Current portion of long-term debt	6,250	900
Total current liabilities	<u>141,007</u>	<u>140,465</u>
Long-term equipment financing	10,501	8,304
Long-term debt	274,391	91,112
Deferred rent	215	-
<b>TOTAL LIABILITIES</b>	<u>426,114</u>	<u>239,881</u>
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 December 31, 2019; aggregate liquidation preference of \$59,050 as of December 31, 2019	38,928	-
<b>STOCKHOLDERS' EQUITY</b>		
Class A Common Stock, par value of \$0.0001 per share; 400,000,000 shares authorized; 62,857,624 shares and 49,254,760 shares issued and outstanding as of December 31, 2019 and 2018, respectively	5	5
Class B Common Stock, par value of \$0.0001 per share; 20,000,000 shares authorized; 5,500,692 shares and 13,937,332 shares issued and outstanding as of December 31, 2019 and 2018, respectively	1	1
Additional paid in capital	248,302	204,928
Accumulated deficit	(111,201)	(17,383)
Total stockholders' equity attributable to U.S. Well Services, Inc.	<u>137,107</u>	<u>187,551</u>
Noncontrolling interest	10,633	52,798
Total Stockholders' Equity	<u>147,740</u>	<u>240,349</u>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY</b>	<u>\$ 612,782</u>	<u>\$ 480,230</u>

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

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

	Successor	Successor	Successor	Predecessor
	Year Ended December 31, 2019	Year Ended December 31, 2018	February 2, 2017 (inception) to December 31, 2017	January 1, 2017 to February 1, 2017
Revenue	\$ 514,757	\$ 648,847	\$ 466,487	\$ 32,867
Costs and expenses:				
Cost of services (excluding depreciation and amortization)	383,957	533,031	394,125	28,053
Depreciation and amortization	154,149	108,440	92,430	4,920
Selling, general and administrative expenses	31,856	34,497	17,601	1,281
Impairment loss on intangible assets	-	-	20,247	-
Loss on disposal of assets	20,065	10,848	11,958	201
Loss from operations	(75,270)	(37,969)	(69,874)	(1,588)
Interest expense, net	(30,099)	(32,636)	(22,961)	(4,067)
Loss on extinguishment of debt	(12,558)	(190)	-	-
Other income (expense)	1,768	333	(787)	1
Loss before income taxes	(116,159)	(70,462)	(93,622)	(5,654)
Income tax expense (benefit)	(77)	352	-	-
Net loss	(116,082)	(70,814)	(93,622)	(5,654)
Net loss attributable to noncontrolling interest	(22,169)	(4,918)	-	-
Net loss attributable to U.S. Well Services, Inc.	(93,913)	(65,896)	(93,622)	(5,654)
Dividends accrued on Series A preferred stock	(4,050)	-	-	-
Deemed and imputed dividends on Series A preferred stock	(11,206)	-	-	-
Net loss attributable to U.S. Well Services, Inc. Common stockholders	<u>\$ (109,169)</u>	<u>\$ (65,896)</u>	<u>\$ (93,622)</u>	<u>\$ (5,654)</u>
Loss per common share (See Note 12):				
Basic and diluted	\$ (2.11)	\$ (1.33)	\$ (1.89)	\$ (0.11)
Weighted average common shares outstanding:				
Basic and diluted	50,244	47,899	47,940	47,940

U.S. WELL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Successor	Successor	Successor	Predecessor
	Year Ended December 31, 2019	Year Ended December 31, 2018	February 2, 2017 (inception) to December 31, 2017	January 1, 2017 to February 1, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net loss	\$ (116,082)	\$ (70,814)	\$ (93,622)	\$ (5,654)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:				
Depreciation and amortization	154,149	108,440	92,430	4,920
Impairment loss on intangible assets	-	-	20,247	-
Provision for losses on accounts receivable	434	644	438	-
Provision for losses on inventory obsolescence	359	153	450	-
Non-cash interest	-	9,553	17,456	3,155
SMRF Interests present value adjustment	-	-	-	117
Loss on disposal of assets	20,065	10,848	11,958	201
Amortization of discount on debt	1,581	50	-	54
Deferred financing costs amortization	1,410	8,534	1,775	112
Loss on extinguishment of debt	12,558	190	-	-
Share-based compensation expense	7,755	20,633	4,546	-
Changes in assets and liabilities:				
Accounts receivable	(21,950)	15,765	(35,716)	(10,175)
Inventory	2	3,591	(7,646)	(137)
Prepays and other current assets	3,226	(6,460)	(5,879)	(414)
Other non-current assets	-	-	-	113
Accounts payable	(12,316)	(22,543)	38,913	2,446
Accrued liabilities	5,463	4,887	1,937	1,922
Accrued interest	18,190	(2)	-	563
<b>Net cash provided by (used in) operating activities</b>	<b>74,844</b>	<b>83,469</b>	<b>47,287</b>	<b>(2,777)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property and equipment	(209,101)	(147,606)	(71,584)	-
Insurance proceeds from damaged property and equipment	807	8,033	19	-
<b>Net cash used in investing activities</b>	<b>(208,294)</b>	<b>(139,573)</b>	<b>(71,565)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of revolving credit facility	49,960	55,975	49,825	2,500
Repayments of revolving credit facility	(65,844)	(49,825)	(15,475)	-
Proceeds from issuance of long-term debt	285,000	40,000	-	-
Repayments of long-term debt to related party	-	(163,860)	-	-
Repayments of long-term debt	(75,000)	-	-	-
Payment of fees related to debt extinguishment	(6,560)	-	-	-
Proceeds from issuance of note payable	9,928	7,278	4,112	-
Repayments of note payable	(6,421)	(4,163)	(2,723)	(276)
Repayments of amounts under equipment financing	(70,619)	(22,997)	(4,607)	(428)
Payment to re-acquire JMRF Interest	-	-	(29)	-
Principal payments under finance lease obligation	(16,699)	(9,551)	(2,587)	(5)
Proceeds from issuance of preferred stock and warrants, net	54,524	-	-	-
Cash distribution to partners	-	(10)	-	-
Proceeds from issuance of common stock, net	-	243,865	-	-
Repurchase of common stock	-	(11,475)	-	-
Deferred financing costs	(13,451)	(5,523)	(2,200)	(318)
<b>Net cash provided by financing activities</b>	<b>144,818</b>	<b>79,714</b>	<b>26,316</b>	<b>1,473</b>
Net increase (decrease) in cash and cash equivalents and restricted cash	11,368	23,610	2,038	(1,304)
Cash and cash equivalents and restricted cash, beginning of period	30,036	6,426	4,388	5,692
Cash and cash equivalents and restricted cash, end of period	<u>\$ 41,404</u>	<u>\$ 30,036</u>	<u>\$ 6,426</u>	<u>\$ 4,388</u>

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

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

	<u>Successor</u>	<u>Predecessor</u>	<u>Successor</u>	<u>Predecessor</u>
	<u>Year Ended December 31, 2019</u>	<u>Year Ended December 31, 2018</u>	<u>February 2, 2017 (inception) to December 31, 2017</u>	<u>January 1, 2017 to February 1, 2017</u>
Supplemental cash flow disclosure:				
Interest paid	\$ 8,838	\$ 41,537	\$ 3,745	\$ 66
Income tax paid	116	-	-	-
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	11,206	-	-	-
Accrued Series A preferred stock dividends	4,050	-	-	-
Changes in accrued and unpaid capital expenditures	6,874	27,283	2,298	2,251
Assets under finance lease obligations	10,513	15,849	21,330	-
Financed equipment purchases	66,342	7,482	30,385	-
Partial settlement of debt through issuance of common stock	-	13,150	-	-
Deferred finance cost related to issuance of Class B units by USWS Holdings	-	-	8,271	-

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

**U.S. WELL SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(PREDECESSOR)**

*(In thousands, except share amounts)*

	<u>Class A Common Stock</u>		<u>Class B Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Member's Interest</u>	<u>Member's Accumulated Deficit</u>	<u>Retained Earnings</u>	<u>Noncontrolling Interests</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>						
<b>Balance, December 31, 2016</b>	-	\$ -	-	\$ -	\$ -	\$ 4,816	\$ (287,199)	\$ -	\$ -	\$ (282,383)
Accrued preferred return on Series E Units	-	-	-	-	-	-	(217)	-	-	(217)
Accrued dividends on Junior Mandatorily Redeemable Financial Interests	-	-	-	-	-	-	(1,550)	-	-	(1,550)
Partner distributions										-
Net loss							(5,654)			(5,654)
<b>Balance, February 1, 2017</b>	-	\$ -	-	\$ -	\$ -	\$ 4,816	\$ (294,620)	\$ -	\$ -	\$ (289,804)
Elimination of deficit in connection with Acquisition	-	-	-	-	-	(4,816)	294,620	-	-	289,804
<b>Balance, February 2, 2017</b>	-	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**U.S. WELL SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(SUCCESSOR)**

*(In thousands, except share amounts)*

	Class A Common Stock		Class B Common Stock		Additional Paid in Capital	Member's Interest	Member's Accumulated Deficit	Retained Earnings	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
<b>Balance, February 2, 2017</b>	-	\$ -	-	\$ -	\$ -	\$ 133,339	\$ -	\$ -	\$ -	\$ 133,339
Deemed contribution related to unit-based compensation	-	-	-	-	-	4,546	-	-	-	4,546
Net loss	-	-	-	-	-	-	(93,622)	-	-	(93,622)
<b>Balance, December 31, 2017</b>	-	\$ -	-	\$ -	\$ -	\$ 137,885	\$ (93,622)	\$ -	\$ -	\$ 44,263
Deemed contribution related to unit-based compensation	-	-	-	-	-	13,724	-	-	-	13,724
Partner distributions	-	-	-	-	-	(10)	-	-	-	(10)
Net loss prior to Transaction	-	-	-	-	-	-	(48,513)	-	-	(48,513)
Effects of the Transaction:										
Restricted stock granted to employees	530,000	-	-	-	-	-	-	-	-	-
Share-based Transaction bonus	650,000	-	-	-	6,500	-	-	-	-	6,500
Partial settlement of debt through issuance of common stock	1,314,999	-	-	-	13,150	-	-	-	-	13,150
Recapitalization	47,584,677	5	14,546,755	1	192,719	(151,599)	142,135	-	61,409	244,670
Share-based compensation subsequent to Transaction	-	-	-	-	316	-	-	-	92	408
Repurchase of common stock	(824,916)	-	(609,423)	-	(7,757)	-	-	-	(3,785)	(11,542)
Net loss subsequent to Transaction	-	-	-	-	-	-	-	(17,383)	(4,918)	(22,301)
<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	8,436,640	-	(8,436,640)	-	-	-	-	-	-	-
Change in noncontrolling interest	-	-	-	-	21,515	-	-	-	(21,515)	-
Restricted stock granted to employees	2,218,183	-	-	-	-	-	-	-	-	-
Class A Common stock granted to board members	46,875	-	-	-	331	-	-	-	87	418
Share-based compensation	-	-	-	-	5,932	-	-	-	1,405	7,337
Restricted stock forfeitures	(24,546)	-	-	-	-	-	-	-	-	-
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	-	-	-	-	(11,206)	-	-	-	-	(11,206)
Accrued Series A preferred stock dividends	-	-	-	-	(4,050)	-	-	-	-	(4,050)
Net loss	-	-	-	-	-	-	-	(93,913)	(22,169)	(116,082)
<b>Balance, December 31, 2019</b>	<u>62,857,624</u>	<u>\$ 5</u>	<u>5,500,692</u>	<u>\$ 1</u>	<u>\$ 248,302</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (111,201)</u>	<u>\$ 10,633</u>	<u>\$ 147,740</u>

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

**U.S. WELL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands, except share and per share amounts)*

**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 are powered by diesel fuel and utilize traditional internal combustion engines, transmissions, and radiators 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” and the personnel assigned to each fleet as a “crew”.

