

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2019

OR

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

For the Transition Period from \_\_\_ to \_\_\_

Commission file number 001-37936



smartsand®  
Mine to Wellsite Solutions

**SMART SAND, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

45-2809926

(I.R.S. Employer Identification Number)

1725 Hughes Landing Blvd, Suite 800

The Woodlands, Texas 77380

(Address of principal executive offices)

(281) 231-2660

(Registrant's telephone number)

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

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, par value \$0.001 per share

SNL

Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Number of shares of common stock outstanding, par value \$0.001 per share, as of October 31, 2019: 41,318,370

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## Certain Definitions

The following definitions apply throughout this quarterly report unless the context requires otherwise:

“We”, “Us”, “Company”, “Smart Sand” or “Our”	Smart Sand, Inc., a company organized under the laws of Delaware, and its subsidiaries.
“shares”, “stock”	The common stock of Smart Sand, Inc., nominal value \$0.001 per share.
“Credit Agreement”, “Credit Facility”	On December 8, 2016, the Company entered into a \$45 million 3-year senior secured revolving credit facility under a revolving credit agreement with Jefferies Finance LLC as administrative and collateral agent (the “Credit Agreement”). This credit facility was amended: (i) on April 8, 2018, to increase our total borrowing capacity to \$60 million; (ii) on July 13, 2018, to, among other things, (A) increase the limit on our ability to sell, transfer or dispose of assets, subject to certain considerations from an aggregate amount of \$25 million to \$55 million, (B) increase the limit on our ability to incur capital lease obligations from an aggregate principal amount of \$15 million to \$30 million, and (C) exclude certain current and future earn-out obligations from the definition of indebtedness in the Credit Agreement; and (iii) on February 22, 2019, to, among other things (A) extend the maturity date to June 30, 2020, and (B) decrease our total borrowing capacity to \$55 million by June 30, 2019, \$52.5 million by September 30, 2019 and \$50 million by December 31, 2019 (“Credit Facility”).
“Exchange Act”	The Securities Exchange Act of 1934, as amended.
“Securities Act”	The Securities Act of 1933, as amended.
“FCA”, “DAT”, “DAP”	Free Carrier, Delivered at Terminal, Delivered at Place, respectively, Incoterms 2010.
“FASB”, “ASU”, “ASC”, “GAAP”	Financial Accounting Standards Board, Accounting Standards Update, Accounting Standards Codification, Accounting Principles Generally Accepted in the United States, respectively.

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**SMART SAND, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2019	December 31, 2018
	(unaudited)	
	(in thousands, except share amounts)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,098	\$ 1,466
Accounts receivable, net	58,749	18,989
Unbilled receivables	1,189	7,823
Inventories	15,926	18,575
Prepaid expenses and other current assets	1,092	3,243
Total current assets	79,054	50,096
Property, plant and equipment, net	250,486	248,396
Operating lease right-of-use assets	29,702	—
Intangible assets, net	9,244	18,068
Other assets	3,537	3,732
Total assets	\$ 372,023	\$ 320,292
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,039	\$ 11,336
Accrued and other expenses	10,234	8,392
Deferred revenue	5,545	4,095
Current portion of long-term debt	23,940	829
Operating lease liabilities, current portion	11,799	—
Total current liabilities	61,557	24,652
Deferred revenue, net of current portion	2,946	—
Long-term debt, net of current portion	6,791	47,893
Operating lease liabilities, long-term, net of current portion	17,397	—
Long-term deferred tax liabilities, net	24,685	17,898
Asset retirement obligation	14,897	13,322
Contingent consideration	2,800	7,167
Total liabilities	131,073	110,932
Commitments and contingencies (Note 16)		
Stockholders' equity		
Common stock, \$0.001 par value, 350,000,000 shares authorized; 40,974,470 issued and 40,233,850 outstanding at September 30, 2019; 40,673,513 issued and 39,974,478 outstanding at December 31, 2018	40	40
Treasury stock, at cost, 740,620 and 699,035 shares at September 30, 2019 and December 31, 2018, respectively	(2,978)	(2,839)
Additional paid-in capital	164,499	162,195
Retained earnings	79,512	50,277
Accumulated other comprehensive loss	(123)	(313)
Total stockholders' equity	240,950	209,360
Total liabilities and stockholders' equity	\$ 372,023	\$ 320,292