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 92% ownership of USWS Holdings as of December 31, 2019.

Unless the context otherwise requires, “the Company”, “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 US Well Services, Inc. and its subsidiaries, including USWS Holdings and its subsidiaries.

On February 2, 2017, USWS Holdings acquired (the “Acquisition”) all of the outstanding equity interests of USWS LLC. USWS Holdings, a Delaware limited liability company, was formed for the purpose of effecting the Acquisition and had no operations of its own. USWS Holdings accounted for the Acquisition as a business combination under the acquisition method of accounting. Accordingly, the assets acquired and liabilities assumed were recorded at fair value with the remaining purchase price recorded as goodwill (see Note 4 to our audited consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018). USWS LLC elected to push down the effects of the Acquisition to its consolidated financial statements.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The acquisition of USWS Holdings by the Company has been accounted for as a reverse recapitalization. Under this method of accounting, USWS Holdings is treated as the acquirer, and the Company is treated as the acquired party. Therefore, the consolidated financial statements presented are those of USWS LLC prior to the Closing Date as the Company’s predecessor entity and of the Company subsequent to the Closing date. The financial statements reflect the Transaction as the equivalent of the issuance of stock by USWS LLC for the net monetary assets of the Company. The accounting for the Transaction did not affect the carrying values of the assets and liabilities of USWS LLC.

The consolidated financial statements for the years ended December 31, 2019 (the “2019 Successor Period”) and 2018 (the “2018 Successor Period”) and for the period from February 2, 2017 to December 31, 2017 (the “2017 Successor Period”) represent the financial information of the Company and its subsidiaries subsequent to the Acquisition. The consolidated financial statements for the period from January 1, 2017 to February 1, 2017 (the “2017 Predecessor”) represents the financial information of the Company and its subsidiaries prior to the Acquisition. Due to the change in the basis of accounting resulting from the Acquisition, the consolidated financial statements of the Company for these reporting periods are not comparable.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”).

Our operations are organized into a single business segment, which consists of hydraulic fracturing services, and we have one reportable geographical business segment, the United States.

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

The consolidated financial statements comprise the financial statements of the Company, its wholly owned subsidiaries, and 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.

#### ***Business Combinations***

The Company accounts for business combinations under the acquisition method of accounting. Under this method, acquired assets, including separately identifiable intangible assets, and any assumed liabilities are recorded at their acquisition date estimated fair value. The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. Determining the fair value of assets acquired and liabilities assumed involves the use of significant estimates and assumptions.

#### ***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.

#### ***Cash and Cash Equivalents***

Cash equivalents are highly liquid investments with an original maturity at the date of acquisition of three months or less. Cash and cash equivalents consist of cash on deposit with domestic banks and, at times, may exceed federally insured limits.

#### ***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 are not readily available for immediate or general use are recorded in restricted cash in our consolidated balance sheets. The restricted cash in our 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 \$513 and \$7,097, respectively, as of December 31, 2019, and \$507 and \$0, respectively, as of December 31, 2018.

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash and cash equivalents	\$ 33,794	\$ 29,529
Restricted cash	7,610	507
Cash and cash equivalents and restricted cash	<u>\$ 41,404</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 and used 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 December 31, 2019 and 2018, the Company had established inventory reserves of \$579 and \$572, respectively, for obsolete and slow-moving inventory. The following table shows the change in the inventory reserves:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Balance at beginning of period	\$ 572	\$ 450
Charges to costs and expenses	359	153
Recoveries and write-offs	(352)	(31)
Balance at end of period	<u>\$ 579</u>	<u>\$ 572</u>

On 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 balance sheets. As of December 31, 2019 and 2018, in transit inventories amounted to \$0 and \$265, respectively.

#### ***Property and Equipment***

Property and equipment are carried at cost, with depreciation provided on a straight-line basis over their estimated useful lives. Expenditures for renewals and betterments that extend the lives of the assets are capitalized. Amounts spent for maintenance and repairs, which do not improve or extend the life of the related asset, are charged to expense as incurred.

#### ***Long-lived Assets***

Long-lived assets, such as property and equipment and amortizable identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When making this assessment, the following factors are considered: current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. We determine recoverability by evaluating whether the undiscounted estimated future net cash flows of the asset or asset group are less than its carrying value. When impairment is indicated, we proceed to Step 2 of the impairment test and measure the impairment as the amount by which the assets carrying value exceeds its fair value. Management considers a number of factors such as estimated future cash flows, appraisals and current market value analysis in determining fair value. Assets are written down to fair value if the concluded current fair value is below the net carrying value.

For the 2017 Successor Period, we identified a triggering event in our impairment analysis relating to an intangible asset based on changes in a specific customer contract, which resulted in recognition of an impairment loss amounting to \$20,247, which was presented as impairment loss on intangible assets in the consolidated statements of operations. The triggering event was caused by our negotiation of the release of two fleets under contract with one customer for redeployment to other customers. The fair value of the order backlog as of the date of impairment was determined using the income approach, which reflected management's cash flow projections.

#### ***Goodwill***

Goodwill is not amortized, but is reviewed for impairment annually, or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. Judgments regarding indicators of potential impairment are based on market conditions and operational performance of the business.

As of December 31, or as required, the Company performs an impairment analysis of goodwill. The Company may assess its goodwill for impairment initially using a qualitative approach ("step zero") to determine whether conditions exist that indicate it is more likely than not that a reporting unit's carrying value is greater than its fair value, and if such conditions are identified, then a quantitative analysis will be performed to determine if there is any impairment. The Company may also elect to initially perform a quantitative analysis instead of starting with step zero. The quantitative assessment for goodwill is a two-step assessment. "Step one" requires comparing the carrying value of a reporting unit, including goodwill, to its fair value, which the Company estimates using the income approach. The income approach uses a discounted cash flow model, which involves significant estimates and assumptions, including preparation of revenue and profitability growth forecasts, selection of a discount rate, and selection of a terminal year multiple. If the fair value of the respective reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and no further testing is required. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is to measure the amount of impairment loss, if any. "Step two" compares the implied fair value of goodwill to the carrying amount of goodwill. The implied fair value of goodwill is determined by a hypothetical purchase price allocation using the reporting unit's fair value as the purchase price. If the carrying amount of goodwill exceeds the implied fair value, an impairment charge is recorded to write down goodwill to its implied fair value.

#### ***Deferred Financing Costs***

Costs incurred to obtain financing are capitalized and amortized to interest expense using the effective interest method over the contractual term of the debt. At the balance sheet date, deferred financing costs related to the senior term loans are presented as a direct deduction from the debt liability, while deferred financing costs related to the revolver facility are presented as deferred financing costs, net, on the consolidated balance sheets.

#### ***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 December 31, 2019 and 2018:

*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 December 31, 2019 and 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 December 31, 2019 and 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 an increase of \$122 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. In the performance of these services, and at the request of our customers, we may also provide consumables such as chemicals and sand. Revenues are earned as services are rendered, which is generally on a per stage or 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 we provided and 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 consolidated statements of operations since their related performance obligations are typically satisfied within a month or less. 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.

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 debtor. Receivable balances are charged off when they are considered uncollectible by management. Recoveries of receivables previously charged off are recorded as income when received. The Company recorded an allowance for doubtful accounts amounting to \$22 and \$189 as of December 31, 2019 and 2018, respectively. The following table shows the change in allowance for doubtful accounts:

	December 31, 2019	December 31, 2018
Balance at beginning of period	\$ 189	\$ 438
Charges to costs and expenses	434	644
Recoveries and write-offs	(601 )	(893 )
Balance at end of period	<u>\$ 22</u>	<u>\$ 189</u>

### 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 2019 Successor Period, 2018 Successor Period, 2017 Successor Period, and the 2017 Predecessor Period:

	Successor	Successor	Successor	Predecessor
	Year Ended December 31, 2019	Year Ended December 31, 2018	February 2, 2017 (inception) to December 31, 2017	January 1, 2017 to February 1, 2017
Customer A	*	27.3%	36.5%	53.5%
Customer B	*	20.3%	26.6%	42.8%
Customer C	*	12.0%	*	*
Customer D	18.3%	15.4%	*	*
Customer E	*	11.2%	*	*
Customer F	18.4%	*	*	*
Customer G	15.7%	*	*	*

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

The following table shows the percentage of trade receivables from our significant customers:

	December 31, 2019	December 31, 2018
Customer A	*	18.4%
Customer B	*	17.7%
Customer C	*	10.8%
Customer D	12.1%	26.1%
Customer E	10.3%	13.0%
Customer F	12.0%	*
Customer G	34.5%	*
Customer H	15.9%	*

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

#### **Share-Based Compensation**

The Company measures share-based compensation costs at the award's fair value on the grant date. Employee share-based compensation is recognized as an expense over the requisite service period which is typically the period over which the award vests, or upon the occurrence of certain vesting events. Forfeitures are recognized as they occur. Non-employee share-based compensation is recognized over the period in which the related services are rendered.

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

The fair value of preferred stock at the date of issuance was 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 was 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 consolidated 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 December 31, 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 \$6,560 as cash used in financing activities rather than operating activities in the 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 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 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, 2019. The Company adopted the guidance as of January 1, 2019 which did not have an impact on the 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. In addition, in November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, which clarifies guidance around how to report expected recoveries. 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.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which removes specific exceptions to the general principles in Topic 740 in GAAP. The new guidance also improves the issuer's application of income tax-related guidance and simplifies GAAP for franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. The new guidance will be effective for emerging growth companies for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022; 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 include the following:

	December 31, 2019	December 31, 2018
Prepaid insurance	\$ 11,127	\$ 6,011
Recoverable costs from insurance	-	3,540
Sales tax receivable	-	1,987
Other receivables	-	895
Income tax receivable	810	810
Other current assets	1,395	3,194
<b>Total prepaid expenses and other current assets</b>	<b>\$ 13,332</b>	<b>\$ 16,437</b>

In March 2017, some of our turbine equipment that we use to operate our Clean Fleets was 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 \$2,871, which was recovered from the insurance company in January 2019.

In June 2018, we experienced a fire on one of our hydraulic fracturing fleets operating in Pennsylvania, damaging a portion of the hydraulic fracturing equipment. We received insurance proceeds during the year ended December 31, 2019 amounting to \$2,354 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 \$1,648 was recorded as other income in the consolidated statement of operations for the year ended December 31, 2019.

#### NOTE 5 – INTANGIBLE ASSETS

Intangible assets consisted of the following:

	Estimated Useful Life (in years)	Gross Carrying Value	Accumulated Amortization	Net Book Value
<b>As of December 31, 2019</b>				
Order backlog	3	\$ 15,345	\$ 15,345	\$ -
Trademarks	10	3,132	913	2,219
Patents	20	22,955	3,348	19,607
		<u>\$ 41,432</u>	<u>\$ 19,606</u>	<u>\$ 21,826</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
		<u>\$ 41,432</u>	<u>\$ 13,542</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 was \$6,064, \$8,405, and \$8,937 for the 2019 Successor Period, 2018 Successor Period and the 2017 Successor Period, respectively, and \$0 for the 2017 Predecessor Period. These amounts were included as part of depreciation and amortization in the consolidated statements of operations.