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

**SMART SAND, INC.**  
**CONDENSED CONSOLIDATED INCOME STATEMENTS**  
**(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except per share amounts)			
Revenues	\$ 65,690	\$ 63,146	\$ 185,406	\$ 160,222
Cost of goods sold	38,555	40,595	122,228	110,686
Gross profit	27,135	22,551	63,178	49,536
Operating expenses:				
Salaries, benefits and payroll taxes	2,958	3,232	8,466	8,595
Depreciation and amortization	623	501	1,954	1,165
Selling, general and administrative	2,693	3,512	8,283	10,208
Change in the estimated fair value of contingent consideration	(1,215)	(2,100)	(2,757)	(2,100)
Impairment of intangible asset	7,628	—	7,628	—
Total operating expenses	12,687	5,145	23,574	17,868
Operating income	14,448	17,406	39,604	31,668
Other income (expenses):				
Interest expense, net	(968)	(758)	(2,943)	(1,438)
Other income	15	90	89	149
Total other income (expenses), net	(953)	(668)	(2,854)	(1,289)
Income before income tax expense	13,495	16,738	36,750	30,379
Income tax expense	2,569	4,613	7,515	7,258
Net income	\$ 10,926	\$ 12,125	\$ 29,235	\$ 23,121
Net income per common share:				
Basic	\$ 0.27	\$ 0.30	\$ 0.73	\$ 0.57
Diluted	\$ 0.27	\$ 0.30	\$ 0.73	\$ 0.57
Weighted-average number of common shares:				
Basic	40,233	40,541	40,102	40,483
Diluted	40,240	40,551	40,163	40,548

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

**SMART SAND, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income	\$ 10,926	\$ 12,125	\$ 29,235	\$ 23,121
Other comprehensive income:				
Foreign currency translation adjustment	(46)	(130)	190	(54)
Comprehensive income	\$ 10,880	\$ 11,995	\$ 29,425	\$ 23,067

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

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(UNAUDITED)

Nine months ended September 30, 2019

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Outstanding Shares	Par Value	Shares	Amount				
	(in thousands, except share amounts)							
Balance at December 31, 2018	39,974,478	\$ 40	699,035	\$ (2,839)	\$ 162,195	\$ 50,277	\$ (313)	\$ 209,360
Foreign currency translation adjustment	—	—	—	—	—	—	145	145
Vesting of restricted stock	30,729	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	790	—	—	790
Employee stock purchase plan compensation	—	—	—	—	9	—	—	9
Employee stock purchase plan issuance	20,954	—	—	—	40	—	—	40
Restricted stock buy back	(5,714)	—	5,714	(23)	—	—	—	(23)
Net income	—	—	—	—	—	4,033	—	4,033
Balance at March 31, 2019	40,020,447	40	704,749	(2,862)	163,034	54,310	(168)	214,354
Foreign currency translation adjustment	—	—	—	—	—	—	91	91
Vesting of restricted stock	224,653	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	754	—	—	754
Employee stock purchase plan compensation	—	—	—	—	9	—	—	9
Employee stock purchase plan issuance	—	—	—	—	—	—	—	—
Restricted stock buy back	(35,691)	—	35,691	(116)	—	—	—	(116)
Net income	—	—	—	—	—	14,276	—	14,276
Balance at June 30, 2019	40,209,409	40	740,440	(2,978)	163,797	68,586	(77)	229,368
Foreign currency translation adjustment	—	—	—	—	—	—	(46)	(46)
Vesting of restricted stock	4,500	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	652	—	—	652
Employee stock purchase plan compensation	—	—	—	—	12	—	—	12
Employee stock purchase plan issuance	20,121	—	—	—	38	—	—	38
Restricted stock buy back	(180)	—	180	—	—	—	—	—
Net income	—	—	—	—	—	10,926	—	10,926
September 30, 2019	40,233,850	\$ 40	740,620	\$ (2,978)	\$ 164,499	\$ 79,512	\$ (123)	\$ 240,950

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)  
(UNAUDITED)