The estimated amortization expense for future periods is as follows:

Fiscal Year	Estimated Amortization Expense
2020	\$ 1,461
2021	1,461
2022	1,461
2023	1,461
2024	1,461
Thereafter	14,521
<b>Total</b>	<b>\$ 21,826</b>

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

Property and equipment consisted of the following:

	Estimated Useful Life (in years)	December 31, 2019	December 31, 2018
Fracturing equipment	1.5 to 25	\$ 651,162	\$ 449,685
Light duty vehicles	5	8,188	6,455
Furniture and fixtures	5	277	231
IT equipment	3	6,724	5,339
Auxiliary equipment	2 to 20	38,502	24,118
Leasehold improvements	Term of lease	725	335
		705,578	486,163
Less: Accumulated depreciation and amortization		(263,968)	(154,776)
<b>Property and equipment, net</b>		<b>\$ 441,610</b>	<b>\$ 331,387</b>

Depreciation and amortization expense was \$154,149, \$108,440, \$92,430, and \$4,920 for the 2019 Successor Period, 2018 Successor Period, 2017 Successor Period, and 2017 Predecessor Period, respectively. The depreciation and amortization expense in the 2019 Successor Period, 2018 Successor Period, and 2017 Successor Period included the amortization expense on intangibles of \$6,064, \$8,405, and \$8,937, respectively. There was no amortization expense on intangibles recorded in the 2017 Predecessor period.

*Capital leases.* We entered into a capital lease in November 2018 and in January 2019. 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 \$29,857, presented as part of fracturing equipment in property and equipment, and the related accumulated depreciation was \$21,642 and \$0 as of December 31, 2019 and 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 \$97 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 \$7,647, presented as part of fracturing equipment in property and equipment.

The future minimum lease payments related to the Company's capital leases as of December 31, 2019 amounts to \$11,102, which are due in 2020. Included in the total amount is imputed interest totaling \$627.

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

Accrued expenses and other current liabilities consisted of the following:

	December 31, 2019	December 31, 2018
Accrued payroll and benefits	\$ 9,356	\$ 7,087
Accrued taxes	9,817	8,119
Accrued interest	18,190	-
Other current liabilities	3,118	1,838
Accrued expenses and other current liabilities	<u>\$ 40,481</u>	<u>\$ 17,044</u>

#### NOTE 8 – NOTE PAYABLE

In 2019 and 2018, the Company entered into various premium finance agreements with a credit finance institution to pay the premiums on insurance policies for its directors and officers liability, general liability, workers' compensation, umbrella, auto and pollution coverage needs. For the years ended December 31, 2019 and 2018, the aggregate amount of the premiums financed was \$9,928 and \$6,974, respectively, payable in equal monthly installments at a weighted average interest rate of 4.8% and 5.3%, respectively. These premium finance agreements had a total balance of \$8,068 and \$4,560 as of December 31, 2019 and 2018, respectively.

#### NOTE 9 – DEBT

Long-term debt consisted of the following:

	December 31, 2019	December 31, 2018
Senior Secured Term Loan	\$ 250,000	\$ -
ABL Credit Facility	40,090	-
First Lien Credit Facility	-	55,975
Second Lien Term Loan	-	40,000
Equipment financing	16,065	11,567
Capital leases	10,474	25,338
Total debt	316,629	132,880
Unamortized discount on debt and debt issuance costs	(9,449)	(3,963)
Current maturities	(22,288)	(29,501)
Net Long-term debt	<u>\$ 284,892</u>	<u>\$ 99,416</u>

#### Senior Secured Term Loan

On May 7, 2019, our subsidiary, USWS LLC (the "Borrower"), we, as guarantor, and all of our subsidiaries entered into a \$250,000 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 bears 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, we are 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 \$6,560 loss on early repayment of debt, write off of \$1,672 of unamortized debt issue costs related to the First Lien Credit Facility and write off of \$4,326 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 consolidated statement of operations.

The Senior Secured Term Loan was issued at a \$5,000 discount and the Company incurred \$5,758 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 December 31, 2019, the outstanding principal balance of the Senior Secured Term Loan was \$250,000, of which \$6,250 was due within one year from the balance sheet date.

#### *ABL Credit Facility*

On May 7, 2019, the Company entered into a \$75,000 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 eligible accounts receivables of the Borrower. 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 springing 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 Facility. Borrowings under the ABL Credit Facility are fully and unconditionally guaranteed jointly and severally by the Company and its subsidiaries, other than future unrestricted subsidiaries.

In connection with the ABL Credit Facility, the Company incurred \$1,205 in debt issuance costs, recorded as deferred financing costs, net in the 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 December 31, 2019, the borrowing base was \$51,146 and the outstanding revolver loan balance was \$40,090, classified as long-term debt in the consolidated balance sheets.

#### *First Lien Credit Facility*

On December 14, 2018, the Company entered into a Third Amendment (the “Amendment”) to that certain Amended and Restated Senior Secured Credit Agreement dated February 2, 2017 with a syndicate of lenders and U.S. Bank National Association, as administrative and collateral agent (as amended, the “First Lien Credit Facility”). The Amendment, among other things, extended the maturity date from February 2, 2020 to May 31, 2020 and permitted the borrower to incur the debt under the Second Lien Term Loan (as defined below). The Amendment was accounted for as a debt modification, resulting in a debt issue costs write-off of \$411 recorded as part of interest expense in the consolidated statements of operations for the year ended December 31, 2018.

Borrowings under the First Lien Credit Facility bore interest at a per annum rate equal to LIBOR plus 6%.

In connection with the entrance into the Amendment, the Company repurchased from one of the lenders 824,916 shares of Class A common stock of the Company, 609,423 shares of Class B common stock of the Company and 609,423 common units of USWS Holdings for \$11,475. The Company retired these shares resulting in a decrease in additional paid in capital in the consolidated balance sheets by \$11,475 for the year ended December 31, 2018.

As of December 31, 2018, the outstanding principal balance under the First Lien Credit Facility amounted to \$55,975, classified as long-term debt in the consolidated balance sheet.

#### *Second Lien Term Loan*

On December 14, 2018 (“second lien closing date”), our subsidiary, USWS LLC, as borrower, entered into a Second Lien Credit Agreement (the “Second Lien Term Loan”) with USWS Holdings and the Company, as guarantors, the lenders party thereto, and Piper Jaffray Finance, LLC, as administrative agent. The Second Lien Term Loan consists of a second lien term loan in the principal amount of \$40,000, all of which was borrowed on December 14, 2018, and delayed draw term loans in the principal amounts of up to \$20,000, which may be drawn prior to April 1, 2019, and up to \$15,000, which may be drawn on any business day prior to June 30, 2019. Loans made under the term loan facility bore interest on the outstanding principal amount at a per annum rate equal to LIBOR plus (x) 7.75% from the second lien closing date through the first anniversary of the second lien closing date and (y) 11.50% from the day immediately succeeding the first anniversary of the second lien closing date to the maturity date plus, in each case, subject to certain qualifications, an additional interest amount equal to (a) 0.75% per annum for the period beginning April 1, 2019 through June 30, 2019, (b) 1.75% per annum for the period beginning July 1, 2019 through September 30, 2019 and (c) 3.00% on or after October 1, 2019. However, the additional interest amount will be zero on or after the date on which the Company has replaced the First Lien Credit Facility with an asset-based first lien credit facility. The Company was required to make quarterly principal payments beginning in the second fiscal quarter in 2019.

All of the loans made under the Second Lien Credit Agreement had a maturity of May 31, 2020.

As of December 31, 2018, the outstanding principal balance under the Second Lien Term Loan amounted to \$40,000, of which \$900 was due within one year from the balance sheet date.

#### *Equipment Financing*

From 2016 to 2019, the Company entered into security agreements with financing institutions for the purchase of certain fracturing equipment. As of December 31, 2019 and 2018, these financing agreements with maturities through 2023, had a total balance of \$16,065 and \$11,567, respectively, of which \$5,564 and \$3,263, respectively, was due within one year from the balance sheet date.

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

*Payments of Debt Obligations due by Period*

Presented below is a schedule of the repayment requirements of long-term debt as of December 31, 2019:

	<b>Principal Amount of Long-term Debt</b>
2020	\$ 22,288
2021	10,594
2022	9,157
2023	5,750
2024	268,840
Total	<u>\$ 316,629</u>

**NOTE 10 – MEZZANINE EQUITY**

*Series A Convertible Redeemable Preferred Stock*

The following table summarizes the Company's Series A Convertible Redeemable Preferred Stock activities for the year ended December 31, 2019:

	<u>Shares</u>	<u>Amount</u>
Total mezzanine equity as of December 31, 2018	-	\$ -
Proceeds from issuance of Series A preferred stock and warrants	55,000	55,000
Fair value of common stock warrants issued with Series A preferred stock, net		(10,720)
Issuance cost associated with the Series A preferred stock	-	(476)
Beneficial conversion feature of Series A preferred stock	-	(20,132)
Deemed and imputed dividends on Series A preferred stock	-	11,206
Accrued Series A preferred stock dividends	-	4,050
Total mezzanine equity as of December 31, 2019	<u>55,000</u>	<u>\$ 38,928</u>

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 a 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 \$55,000.

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 and November 24, 2019, the Company's board of directors did not declare a dividend on the Series A preferred stock resulting in the dividends for these periods 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 shares of 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 December 31, 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 \$12,786 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, \$10,720, net of issuance costs, of the \$12,786 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 \$20,132 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 Series A preferred stock. The Series A 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 Series A 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 December 31, 2019 and 2018, there were 55,000 and no shares, respectively, of Series A 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 December 31, 2019 and December 31, 2018, there were 62,857,624 and 49,254,760 shares of Class A common stock issued and outstanding, respectively. At December 31, 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.

During 2019, 8,436,640 shares of Class B common stock were converted to an equivalent number of shares of Class A common stock. As of December 31, 2019 and December 31, 2018, there were 5,500,692 and 13,937,332 shares, respectively, of Class B common stock issued and outstanding.

#### *Class F Common Stock*

Prior to the Transaction, the Company was authorized to issue 10,000,000 shares of Class F common stock with a par value of \$0.0001 per share. The Class F common stock was identical to the Class A common stock, except that Class F common stock automatically converted into shares of Class A common stock upon consummation of the Transaction. At December 31, 2017, there were 8,125,000 shares of Class F common stock issued and outstanding. In connection with the Transaction, 2,975,000 shares of Class F common stock were cancelled, and the remaining 5,150,000 shares converted into shares of Class A common stock.

## *Warrants*

Prior to the Transaction, 32,500,000 warrants (the “public warrants”) were issued pursuant to our initial public offering and 15,500,000 warrants (the “private placement 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 of the transactions contemplated by the Purchase Agreement.

As of December 31, 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 consolidated balance sheet and within stockholders’ equity as a separate component and represents approximately 8% ownership of USWS Holdings as of December 31, 2019.

## *Long-Term Incentive Plan*

In connection with the Transaction, the Company’s Board of Directors adopted the U.S. Well Services, Inc. 2018 Stock 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 December 31, 2019 was 4,321,826.

## **NOTE 12 – EARNINGS (LOSS) PER SHARE**

The Transaction was accounted for as a reverse recapitalization by which the Company issued stock for the net assets of USWS Holdings accompanied by a recapitalization. Earnings (loss) per share has been recast for all historical periods to reflect the Company’s capital structure for all comparative periods.

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) 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 (loss) per share excludes the income (loss) 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 (loss) 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:

	<u>Successor</u>	<u>Successor</u>	<u>Successor</u>	<u>Predecessor</u>
	<u>Year Ended</u> <u>December 31,</u> <u>2019</u>	<u>Year Ended</u> <u>December 31,</u> <u>2018</u>	<u>February 2,</u> <u>2017</u> <u>(inception) to</u> <u>December 31,</u> <u>2017</u>	<u>January 1,</u> <u>2017</u> <u>to</u> <u>February 1,</u> <u>2017</u>
Basic Net Loss Per Share				
Numerator:				
Net loss attributable to U.S. Well Services, Inc.	\$ (93,913)	\$ (65,896)	\$ (93,622)	\$ (5,654)
Net loss attributable to cancellable Class A shares	2,915	2,142	3,041	184
Basic net loss attributable to U.S. Well Services, Inc. shareholders	(90,998)	(63,754)	(90,581)	(5,470)
Dividends accrued on Series A preferred stock	(4,050)	-	-	-
Deemed and imputed dividends on Series A preferred stock	(11,206)	-	-	-
Basic net loss attributable to U.S. Well Services, Inc. common shareholders	<u>\$ (106,254)</u>	<u>\$ (63,754)</u>	<u>\$ (90,581)</u>	<u>\$ (5,470)</u>
Denominator:				
Weighted average shares outstanding	51,853,183	49,508,995	49,549,676	49,549,676
Cancellable Class A shares	(1,609,677)	(1,609,677)	(1,609,677)	(1,609,677)
Basic weighted average shares outstanding	<u>50,243,506</u>	<u>47,899,318</u>	<u>47,939,999</u>	<u>47,939,999</u>
Basic and diluted net loss per share attributable to Class A shareholders	<u>\$ (2.11)</u>	<u>\$ (1.33)</u>	<u>\$ (1.89)</u>	<u>\$ (0.11)</u>

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

	<u>Successor</u>	<u>Successor</u>	<u>Successor</u>	<u>Predecessor</u>
	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>	<b>February 2, 2017 (inception) to December 31, 2017</b>	<b>January 1, 2017 to February 1, 2017</b>
Diluted earnings per share:				
Anti-dilutive stock options	1,068,162	-	-	-
Anti-dilutive warrants	15,680,651	24,000,000	-	-
Anti-dilutive restricted stock	2,723,637	530,000	-	-
Anti-dilutive Class B shares convertible into Class A common stock	5,500,692	13,937,332	-	-
Anti-dilutive Series A Preferred stock convertible into Class A common stock	8,853,028	-	-	-
Potentially dilutive securities excluded as anti-dilutive	<u>33,826,170</u>	<u>38,467,332</u>	<u>-</u>	<u>-</u>

#### NOTE 13 – SHARE-BASED COMPENSATION

Share-based compensation consisted of the following:

	<u>Successor</u>	<u>Successor</u>	<u>Successor</u>	<u>Predecessor</u>
	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>	<b>February 2, 2017 (inception) to December 31, 2017</b>	<b>January 1, 2017 to February 1, 2017</b>
Restricted stock	6,496	408	-	-
Unrestricted stock	418	-	-	-
Stock options	841	-	-	-
Transaction bonus	-	6,500	-	-
Class G Units	-	13,725	4,546	-
Total	<u>7,755</u> <sup>(1)</sup>	<u>20,633</u> <sup>(2)</sup>	<u>4,546</u> <sup>(3)</sup>	<u>-</u>

(1) \$2,513 was presented as part of cost of services and \$5,242 was presented as part of selling, general and administrative expenses in the consolidated statement of operations.

(2) \$6,450 was presented as part of cost of services and \$14,183 was presented as part of selling, general and administrative expenses in the consolidated statement of operations.

(3) \$1,578 was presented as part of cost of services and \$2,968 was presented as part of selling, general and administrative expenses in the consolidated statement of operations.

### Restricted Stock

The following table summarizes the restricted stock activity for the year ended December 31, 2019:

	Number of shares	Weighted- average grant-date fair value (per share data)
Non-vested restricted stock as of December 31, 2018	530,000	8.72
Granted	2,218,183	8.91
Vested	-	-
Forfeited	(24,546)	8.91
Non-vested restricted stock as of December 31, 2019	<u>2,723,637</u>	<u>\$ 8.87</u>

During the year ended December 31, 2019 and 2018, the Company granted shares of restricted Class A common stock ("restricted stock") totaling 2,218,183 and 530,000, respectively, to certain employees of the Company pursuant to the LTIP. 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. The restricted stock granted in 2019 is time-based and vests over four years in equal installments each year on the anniversary of the grant date. The restricted stock granted in 2018 is time-based and vests over three years in equal installments each year on the anniversary of the grant date, and is subject to a market condition that requires the closing price of the Class A common stock to be \$12.00 or greater for 20 trading days in any period of 30 consecutive trading days before any vesting of awards may occur. The total compensation cost, net of forfeitures, associated with restricted stock granted in 2019 and 2018 amounts to \$19,545 and \$4,622, respectively, and will be recognized over the vesting period of four years and three years, respectively.

The fair value of the restricted stock granted in 2019 was determined using the closing price of the Company's Class A common stock on the grant date.

The fair value of the restricted stock granted in 2018 was determined using a Monte Carlo simulation analysis, which used Geometric Brownian Motion to estimate future equity prices for the Company. The following key input assumptions were used to calculate fair value:

USWS Starting Share Price	\$	10.0
Vesting Term		3.0
Expected Volatility		61.4%
Dividend Yield		0.0%
Risk-free Rate		3.0%

### Unrestricted stock

During the year ending December 31, 2019, the Company granted 46,875 shares of fully vested and unrestricted Class A common stock ("unrestricted stock") under the LTIP 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. The fair value of the unrestricted stock was \$8.91 per share, which was determined using the closing price of the Company's Class A common stock on the grant date.

### Stock options

During the year ending December 31, 2019, the Company granted a total of 1,068,162 stock options under the LTIP to certain employees of the Company. 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

As of December 31, 2019, the total unrecognized compensation cost related to stock-based compensation grants under the LTIP was \$20,641. We expect to recognize these costs over a weighted average period of 3.1 years.

### Transaction Bonus

In connection with the closing of the Transaction, a grant of 650,000 shares of Class A common stock was awarded to the chief executive officer with a fair value of \$10.00 per share. The shares immediately vested on the grant date.

### Class G Units

During the 2017 Successor Period, USWS Holdings entered into various Class G Unit Agreements pursuant to which 85,800 Class G Units were granted to directors, officers, and key employees of the Company as performance incentives and are generally subject to a four-year vesting period. Each Class G Unit issued is intended to be a "profits interest" within the meaning of Revenue Procedures 93-27 and 2001-43. These Class G Unit grants are classified as equity awards and are subject to vesting and forfeiture under circumstances set forth in the agreements between USWS Holdings and each such directors, officers, and key employees. The fair value of each award is determined using an option pricing model, which is then adjusted for a discount due to lack of marketability. Of the total number of Class G Unit grants, there were 15,000 Class G Units granted to an officer that vested immediately on grant date, and a total of 20,000 Class G Units granted to two officers, for which units will be fully vested upon satisfaction of a performance condition, which is the sale of the Company, and satisfaction of a market condition. The market condition requires the Enterprise Value, as defined in the grant agreements, to be greater than \$450,000 and \$500,000, respectively, for the two officers at the effective date of sale of the Company. As of the Transaction closing date, both the performance and market conditions were met. The Company recognizes the compensation expense related to these grants from USWS Holdings to its employees in its consolidated statement of operations with a corresponding credit to equity, representing a deemed capital contribution from USWS Holdings. As a result of the Transaction, the vesting of the remaining Class G Units was accelerated pursuant to the Class G Unit agreements.

**NOTE 14 – EMPLOYEE BENEFIT PLAN**

On March 1, 2013, the Company established the U.S. Well Services 401(k) Plan. We match 100% of employee contributions up to 6% of the employee’s salary, subject to cliff vesting after two years of service. Our matching contributions were \$3,843, \$3,610, \$2,360, and \$125 for the 2019 Successor Period, 2018 Successor Period, 2017 Successor Period, and 2017 Predecessor Period, respectively, included in cost of services and selling, general and administrative expenses in the statements of operations.

**NOTE 15 – INCOME TAXES**

The Company’s net deferred tax assets are as follows:

<b>Deferred Tax Assets</b>	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net Operating Loss Carryforward	\$ 30,485	\$ 20,686
Startup/Organization Expenses	163	175
Investment in Partnership	19,489	15,318
Interest Expense	911	-
Attributes/Other	186	328
Total Deferred Tax Assets	51,234	36,507
Less Valuation Allowance	(51,234)	(36,507)
Total Deferred Tax Assets, net	\$ -	\$ -
<b>Deferred Tax Liabilities</b>	-	-
Net Deferred Tax Assets	\$ -	\$ -

The income tax provision consists of the following:

	<b>Successor</b>	<b>Successor</b>	<b>Successor</b>	<b>Predecessor</b>
	<b>Year ended December 31, 2019</b>	<b>Year ended December 31, 2018</b>	<b>February 2, 2017 (inception) to December 31, 2017</b>	<b>January 1, 2017 to February 1, 2017</b>
<b>Current</b>				
Federal	\$ -	\$ -	\$ -	\$ -
State	(77)	352	-	-
Total Current	(77)	352	-	-
<b>Deferred</b>				
Federal	-	-	-	-
State	-	-	-	-
Total Deferred	-	-	-	-
Total	\$ (77)	\$ 352	\$ -	\$ -

A reconciliation of the federal income tax rate to the Company's effective tax rate at December 31, 2019 is as follows:

Pre-tax book loss	\$	116,159	
Federal Provision (Benefit)		(24,394)	21.00%
Noncontrolling Interest		10,696	-9.20%
Permanent Differences		755	-0.65%
State Income Taxes, net of Federal Benefit		(62)	0.05%
Return to Provision, Other		(1,798)	1.55%
Valuation Allowance		14,726	-12.68%
Total Provision (Benefit)	\$	(77)	0.07%

As of December 31, 2019, the Company had total U.S. federal net operating loss ("NOL") carryforwards of \$129,060 and \$116,989 of state NOLs available to offset future taxable income. If unused, \$28,388 of the federal NOLs would begin to expire in 2036. Federal NOLs generated after December 31, 2017 do not expire and the state rules vary by state. After consideration of all of the information available, management has established a valuation allowance against the deferred tax assets of the Company's tax loss carryforwards to the extent it is more likely than not that the Company will not utilize its net deferred tax assets. As of December 31, 2019, the valuation allowance totaled \$51,234.

In assessing the realization of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the positive and negative evidence with respect to sources of taxable income for purposes of determining the realization of deferred tax assets. In accordance with Section 382 of the Internal Revenue Code, deductibility of the Company's NOLs may be subject to an annual limitation in the event of a change in control as defined under the regulations.

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.

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 December 31, 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.

#### **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 December 31, 2019, we estimated and accrued for a shortfall in quantities. This accrual is presented as part of accrued liabilities on the 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 December 31, 2019:

	<b>Contracted</b>	<b>Minimum Commitments</b>
2020	\$ 54,952	\$ 16,108
2021	11,340	960
Total	<u>\$ 66,292</u>	<u>\$ 17,068</u>

The minimum commitments represent the aggregate amounts that we would be obligated to pay in the event that we procured no additional proppant under the contracts subsequent to December 31, 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 December 31, 2019, we have excluded \$47,093 and \$48,000 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 2019 Successor Period, 2018 Successor Period, 2017 Successor Period, and 2017 Predecessor Period was \$2,646, 2,140, \$1,304, and \$84, respectively, of which \$2,130, \$1,915, \$1,062, and \$64 are recorded as part of cost of services and \$516, \$225, \$242, and \$20 are recorded as part of selling, general and administrative expenses in the consolidated statements of operations.