Nine months ended September 30, 2018

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Outstanding Shares	Par Value	Shares	Amount				
	(in thousands, except share amounts)							
December 31, 2017	40,393,033	\$ 40	81,052	\$ (666)	\$ 159,059	\$ 31,589	\$ —	\$ 190,022
Vesting of restricted stock	96,713	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	610	—	—	610
Employee stock purchase plan issuance	9,639	—	—	—	70	—	—	70
Restricted stock buy back	(8,822)	—	8,822	(54)	—	—	—	(54)
Net income	—	—	—	—	—	975	—	975
Balance at March 31, 2018	40,490,563	40	89,874	(720)	159,739	32,564	—	191,623
Foreign currency translation adjustment	—	—	—	—	—	—	76	76
Vesting of restricted stock	59,400	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	650	—	—	650
Employee stock purchase plan compensation	—	—	—	—	38	—	—	38
Employee stock purchase plan issuance	—	—	—	—	1	—	—	1
Restricted stock buy back	(20,781)	—	20,781	(119)	—	—	—	(119)
Net income	—	—	—	—	—	10,021	—	10,021
Balance at June 30, 2018	40,529,182	40	110,655	(839)	160,428	42,585	76	202,290
Foreign currency translation adjustment	—	—	—	—	—	—	(130)	(130)
Vesting of restricted stock	21,351	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	873	—	—	873
Employee stock purchase plan compensation	—	—	—	—	18	—	—	18
Employee stock purchase plan issuance	—	—	—	—	56	—	—	56
Restricted stock buy back	(180)	—	180	(1)	—	—	—	(1)
Net income	—	—	—	—	—	12,125	—	12,125
Balance at September 30, 2018	40,550,353	\$ 40	110,835	\$ (840)	\$ 161,375	\$ 54,710	\$ (54)	\$ 215,231

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



**SMART SAND, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
<b>Operating activities:</b>		
Net income	\$ 29,235	\$ 23,121
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation, depletion and accretion of asset retirement obligation	19,309	12,141
Intangible asset impairment	7,628	—
Amortization of intangible assets	1,199	572
Asset retirement obligation settlement	(2,348)	(2,219)
(Gain) loss on disposal of assets	(41)	253
Amortization of deferred financing cost	172	223
Accretion of debt discount	517	181
Deferred income taxes	6,787	7,258
Stock-based compensation, net	2,196	2,133
Employee stock purchase plan compensation	30	56
Change in contingent consideration fair value	(2,757)	(2,100)
<b>Changes in assets and liabilities, net of effects of acquisitions:</b>		
Accounts receivable	(39,760)	(6,386)
Unbilled receivables	6,634	(23)
Inventories	2,649	(5,170)
Prepaid expenses and other assets	1,035	(3,087)
Deferred revenue	4,396	4,030
Accounts payable	(956)	(2,517)
Accrued and other expenses	4,403	5,257
<b>Net cash provided by operating activities</b>	<b>40,328</b>	<b>33,723</b>
<b>Investing activities:</b>		
Acquisition of businesses, net of cash acquired	—	(29,921)
Purchases of property, plant and equipment	(19,518)	(81,654)
Proceeds from disposal of assets	—	22
<b>Net cash used in investing activities</b>	<b>(19,518)</b>	<b>(111,553)</b>
<b>Financing activities:</b>		
Proceeds from the issuance of notes payable	6,120	—
Repayments of notes payable	(1,461)	(288)
Payments under equipment financing obligations	(79)	(166)
Payment of deferred financing and debt issuance costs	(1,087)	(210)
Proceeds from revolving credit facility	37,750	71,500
Repayment of revolving credit facility	(59,750)	(27,000)
Payment of contingent consideration	(1,610)	—
Proceeds from equity issuance	78	127
Purchase of treasury stock	(139)	(174)
<b>Net cash (used in) provided by financing activities</b>	<b>(20,178)</b>	<b>43,789</b>
Effect of exchange rate changes on cash and cash equivalents	—	—
<b>Net decrease in cash and cash equivalents</b>	<b>632</b>	<b>(34,041)</b>
Cash and cash equivalents at beginning of year	1,466	35,227
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,098</b>	<b>\$ 1,186</b>
<b>Supplemental disclosure of cash flow information</b>		
<b>Non-cash investing activities:</b>		
Contingent consideration	\$ —	\$ 9,200
Asset retirement obligation	\$ 3,301	\$ 1,561
<b>Non-cash financing activities:</b>		
Write-off of remaining balance of returned equipment under capital lease	\$ —	\$ 398
Capitalized expenditures in accounts payable and accrued expenses	\$ 2,138	\$ 7,920

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



SMART SAND, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

**NOTE 1 — Organization and Nature of Business**

The Company was incorporated in July 2011 and is headquartered in The Woodlands, Texas. The Company is a fully integrated frac sand supply and services company, offering complete mine to wellsite logistics solutions. The Company is engaged in the excavation, processing and sale of industrial sand, or proppant, for use in hydraulic fracturing operations for the oil and natural gas industry. Its integrated Oakdale facility, with on-site rail infrastructure and wet and dry sand processing facilities, has access to two Class I rail lines that enables the Company to process and cost-effectively deliver products to its customers. The Company also offers proppant logistics solutions to its customers through, among other things, its in-basin transloading terminal and its SmartSystems™ wellsite proppant storage solution capabilities.

The Company completed construction of the first phase of its mine and processing facility in Oakdale, Wisconsin and commenced operations in July 2012, and subsequently expanded its operations in 2014, 2015 and 2018 to the current annual processing capacity of approximately 5.5 million tons.

On March 15, 2018, the Company acquired the rights to operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin and began providing Northern White Sand in-basin in April 2018.

On June 1, 2018, the Company acquired substantially all of the assets of Quickthree Solutions, Inc. (“Quickthree”), a manufacturer of portable vertical proppant storage solution systems. These systems now comprise the Company’s SmartSystems proppant storage solutions under which we offer various solutions that create efficiencies, flexibility, enhanced safety and reliability for customers by providing the capability to unload, store and deliver proppant at the wellsite, as well as the ability to rapidly set up, takedown and transport the entire system. The SmartDepot™ silo system includes passive and active dust suppression technology, along with the capability of a gravity-fed operation.

**NOTE 2 — Summary of Significant Accounting Policies**

The information presented below supplements the complete description of our significant accounting policies disclosed in our 2018 Form 10-K, filed with the SEC on March 14, 2019.

***Basis of Presentation and Consolidation***

The accompanying unaudited quarterly condensed consolidated financial statements (“interim statements”) of the Company are presented in accordance with the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and therefore do not include all the information and notes required by GAAP. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. All adjustments are of a normal recurring nature. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. The consolidated balance sheet as of December 31, 2018 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2018. These interim statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2018.

Certain 2018 balance sheet items have been reclassified to conform to the current financial statement presentation. These reclassifications have no effect on previously reported net income.

***Going Concern***

Management evaluates at each annual and interim period whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. Management’s evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the consolidated financial statements are issued. The Credit Facility matures on June 30, 2020 and without additional sources of capital or refinancing of the Credit Facility, the maturity of the Credit Facility raises substantial doubt about the Company’s ability to continue as a going concern, which means that Smart Sand may be unable to meet its obligations as they become due. The Company is currently pursuing plans to refinance the Credit Facility and extend the current obligations beyond one year as mitigation to the substantial doubt raised regarding the Company’s ability to continue as a going concern, however there can be no assurance that sufficient liquidity can be raised or that such a transaction can be completed prior to the maturity date of the Credit Facility or that any refinancing would be on

SMART SAND, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

favorable terms to the Company. The Credit Facility has been recorded as a current liability in the consolidated balance sheet as of September 30, 2019.

**Recent Accounting Pronouncements**

*Adopted*

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), and related amendments, which replaced the existing guidance in ASC 840, Leases. ASU 2016-02 requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The new lease standard does not substantially change lessor accounting. The new standard is effective for interim and annual reporting periods beginning after December 15, 2018. The Company adopted ASU 2016-02 and its related updates using the optional transition practical expedients, which allow the Company to use the existing lease population, classification and determination of initial direct costs when calculating the lease liability and right-of-use asset balances. The Company also used the optional transition method, which allows the Company to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. There was no adjustment made to the opening balance of retained earnings. The Company has implemented new accounting policies and software to facilitate the recording and reporting of lease transactions and balances. The Company recorded initial operating right-of-use assets of \$35,939 and related lease liabilities of \$36,484 on its consolidated balance sheet on January 1, 2019. New disclosures are included in Note 9 to these interim financial statements.