The following is a schedule of future minimum payments on non-cancellable operating leases as of December 31, 2019:

2020	\$ 1,743
2021	1,071
2022	826
2023	288
2024	258
Thereafter	67
Total future minimum rentals	<u>\$ 4,253</u>

### *Lease Revenue*

In November 2019, we entered into a short-term lease agreement to lease six of our Turbine generators to a third party, for total fixed monthly rental of \$693 over a minimum period of 18 months with a cancellation provision after 12 months. For the year ended December 31, 2019, we recognized \$1,386 in income from rentals, presented as Revenue in the consolidated statements of operations.

### *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 as of December 31, 2019 and 2018 was \$588 and \$278, respectively, and was reported as accrued expenses in the 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**

For the year ended December 31, 2019, the Company purchased \$11,060 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 December 31, 2019 and 2018, the Company had \$3,241 and \$346, respectively, in accounts payable owed to Rockwater.

Crestview purchased 20,000 shares of Series A preferred stock for a total payment of \$20,000. 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".

In 2017 and early 2018 certain critical components to manufacture hydraulic fracturing pumps were in short supply. Based on our projected sales pipeline, we had the potential need for growth fleets later in the year. Through long-standing industry relationships, Joel Broussard, our Chief Executive Officer, was able to secure access to these components, but only if ordered in an amount that significantly exceeded our projected requirements. Mr. Broussard presented this opportunity to the Board of Directors, who concluded that such a transaction was outside of USWS' business plan and that the Company was not in a position to enter into such a transaction. In order to ensure we would have access to these components, if needed, Mr. Broussard proposed to personally form a joint venture (the "JV") with Dragon Products, LLC ("Dragon") whereby Mr. Broussard's contribution was to provide access to these critical components using his own personal resources and Dragon's contribution to the JV was to provide the fracturing pump designs, manufacturing facility and manufacturing expertise. The JV was both disclosed to members of our Board of Directors and permitted under the terms of Mr. Broussard's employment contract.

In April 2018, we entered into a two-year contract with a new customer to provide the customer with a conventional hydraulic fracturing fleet. We conducted a bid process to acquire the pumps necessary to fulfil the contract; Dragon participated in the bid process. The results of the bid process were presented to our Board of Directors for review and discussion along with a full disclosure of the details of the JV with Dragon. Mr. Broussard recused himself from the Board of Directors' process. Our Board of Directors approved the purchase of the pumps from Dragon (with the pumps to be manufactured by the JV) based on the equipment quality, price, financing terms and Dragon's ability to deliver the pumps on schedule. The Company purchased the pumps from Dragon at a total cost of approximately \$39.2 million. In August 2018, in anticipation of the merger with MPAC and due to the increased industry adoption of electric fleets, Mr. Broussard negotiated the sale of his entire interest in the JV back to Dragon.

**NOTE 18 – SELECTED QUARTERLY FINANCIAL DATA (unaudited)**

The following table sets forth certain unaudited financial and operating information for each quarter of the year ended December 31, 2019 and 2018. The unaudited quarterly information includes all adjustments that, in the opinion of management, are necessary for the fair presentation of information presented. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full fiscal year.

Selected Financial Data:	Year Ended December 31, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 139,772	\$ 151,419	\$ 130,884	\$ 92,682
Costs and expenses:				
Cost of services (excluding depreciation and amortization)	109,681	107,369	90,792	76,115
Depreciation and amortization	37,844	40,322	39,723	36,260
Selling, general and administrative expenses	8,620	7,638	8,216	7,382
Loss on disposal of assets	6,904	4,003	4,976	4,182
Loss from operations	(23,277)	(7,913)	(12,823)	(31,257)
Interest expense, net	(5,115)	(7,820)	(8,449)	(8,715)
Loss on extinguishment of debt	-	(12,558)	-	-
Other income	27	1,686	62	(7)
Loss before income taxes	(28,365)	(26,605)	(21,210)	(39,979)
Income tax expense (benefit)	124	306	39	(546)
Net loss	(28,489)	(26,911)	(21,249)	(39,433)
Net loss attributable to noncontrolling interest	(6,217)	(5,432)	(4,280)	(6,240)
Net loss attributable to U.S. Well Services, Inc.	(22,272)	(21,479)	(16,969)	(33,193)
Dividends accrued on Series A preferred stock	-	(660)	(1,670)	(1,720)
Deemed and imputed dividends on Series A preferred stock	-	(1,560)	(4,406)	(5,240)
Net loss attributable to U.S. Well Services, Inc. common stockholders	<u>\$ (22,272)</u>	<u>\$ (23,699)</u>	<u>\$ (23,045)</u>	<u>\$ (40,153)</u>

Selected Financial Data:	Year Ended December 31, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 171,606	\$ 192,632	\$ 166,173	\$ 118,436
Costs and expenses:				
Cost of services (excluding depreciation and amortization)	138,428	151,363	137,452	105,788
Depreciation and amortization	25,920	24,862	26,765	30,893
Selling, general and administrative expenses	4,337	5,278	5,248	19,634
Impairment loss on intangible assets	-	-	-	-
Loss (gain) on disposal of assets	2,929	5,187	(126)	2,858
Loss from operations	(8)	5,942	(3,166)	(40,737)
Interest expense, net	(7,401)	(6,884)	(7,387)	(10,964)
Loss on extinguishment of debt	-	-	-	(190)
Other income	317	5	9	2
Loss before income taxes	(7,092)	(937)	(10,544)	(51,889)
Income tax expense	-	-	-	352
Net loss	(7,092)	(937)	(10,544)	(52,241)
Net loss attributable to noncontrolling interest	-	-	-	(4,918)
Net loss attributable to U.S. Well Services, Inc.	<u>\$ (7,092)</u>	<u>\$ (937)</u>	<u>\$ (10,544)</u>	<u>\$ (47,323)</u>

**Item 9 . Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. 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, to allow timely decisions regarding required disclosure.

**Management’s Annual Report on Internal Control over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers and effected by the Company’s board of directors, management and other personnel 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 and includes policies and procedures that address:

- The maintenance of records that accurately, fairly and in reasonable detail reflect transactions involving, and dispositions of, company assets;
- Reasonable assurance that transactions are recorded as needed to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are made only in accordance with management authorization; and
- Reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of company assets.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2019, the Company’s internal control over financial reporting was effective.

This Annual Report on Form 10-K does not include, and we were not required to include, an attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 for as long as we remain an “emerging growth company” as defined in the Jumpstart Our Business Startups Act.

**Changes in Internal Control over Financial Reporting**

There were no changes made in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information.**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

We have adopted a Code of Business Conduct and Ethics (the “Code”), which is applicable to our principal executive officer and other senior financial officers, who include our principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Code may be found on our website at [www.uswellservices.com](http://www.uswellservices.com) under “Investor Relations – Corporate Governance”. To the extent required by SEC rules, we intend to disclose any amendments to this Code and any waiver of a provision of the Code for the benefit of our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website within four (4) business days following any such amendment of waiver, or within any other period that may be required under SEC rules from time to time.

The other information required by this item is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

### **Item 11. Executive Compensation**

The information required by this item is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

### **Item 13. Certain Relationships and Related Transaction, and Director Independence**

The information required by this item is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

### **Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

#### Financial Statements

Our Consolidated Financial Statements and accompanying footnotes are included under “Item 8. Financial Statements and Supplementary Data” of this Annual Report.

#### Financial Statements Schedules

All other schedules have been omitted because they are either not applicable, not required or the information called for therein appears in the consolidated financial statements or notes thereto or will be filed within the required timeframe.

#### Exhibits

<u>Exhibit No.</u>	<u>Description</u>
<a href="#"><u>2.1</u></a>	<a href="#"><u>Merger and Contribution Agreement, dated as of July 13, 2018, by and among Matlin &amp; Partners Acquisition Corporation, MPAC Merger Sub LLC, USWS Holdings LLC, certain blocker companies named therein and, solely for purposes described therein, the seller representatives named therein (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K (File No. 001-38025), filed with the SEC on July 16, 2018).</u></a>
<a href="#"><u>2.2</u></a>	<a href="#"><u>Amendment No. 1, dated as of August 9, 2018, to Merger and Contribution Agreement, dated as of July 13, 2018, by and among Matlin &amp; Partners Acquisition Corporation, MPAC Merger Sub LLC, USWS Holdings LLC, certain blocker companies named therein and, solely for purposes described therein, the seller representatives named therein (incorporated by reference to Exhibit 2.1.1 of the Quarterly Report on Form 10-Q (File No. 001-38025), filed with the SEC on October 26, 2018).</u></a>
<a href="#"><u>2.3</u></a>	<a href="#"><u>Amendment No. 2, dated as of November 2, 2018, to Merger and Contribution Agreement, dated as of July 13, 2018, by and among Matlin &amp; Partners Acquisition Corporation, MPAC Merger Sub LLC, USWS Holdings LLC, certain blocker companies named therein and, solely for purposes described therein, the seller representatives named therein (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K (File No. 001-38025), filed with the SEC on November 5, 2018).</u></a>
<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 (incorporated by reference to Exhibit 3.1 to 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>4.1</u></a>	<a href="#"><u>Amended and Restated Registration Rights Agreement, dated as of November 9, 2018, by and among U.S. Well Services, Inc., Matlin &amp; Partners Acquisition Sponsor LLC, the Blocker Stockholders, certain Non-Blocker USWS Members, Crestview, the Lenders, Piper and Joel Broussard (incorporated by reference to Exhibit 4.1 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>4.2</u></a>	<a href="#"><u>Warrant Agreement, dated March 9, 2017, by and between Continental Stock Transfer &amp; Trust Company and Matlin &amp; Partners Acquisition Corporation (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K (File No. 001-38025), filed with the SEC on March 15, 2017).</u></a>
<a href="#"><u>4.3</u></a>	<a href="#"><u>Specimen Class A Common Stock Certificate (incorporated by reference to Exhibit 4.2 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>4.4</u></a>	<a href="#"><u>Registration Rights Agreement, dated May 24, 2019, by and among U.S. Well Services, Inc. and the Purchasers party thereto (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K (File No. 0001-38025), filed with the SEC on May 24, 2019).</u></a>
<a href="#"><u>4.5</u></a>	<a href="#"><u>Warrant Agreement, dated May 24, 2019, by and between U.S. Well Services, Inc. and Continental Stock Transfer &amp; Trust Company (incorporated by reference to Exhibit 4.1 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>4.6*</u></a>	<a href="#"><u>Description of Registrant’s Securities.</u></a>

- [10.1](#) [Amended and Restated Limited Liability Company Agreement of USWS Holdings LLC, dated as of November 9, 2018 \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.2](#) [Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of USWS Holdings LLC, dated May 24, 2019 \(incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.3](#) [Sponsor Agreement, dated as of July 13, 2018, by and among Matlin & Partners Acquisition Corporation, USWS Holdings LLC, Matlin & Partners Acquisition Sponsor LLC and, solely for purposes described therein, Cantor Fitzgerald & Co. \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on July 16, 2018\).](#)
- [10.4](#) [Amendment No. 1, dated November 2, 2018, to Sponsor Agreement, dated as of July 13, 2018, by and among Matlin & Partners Acquisition Corporation, USWS Holdings LLC, Matlin & Partners Acquisition Sponsor LLC and, solely for purposes described therein, Cantor Fitzgerald & Co. \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 5, 2018\).](#)
- [10.5](#) [Amendment No. 2, dated November 9, 2018, to Sponsor Agreement, dated as of July 13, 2018, by and among Matlin & Partners Acquisition Corporation, USWS Holdings LLC, Matlin & Partners Acquisition Sponsor LLC and, solely for purposes described therein, Cantor Fitzgerald & Co \(incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.6#](#) [Form of Indemnity Agreement \(incorporated by reference to Exhibit 10.5 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.7#](#) [Employment Agreement, dated as of July 13, 2018, by and between U.S. Well Services, Inc. and Joel Broussard \(incorporated by reference to Exhibit 10.6 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.8#](#) [Employment Agreement, dated as of July 13, 2018, by and between U.S. Well Services, Inc. and Matt Bernard \(incorporated by reference to Exhibit 10.7 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.9#](#) [Employment Agreement, dated as of July 13, 2018, by and between U.S. Well Services, Inc. and Nathan Houston \(incorporated by reference to Exhibit 10.8 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.10#](#) [Employment Agreement, dated as of July 13, 2018, by and between U.S. Well Services, Inc. and Kyle O'Neill \(incorporated by reference to Exhibit 10.9 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.11#](#) [U.S. Well Services, Inc. Long Term Incentive Plan \(incorporated by reference to Exhibit 10.10 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.12#](#) [Form of Restricted Stock Award Agreement under the U.S. Well Services, Inc. 2018 Long Term Incentive Plan \(incorporated by reference to Exhibit 10.11 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on November 16, 2018\).](#)
- [10.13](#) [Third Amendment to Amended and Restated Senior Secured Credit Agreement, dated as of December 14, 2018, by and among U.S. Well Services, LLC, as borrower, USWS Holdings, LLC, as guarantor, U.S. Well Services, Inc., as guarantor, the lenders from time to time party thereto, and U.S. Bank National Association, as administrative agent \(incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on December 17, 2018\).](#)
- [10.14](#) [Second Lien Credit Agreement, dated as of December 14, 2018, by and among U.S. Well Services, LLC, as borrower, USWS Holdings, LLC, as guarantor, U.S. Well Services, Inc., as guarantor, the lenders from time to time party thereto, and Piper Jaffray Finance, LLC, as administrative agent \(incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K \(File No. 001-38025\), filed with the SEC on December 17, 2018\).](#)
- [10.15](#) [Senior Secured Term Loan Credit Agreement, dated as of May 7, 2019, among U.S. Well Services, LLC, as borrower, U.S. Well Services, Inc. and all the other subsidiaries of U.S. Well Services, Inc., as guarantors, CLMG Corp., as administrative and collateral agent, and certain other financial institutions \(incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q \(File No. 001-38025\), filed with the SEC on May 9, 2019\).](#)
- [10.16](#) [ABL Credit Agreement, dated as of May 7, 2019, among U.S. Well Services, LLC, as borrower, U.S. Well Services, Inc. and all the other subsidiaries of U.S. Well Services, Inc., as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as administrative agent \(incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q \(File No. 001-38025\), filed with the SEC on May 9, 2019\).](#)

<a href="#"><u>10.17</u></a>	<a href="#"><u>Intercreditor Agreement, dated as of May 7, 2019, among the Borrower, CLMG Corp. and Bank of America, N.A. (incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q (File No. 001-38025), filed with the SEC on May 9, 2019.</u></a>
<a href="#"><u>10.18</u></a>	<a href="#"><u>Purchase Agreement, dated May 23, 2019, by and among U.S. Well Services, Inc. and the Purchasers party thereto (incorporated by reference to Exhibit 10.1 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>10.19</u></a>	<a href="#"><u>First Technical Supplemental Amendment to the Senior Secured Term Loan Credit Agreement, dated June 14, 2019, by and among U.S. Well Services, LLC, as borrower, U.S. Well Services, Inc. and all the other subsidiaries of U.S. Well Services, Inc. as guarantors, CLMG Corp., as administrative and collateral agent, and certain other financial institutions (incorporated by reference to Exhibit 10.7 of the Quarterly Report on Form 10-Q (File No. 001-38025), filed with the SEC on August 7, 2019.</u></a>
<a href="#"><u>21.1*</u></a>	<a href="#"><u>Subsidiaries of the Registrant.</u></a>
<a href="#"><u>23.1*</u></a>	<a href="#"><u>Consent of Independent Registered Public Accounting Firm.</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

# Management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* Furnished herewith.

#### **Item 16. 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 March 5, 2020.

### U.S. WELL SERVICES, INC.

By:

/s/ Kyle O'Neill  
Name: Kyle O'Neill  
Title: Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Joel Broussard Joel Broussard	President, Chief Executive Officer and Director (Principal Executive Officer)	March 5, 2020
/s/ Kyle O'Neill Kyle O'Neill	Chief Financial Officer (Principal Financial Officer)	March 5, 2020
/s/ Christopher Wirtz Christopher Wirtz	Principal Accounting Officer	March 5, 2020
/s/ David Matlin David Matlin	Director	March 5, 2020
/s/ David Treadwell David Treadwell	Director	March 5, 2020
/s/ Adam Klein Adam Klein	Director	March 5, 2020
/s/ Eddie Watson Eddie Watson	Director	March 5, 2020
/s/ Ryan Carroll Ryan Carroll	Director	March 5, 2020
/s/ Richard Burnett Richard Burnett	Director	March 5, 2020

**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12  
OF THE SECURITIES EXCHANGE ACT OF 1934**

The following description sets forth certain material terms and provisions of the securities of U.S. Well Services, Inc. that are registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which securities include the Class A Common Stock (as defined below) and the Public and Private Placement Warrants (as defined below). This description also summarizes relevant provisions of the General Corporation Law of the State of Delaware (the "DGCL"). The following description is a summary and does not purport to be complete. It is subject to, and qualified in its entirety by reference to, the applicable provisions of the DGCL, our Second Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"), our Amended and Restated Bylaws (the "Bylaws"), our Certificate of Designations with respect to our Series A Redeemable Convertible Preferred Stock (the "Certificate of Designations"), the Amended and Restated Limited Liability Company Agreement of USWS Holdings LLC, dated as of November 9, 2018, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of USWS Holdings LLC, dated May 24, 2019 (collectively, the "A&R USWS Holdings LLC Agreement"), the Warrant Agreement, dated March 9, 2017 (the "2017 Warrant Agreement"), by and between Continental Stock Transfer & Trust Company and Matlin & Partners Acquisition Corporation, and the Warrant Agreement, dated May 24, 2019 (the "2019 Warrant Agreement"), by and between Continental Stock Transfer & Trust Company and the Company. The Certificate of Incorporation, Bylaws, Certificate of Designations, A&R USWS Holdings LLC Agreement, 2017 Warrant Agreement and 2019 Warrant Agreement, which are filed as Exhibit 3.1, Exhibit 3.2, Exhibit 3.3, Exhibit 10.1, Exhibit 10.2, Exhibit 4.2 and Exhibit 4.5, respectively, to the Annual Report on Form 10-K of which this Exhibit 4.6 is a part, are incorporated by reference herein. We encourage you to read the Certificate of Incorporation, Bylaws, Certificate of Designations, A&R USWS Holdings LLC Agreement, 2017 Warrant Agreement, 2019 Warrant Agreement and the applicable provisions of the DGCL for additional information. Unless the context requires otherwise, all references to "we," "us," "our" and the "Company" in this Exhibit 4.6 refer solely to U.S. Well Services, Inc. and not to our subsidiaries.

**Description of Capital Stock**

***General***

The Certificate of Incorporation provides that the total number of shares of all classes of capital stock, each with a par value of \$0.0001 per share, which the Company is authorized to issue is 440,000,000 shares, consisting of (a) 430,000,000 shares of common stock (the "Common Stock"), including (i) 400,000,000 shares of Class A Common Stock (the "Class A Common Stock"), (ii) 20,000,000 shares of Class B Common Stock (the "Class B Common Stock"), and (iii) 10,000,000 shares of Class F Common Stock (the "Class F Common Stock"), and (b) 10,000,000 shares of preferred stock (the "Preferred Stock"), including 55,000 shares of Series A Redeemable Convertible Preferred Stock (the "Series A Preferred Stock"). As of March 2, 2020, 62,857,624 shares of Class A Common Stock, 5,500,692 shares of Class B Common Stock and 55,000 shares of Series A Preferred Stock were issued and outstanding. All of the shares of the Class F Common Stock that were not forfeited in connection with our November 9, 2018 business combination (the "Business Combination") with USWS Holdings LLC, a Delaware limited liability company ("USWS Holdings"), were converted into shares of Class A Common Stock on a one-for-one basis at the closing of the Business Combination.

***Class A Common Stock***

Holders of the Class A Common Stock are entitled to one vote for each share held on all matters to be voted on by the Company's stockholders. Holders of the Class A Common Stock and holders of the Class B Common Stock will vote together as a single class on all matters submitted to a vote of the Company's stockholders, except as required by law. Unless specified in the Certificate of Incorporation (including any certificate of designation of preferred stock) or the Bylaws, or as required by applicable provisions of the DGCL or applicable stock exchange rules, the affirmative vote of a majority of the Company's shares of Common Stock that are voted is required to approve any such matter voted on by the Company's stockholders. In the case of an election of directors, where a quorum is present, a plurality of the votes cast will be sufficient to elect each director.

In the event of a liquidation, dissolution or winding up of the Company, the holders of the Class A Common Stock are entitled to share ratably in all assets remaining available for distribution to them after payment of liabilities and after provision is made for each class of stock, if any, having preference over the Class A Common Stock. The holders of the Class A Common Stock have no preemptive or other subscription rights. There are no sinking fund provisions applicable to the Class A Common Stock.

Holders of the Class A Common Stock are entitled to receive dividends from the Company when, as and if declared by the board of directors of the Company (the "Board"), subject to the consent of the holders of shares of Series A Preferred Stock.

#### ***Class B Common Stock***

In connection with the Business Combination, and pursuant to the Merger and Contribution Agreement, dated as of July 13, 2018, and amended on August 9, 2018, and further amended on November 2, 2018, with MPAC Merger Sub LLC, a Delaware limited liability company and wholly owned subsidiary of the Company, USWS Holdings, certain owners of equity interests in USWS Holdings (the "Blocker Companies") and, solely for purposes described therein, the seller representative named therein, the Company issued 14,546,755 shares of Class B Common Stock to certain owners of equity interests in USWS Holdings other than the Blocker Companies (the "Non-Blocker USWS Members"). Non-Blocker USWS Members were issued units of USWS Holdings ("USWS Units") and an equal number of shares of Class B Common Stock. The Non-Blocker USWS Members collectively own all of our outstanding shares of Class B Common Stock. We expect to maintain a one-to-one ratio between the number of outstanding shares of Class B Common Stock and the number of USWS Units held by persons other than the Company, so holders of USWS Units (other than the Company) will have a voting interest in the Company that is proportionate to their economic interest in USWS Holdings. Class B Common Stock represents a non-economic interest in the Company.

Shares of Class B Common Stock (i) may be issued only in connection with the issuance by USWS Holdings of a corresponding number of USWS Units and only to the person or entity to whom such USWS Units are issued and (ii) may be registered only in the name of (1) a person or entity to whom shares of Class B Common Stock are issued as described above, (2) its successors and assigns, (3) their respective permitted transferees or (4) any subsequent successors, assigns and permitted transferees. A holder of shares of Class B Common Stock may transfer shares of Class B Common Stock to any transferee (other than the Company) only if, and only to the extent permitted by the A&R USWS Holdings LLC Agreement, such holder also simultaneously transfers an equal number of such holder's USWS Units to the same transferee in compliance with the A&R USWS Holdings LLC Agreement. Shares of Class B Common Stock (together with the same number of USWS Units) may be exchanged for shares of Class A Common Stock as provided in the A&R USWS Holdings LLC Agreement.

Holders of shares of the Class B Common Stock will vote together as a single class with holders of shares of the Class A Common Stock on all matters properly submitted to a vote of the stockholders. In addition, holders of shares of Class B Common Stock, voting as a separate class, will be entitled to approve any amendment, alteration or repeal of any provision of the Certificate of Incorporation that would alter or change the powers, preferences or relative, participating, optional or other or special rights of the Class B Common Stock.

Holders of Class B Common Stock will not be entitled to any dividends from the Company and will not be entitled to receive any of our assets in the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs. The holders of the Class B Common Stock have no preemptive or other subscription rights. There are no sinking fund provisions applicable to the Class B Common Stock.

#### ***Preferred Stock***

The Certificate of Incorporation provides that shares of Preferred Stock may be issued from time to time in one or more series. Our Board is authorized to fix the voting rights, if any, designations, powers, preferences, the relative, participating, optional or other special rights and any qualifications, limitations and restrictions thereof, applicable to the shares of each series. Our Board is able to, without stockholder approval, issue Preferred Stock with voting and other rights that could adversely affect the voting power and other rights of the holders of the Common Stock and could have antitakeover effects. The ability of our Board to issue Preferred Stock without stockholder approval could have the effect of delaying, deferring or preventing a change of control of us or the removal of existing management.

### ***Series A Preferred Stock***

The Series A Preferred Stock ranks senior to the Class A Common Stock and Class B Common Stock with respect to distributions and upon a liquidation, winding-up or dissolution of our affairs. The Series A Preferred Stock have only specified voting rights, including with respect to the issuance or creation of senior securities, amendments to the Certificate of Incorporation that negatively impact the rights of the holders of Series A Preferred Stock and the payment of dividends on, repurchase or redemption of Class A Common Stock.

Holders of Series A Preferred Stock will receive distributions of 12.00% per annum on the then-applicable liquidation preference for the first two years after issuance and 16.00% per annum on the liquidation preference thereafter. Distributions are not required to be paid in cash and, if not paid in cash, will automatically accrue and be added to the liquidation preference.

We have the option, but no obligation, to redeem the Series A Preferred Stock for cash. If we notify the holders that we have elected to redeem shares of Series A Preferred Stock, the holder may instead elect to convert such shares into shares of Class A Common Stock. If we fund the redemption with proceeds of an equity offering within one year of May 24, 2019 (the "Initial 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 and the ordinary conversion price, which initially was \$6.67. Otherwise, such converting shares will convert by reference to the ordinary conversion price. In any event, shares of 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 Initial 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, 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 million based on the liquidation preference on the date of the conversion notice.

Following the third anniversary of the Initial Closing Date, we may cause the conversion of all or any portion of the Series A Preferred Stock into Class A Common Stock if (i) the closing price of the Class A Common Stock is greater than 130% of the conversion price for 20 days over any 30-day trading period; (ii) the average daily trading volume of the Class A Common Stock exceeded 250,000 for 20 days over any 30-day trading period; and (iii) we have an effective registration statement on file with the U.S. Securities and Exchange Commission covering resales of the underlying Class A Common Stock to be received upon such conversion.

Holders of shares of Series A Preferred Stock are entitled to receive cumulative dividends, compounding quarterly and payable in arrears, from the Initial Closing Date until the second anniversary of the Initial Closing Date, at an annual rate of 12.0% on the then-applicable liquidation preference, and thereafter, 16% of the liquidation preference. Dividends are payable, at our option, in cash from legally available funds or in kind by increasing the liquidation preference 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, commencing on August 24, 2019.

### **Election of Directors**

Our Board is divided into three classes, each of which will generally serve for a term of three years with only one class of directors being elected in each year. There is no cumulative voting with respect to the election of directors, with the result that the holders of more than 50% of the shares voted for the election of directors can elect all of the directors.

## **Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws**

### ***Certain Anti-Takeover Provisions of Delaware Law***

We are subject to the provisions of Section 203 of the DGCL regulating corporate takeovers. This statute prevents certain Delaware corporations, under certain circumstances, from engaging in a “business combination” with:

- a stockholder who owns 15% or more of our outstanding voting stock (otherwise known as an “interested stockholder”);
- an affiliate of an interested stockholder; or
- an associate of an interested stockholder, for three years following the date that the stockholder became an interested stockholder.

A “business combination” includes a merger or sale of more than 10% of our assets. However, the above provisions of Section 203 do not apply if:

- our Board approves the transaction that made the stockholder an “interested stockholder,” prior to the date of the transaction;
- after the completion of the transaction that resulted in the stockholder becoming an interested stockholder, that stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, other than statutorily excluded shares of Common Stock; or
- on or subsequent to the date of the transaction, the business combination is approved by our Board and authorized at a meeting of its stockholders, and not by written consent, by an affirmative vote of at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

### ***Anti-Takeover Effects of Our Certificate of Incorporation and Bylaws***

*Staggered Board; Removal of Directors.* The Certificate of Incorporation divides our Board into three classes with staggered three-year terms. In addition, the Certificate of Incorporation provides that directors may be removed only for cause and only by the affirmative vote of the holders of 66 2/3% of the voting power of all then outstanding shares of capital stock of the Company entitled to vote generally in the election of directors, voting together as a single class. Under the Certificate of Incorporation, any vacancy on our Board, including a vacancy resulting from an enlargement of our Board, may be filled only by vote of a majority of our directors then in office. Furthermore, the Certificate of Incorporation provides that the authorized number of directors may be changed only by the resolution of our Board. The classification of our Board and the limitations on the ability of our stockholders to remove directors, change the authorized number of directors and fill vacancies could make it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of us.

*Stockholder Action; Special Meeting of Stockholders; Advance Notice Requirements for Stockholder Proposals and Director Nominations* The Certificate of Incorporation and Bylaws provide that any action required or permitted to be taken by our stockholders must be effected by a duly called annual or special meeting of such stockholders and may not be effected by written consent of the stockholders other than with respect to the Class B Common Stock and the Class F Common Stock, with respect to which action may be taken by written consent. The Certificate of Incorporation and Bylaws also provide that, except as otherwise required by law, special meetings of the stockholders can only be called by the Chairman of the Board, Chief Executive Officer, or the Board. In addition, the Bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of candidates for election to our Board. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our Board, or by a stockholder of record on the record date for the meeting who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of the stockholder's intention to bring such business before the meeting. These provisions could have the effect of delaying until the next stockholder meeting stockholder actions that are favored by the holders of a majority of our outstanding voting securities. These provisions also could discourage a third party from making a tender offer for our Common Stock because even if the third party acquired a majority of our outstanding voting stock, it would be able to take action as a stockholder, such as electing new directors or approving a merger, only at a duly called stockholders meeting and not by written consent.

*Super-Majority Voting.* The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. The Bylaws may be amended or repealed by a majority vote of our Board or the affirmative vote of the holders of at least 66 2/3% of the voting power of all then outstanding shares of capital stock of the Company entitled to vote generally in the election of directors, voting together as a single class. In addition, the affirmative vote of the holders of at least 66 2/3% of the voting power of the then outstanding shares of capital stock entitled to vote is required to amend or repeal or to adopt any provisions inconsistent certain provisions of the Certificate of Incorporation described above.

*Exclusive Forum Selection.* The Certificate of Incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Company to us or our stockholders, (iii) any action asserting a claim against the Company, its directors, officers or employees arising pursuant to any provision of the DGCL or the Certificate of Incorporation or the Bylaws, or (iv) any action asserting a claim against the Company, its directors, officers or employees governed by the internal affairs doctrine, except for, as to each of (i) through (iv) above, any claim as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within ten days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or for which the Court of Chancery does not have subject matter jurisdiction. Although the Certificate of Incorporation contains the choice of forum provision described above, we do not expect this choice of forum provision will apply to suits brought to enforce a duty or liability created by the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act, or any other claim for which federal courts have exclusive jurisdiction.

*Authorized but Unissued Capital Stock.* Delaware law does not require stockholder approval for any issuance of authorized shares. However, the listing requirements of Nasdaq, which would apply so long as the Class A Common Stock remains listed on Nasdaq, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power or then outstanding number of shares of Class A Common Stock. Authorized shares may be issued for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of unissued and unreserved Class A Common Stock or Preferred Stock may be to enable our Board to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares of Class A Common Stock at prices higher than prevailing market prices.

## Description of Warrants

### General

As of March 2, 2020, there were outstanding warrants exercisable for 12,747,318 shares of the Class A Common Stock, consisting of (i) Public Warrants (as defined below) exercisable for an aggregate of 4,997,318 shares of the Class A Common Stock issued pursuant to the 2017 Warrant Agreement entered into in connection with our initial public offering; (ii) Private Placement Warrants (as defined below) exercisable for an aggregate of 7,750,000 shares of the Class A Common Stock issued in a private placement that closed simultaneously with the closing of our initial public offering; and (iii) warrants exercisable for an aggregate of 2,933,333 shares of the Class A Common Stock issued pursuant to the Purchase Agreement dated as of May 23, 2019 (the "Series A Purchase Agreement"), between the Company and the purchasers of the Series A Preferred Stock. Subject to there being shares of Series A Preferred Stock outstanding, the Company will issue an aggregate of 488,888 additional warrants in quarterly installments beginning nine months after the Initial Closing Date pursuant to the Series A Purchase Agreement. As of March 2, 2020, there were 9,994,635 Public Warrants and 15,500,000 Private Placement Warrants outstanding, which are exercisable for an aggregate of 12,747,318 shares of Class A Common Stock and 2,933,333 warrants issued pursuant to the Series A Purchase Agreement, which are exercisable for 2,933,333 shares of Class A Common Stock.

### *Public and Private Placement Warrants*

We issued (i) an aggregate of 32,500,000 warrants to purchase shares of the Class A Common Stock pursuant to the 2017 Warrant Agreement entered into in connection with our initial public offering (the "Public Warrants") and (ii) an aggregate of 15,500,000 warrants to purchase shares of the Class A Common Stock issued in a private placement that closed simultaneously with the closing of our initial public offering (the "Private Placement Warrants," and, together with the Public Warrants, the "Public and Private Placement Warrants").

Each outstanding Public or Private Placement Warrant entitles the registered holder to purchase one-half of one share of the Class A Common Stock at a price of \$5.75 per half share, subject to adjustment. The outstanding Public and Private Placement Warrants will expire five years after the Business Combination, at 5:00 p.m., New York City time, or earlier upon redemption or liquidation. We may call the outstanding Public and Private Placement Warrants for redemption:

- in whole and not in part;
- at a price of \$0.01 per warrant;
- upon not less than 30 days' prior written notice of redemption (the "30-day redemption period") to each warrant holder; and
- if, and only if, the last sale price of the Class A Common Stock equals or exceeds \$24.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which we send the notice of redemption to the warrant holders

If we call the Public and Private Placement Warrants for redemption as described above, we will have the option to require all holders that wish to exercise Public or Private Placement Warrants to do so on a "cashless basis." If we take advantage of this option, each holder would pay the exercise price by surrendering the Public or Private Placement Warrants for that number of shares of the Class A Common Stock equal to the quotient obtained by dividing (x) the product of the number of shares of the Class A Common Stock underlying such warrants, multiplied by the difference between the exercise price of such warrants and the "fair market value" (defined below) by (y) the fair market value. The "fair market value" shall mean the average reported last sale price of the Class A Common Stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of warrants. If we take advantage of this option, the notice of redemption will contain the information necessary to calculate the number of shares of Class A Common Stock to be received upon exercise of the Public and Private Placement Warrants, including the "fair market value" in such case. Requiring a cashless exercise in this manner will

reduce the number of shares to be issued and thereby lessen the dilutive effect of a warrant redemption. If we call the Public and Private Placement Warrants for redemption and we do not take advantage of this option, Matlin & Partners Acquisition Sponsor LLC and its permitted transferees would still be entitled to exercise their Public or Private Placement Warrants for cash or on a cashless basis using the same formula described above that other warrant holders would have been required to use had all warrant holders been required to exercise their Public or Private Placement Warrants on a cashless basis. The Private Placement Warrants will not be redeemable by us so long as they are held by the initial holders or their permitted transferees. If holders of such Private Placement Warrants elect to exercise them on a cashless basis, they would pay the exercise price using the same formula described above that other warrant holders would have been required to use had all warrant holders been required to exercise their warrants on a cashless basis.

The exercise price, the redemption price and number of shares of Class A Common Stock issuable on exercise of the outstanding Public and Private Placement Warrants may be adjusted in certain circumstances including in the event of a stock dividend, stock split, extraordinary dividend, or recapitalization, reorganization, merger or consolidation. However, the exercise price and number of Class A Common Stock issuable on exercise of the Public and Private Placement Warrants will not be adjusted for issuances of Class A Common Stock at a price below the warrant exercise price.

The outstanding Public and Private Placement Warrants were issued in registered form under the 2017 Warrant Agreement. The Public and Private Placement Warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price (or on a cashless basis, if applicable), by certified or official bank check payable to us, for the number of Public and Private Placement Warrants being exercised. The warrant holders do not have the rights or privileges of holders of Class A Common Stock and any voting rights until they exercise their Public or Private Placement Warrants and receive shares of Class A Common Stock. After the issuance of shares of Class A Common Stock upon exercise of the Public and Private Placement Warrants, each holder will be entitled to one vote for each share of Class A Common Stock held of record on all matters to be voted on by our stockholders.

No outstanding Public and Private Placement Warrants will be exercisable unless at the time of exercise a prospectus relating to Class A Common Stock issuable upon exercise of the Public and Private Placement Warrants is current and available throughout the 30-day redemption period and the Class A Common Stock has been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the warrants.

Public and Private Placement Warrants may be exercised only for a whole number of shares of Class A Common Stock. No fractional shares of Class A Common Stock will be issued upon exercise of the outstanding Public and Private Placement Warrants. If, upon exercise of the Public and Private Placement Warrants, a holder would be entitled to receive a fractional interest in a share of Class A Common Stock, we will, upon exercise, round up to the nearest whole number the number of shares of Class A Common Stock to be issued to the warrant holder.

#### ***Purchase Agreement Warrants***

Each warrant issued pursuant to the Series A Purchase Agreement entitles the registered holder to purchase the number of shares of the Class A Common Stock stated in such warrant at a price of \$7.66 per share, subject to adjustment as discussed below, at any time commencing on the date that is six months and one day after the Initial Closing (the "Exercisable Date"). Warrants must be exercised for a whole share. The warrants will expire on the sixth anniversary of the Exercisable Date, at 5:00 p.m., New York City time.

No warrant will be exercisable, and we will not be obligated to issue any shares to holders seeking to exercise their warrants, unless the issuance of the shares of Class A Common Stock upon such exercise is registered or qualified under the securities laws of the state of the exercising holder, or an exemption is available.

If the number of outstanding shares of Class A Common Stock is increased by a stock dividend payable in shares of Class A Common Stock, or by a split-up of shares of Class A Common Stock or other similar event, then, on the effective date of such stock dividend, split-up or similar event, the number of shares of Class A Common Stock issuable on exercise of each warrant will be increased in proportion to such increase in the outstanding shares of Class A Common Stock. A rights offering to holders of Class A Common Stock entitling holders to purchase shares of Class A Common Stock at a price less than the fair market value will be deemed a stock dividend of a number of shares of Class A Common Stock equal to the product of (i) the number of shares of Class A Common Stock actually sold in such rights offering (or issuable under any other equity securities sold in such rights offering that are convertible into or exercisable for Class A Common Stock) multiplied by (ii) one minus the quotient of (x) the price per share of Class A Common Stock paid in such rights offering divided by (y) the fair market value. For these purposes (i) if the rights offering is for securities convertible into or exercisable for Class A Common Stock, in determining the price payable for Class A Common Stock, there will be taken into account any consideration received for such rights, as well as any additional amount payable upon exercise or conversion and (ii) fair market value means the volume weighted average price of Class A Common Stock as reported during the ten trading day period ending on the trading day prior to the first date on which the shares of Class A Common Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive such rights.

In addition, if we, at any time while the warrants are outstanding and unexpired, pay a dividend or make a distribution in cash, securities or other assets to the holders of Class A Common Stock on account of such shares of Class A Common Stock (or other shares of our capital stock into which the warrants are convertible), other than as described above, then the warrant exercise price will be decreased, effective immediately after the effective date of such event, by the amount of cash and/or the fair market value of any securities or other assets paid on each share of Class A Common Stock in respect of such event.

If the number of outstanding shares of the Class A Common Stock is decreased by a consolidation, combination, reverse stock split or reclassification of shares of Class A Common Stock or other similar event, then, on the effective date of such consolidation, combination, reverse stock split, reclassification or similar event, the number of shares of Class A Common Stock issuable on exercise of each warrant will be decreased in proportion to such decrease in outstanding shares of Class A Common Stock.

Whenever the number of shares of Class A Common Stock purchasable upon the exercise of the warrants is adjusted, as described above, the warrant exercise price will be adjusted by multiplying the warrant exercise price immediately prior to such adjustment by a fraction (x) the numerator of which will be the number of shares of Class A Common Stock purchasable upon the exercise of the warrants immediately prior to such adjustment, and (y) the denominator of which will be the number of shares of Class A Common Stock so purchasable immediately thereafter.

In case of any reclassification or reorganization of the outstanding shares of Class A Common Stock (other than those described above or that solely affects the par value of such shares of Class A Common Stock), or in the case of any merger or consolidation of us with or into another entity (other than a consolidation or merger in which we are the continuing corporation and that does not result in any reclassification or reorganization of our outstanding shares of Class A Common Stock), or in the case of any sale or conveyance to another corporation or entity of the assets or other property of us as an entirety or substantially as an entirety in connection with which we are dissolved, the holders of the warrants will thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the warrants and in lieu of the shares of the Class A Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of shares of stock or other securities or property (including cash) receivable upon such reclassification, reorganization, merger or consolidation, or upon a dissolution following any such sale or transfer, that the holder of the warrants would have received if such holder had held a number of shares of Class A Common Stock equal to the aggregate of the shares of Class A Common Stock purchasable upon exercise of their warrants immediately prior to such event (the "Alternative Issuance"). However, if such holders were entitled to exercise a right of election as to the kind or amount of securities, cash or other assets receivable upon such consolidation or merger, then the kind and amount of securities, cash or other assets for which each warrant will become exercisable will be deemed to be the weighted average of the kind and amount received per share by such holders in such consolidation or merger, and if a tender, exchange or redemption offer has been made to and accepted by such holders under circumstances in which, upon completion of such tender or exchange offer, the maker thereof, together with members of any group (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) of which such maker is a part, and together with any affiliate or associate of such maker (within the meaning of Rule 12b-2 under the Exchange Act) and any members of any such group of which any such affiliate or associate is a part, own beneficially (within the meaning of Rule 13d-3 under the Exchange Act) more than 50% of

the outstanding shares of Class A Common Stock, (i) the holder of a warrant will be entitled to receive the highest amount of cash, securities or other property to which such holder would actually have been entitled as a stockholder if such warrant holder had held a number of shares of Class A Common Stock equal to the aggregate of the shares of Class A Common Stock purchasable upon exercise of their warrants prior to the expiration of such tender or exchange offer, accepted such offer and all of the Class A Common Stock held by such holder had been purchased pursuant to such tender or exchange offer, subject to adjustments (from and after the consummation of such tender or exchange offer) as nearly equivalent as possible to the adjustments provided for in the 2019 Warrant Agreement and (ii) if we are not the issuer of the securities constituting the Alternative Issuance, then we and such issuer(s) will take such action so as to ensure the availability of Section 3(a)(9) under the Securities Act for any issuance of such securities upon the exercise of the warrants and the tacking of the "holding period" under Rule 144 under the Securities Act for the warrants to such securities. Additionally, if less than 70% of the consideration receivable by the holders of Class A Common Stock in such a transaction is payable in the form of Class A Common Stock in the successor entity that is listed for trading on a national securities exchange or is quoted in an established over-the-counter market, or is to be so listed for trading or quoted immediately following such event, and if the registered holder of the warrant properly exercises the warrant within thirty days following public disclosure of such transaction, the warrant exercise price will be reduced as specified in the 2019 Warrant Agreement based on the per share consideration minus Black-Scholes Warrant Value (as defined in the 2019 Warrant Agreement) of the warrant.

The warrants were issued in registered form under the 2019 Warrant Agreement. The 2019 Warrant Agreement provides that the terms of the warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision, but requires the approval by the holders of at least 75% of the then outstanding warrants issued pursuant to the Series A Purchase Agreement to make any change that adversely affects the interests of the registered holders of warrants.

The warrants may be exercised upon the surrender of the certificate evidencing such warrant on or before the expiration date at the offices of the warrant agent, with the subscription form, as set forth in the warrants, duly executed, for that number of shares of Class A Common Stock equal to the quotient obtained by dividing (x) the product of the number of shares of Class A Common Stock underlying the warrants to be exercised, multiplied by the difference between the exercise price of the warrants per share and the "fair market value" (defined below) by (y) the fair market value. The "fair market value" means the volume weighted average price of the Class A Common Stock as reported during the ten (10) trading day period ending on the second trading day prior to the date on which the notice of warrant exercise or redemption is sent.

The warrant holders do not have the rights or privileges of holders of Class A Common Stock and any voting rights until they exercise their warrants and receive shares of Class A Common Stock. After the issuance of shares of Class A Common Stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

Warrants may be exercised only for a whole number of shares of Class A Common Stock. No fractional shares will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round down to the nearest whole number the number of shares of Class A Common Stock to be issued to the warrant holder.

**SUBSIDIARIES OF THE COMPANY**

USWS Holdings, LLC

U.S. Well Services, LLC

USWS Fleet 10, LLC

USWS Fleet 11, LLC

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
U.S. Well Services, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-234583, No. 333-230471, and No. 333-228664) on Form S-3 and (No. 333-230276) on Form S-8 of U.S. Well Services, Inc. of our report dated March 5, 2020 with respect to the consolidated balance sheets of U.S. Well Services, Inc. and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2019 and 2018 (Successor), for the period February 2, 2017 to December 31, 2017 (Successor) and for the period January 1, 2017 to February 1, 2017 (Predecessor), and the related notes (collectively, the "consolidated financial statements"), which report appears in the December 31, 2019 annual report on Form 10-K of U.S. Well Services, Inc.

Our report dated March 5, 2020 refers to a new basis for presentation as the accompanying consolidated financial statements for the Successor periods include assets acquired and liabilities assumed that were recorded at fair value having carrying amounts not comparable with prior periods, as discussed in note 2 to the consolidated financial statements.

/s/ KPMG

Houston, Texas  
March 5, 2020

**CERTIFICATION**

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

1. I have reviewed this Annual Report on Form 10-K 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: March 5, 2020

/s/ Joel Broussard

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

**CERTIFICATION**

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

1. I have reviewed this Annual Report on Form 10-K 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: March 5, 2020

/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 Annual Report of U.S. Well Services, Inc. (the "Company") on Form 10-K for the year ended December 31, 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: March 5, 2020

*/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 Annual Report of U.S. Well Services, Inc. (the "Company") on Form 10-K for the year ended December 31, 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: March 5, 2020

/s/ Kyle O'Neil

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