*Not yet adopted*

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), which modifies disclosure requirements for fair value measurements by removing the disclosure of the valuation process for Level 3 fair value measurements, among other disclosure modifications. The guidance is effective for the Company for financial statement periods beginning after December 15, 2019, although early adoption is permitted. Companies are permitted to remove or modify disclosures upon issuance while delaying adoption of the additional disclosures. The Company does not expect ASU 2018-13 to have a material effect on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), which modifies how companies recognize expected credit losses on financial instruments and other commitments to extend credit held by an entity at each reporting date. Existing GAAP requires an "incurred loss" methodology whereby companies are prohibited from recording an expected loss until it is probable that the loss has been incurred. ASU 2016-13 requires companies to use a methodology that reflects current expected credit losses ("CECL") and requires consideration of a broad range of reasonable and supportable information to record and report credit loss estimates, even when the CECL is remote. Companies will be required to record the allowance for credit losses and deduct that amount from the basis of the asset and a related expense will be recognized in selling, general and administrative expenses on the income statement, similar to bad debt expense under existing GAAP. There is much latitude given to entities in determining the methodology for calculating the CECL. The guidance is effective for the Company for financial statement periods beginning after December 15, 2019, although early adoption is permitted. While the Company is still in the process of evaluating the effects of ASU 2016-13 and its related updates on its consolidated financial statements, it believes the primary effect, will be an allowance recorded against its accounts and unbilled receivables on its balance sheet and related expense on its income statement upon adoption. The Company cannot determine the financial impact on its consolidated financial statements upon adoption as its accounts and unbilled receivables balances are affected by ongoing transactions with customers.

**Changes to Accounting Policies**

*Leases - Lessee*

The Company uses leases primarily to procure certain office space, railcars and heavy equipment as part of its operations. The majority of its lease payments are fixed and determinable with certain of its lease payments containing immaterial variable payments based on the number of hours the equipment is used. Certain of its leases have options that allow for renewal at market rates, purchase at fair market value or termination of the lease. The Company must determine that it is reasonably certain that a lease option will be exercised for such an option to be included in the right-of-use asset or lease liability. The Company is not reasonably certain that any of its lease options will be exercised and, as such, has not included those options in its right-of-use assets or lease liabilities. Certain of its equipment leases contain residual value guarantees

SMART SAND, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
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which guarantee various parts of heavy equipment will have a remaining life when the equipment is returned to the lessor. It is possible that the Company could owe additional amounts to the lessor upon return of equipment. There are no restrictions or covenants imposed by any of the Company's leases.

The Company evaluates contracts during the negotiation process and when they are executed to determine the existence of leases. A contract contains a lease when it conveys the right to use property, plant or equipment for a stated period of time in exchange for consideration. Leases with an initial term of twelve months or less are not recorded on the balance sheet. The Company recognizes lease expense on a straight-line basis over the term of the lease. The Company evaluates the classification of its leases at the commencement date and includes both lease and non-lease components in its calculation of consideration in the contract for all classes of operating leases.

The Company applies a single discount rate to all operating leases, which is its incremental borrowing rate. The Company determined its incremental borrowing rate based on an average of collateralized borrowing rates offered by various lenders. The Company considered the nature of the assets and the life of the leases and determined that there is no significant difference in the incremental borrowing rate among its classes of assets. See Note 9 — Leases for additional disclosures regarding the Company's leasing activity.

*Leases - Lessor*

The Company manufactures SmartSystems and offers the equipment for lease. The Company negotiates the terms of its leases on a case-by-case basis. There are no significant options that are reasonably certain to be exercised, residual value guarantees, restrictions or covenants in its lease contracts and have, therefore, not been included in its accounting for the leases.

**NOTE 3 — Acquisitions**

***Asset Acquisition - Van Hook Crude Terminal, LLC***

The acquisition of the assets of Van Hook Crude Terminal, LLC occurred on March 15, 2018. The Company acquired all of the rights, title, and interest in certain properties and assigned contracts for a total consideration of \$15,549 in cash. The acquisition cost has been allocated to the Company's fixed assets as set forth below.

Machinery, equipment and tooling	\$	1,478
Plant and building		1,407
Railroad and sidings		9,926
Land improvements		2,738
Total assets acquired	\$	<u>15,549</u>

***Business Combination - Quickthree Solutions Inc.***

On June 1, 2018, the Company acquired substantially all of the assets of Quickthree, a manufacturer of portable vertical frac sand storage solution systems, which now comprise the Company's SmartSystems offerings.

The aggregate purchase price consisted of approximately \$30,000 cash paid at closing, subject to adjustment based upon Quickthree's closing date working capital, and up to \$12,750 in potential earn-out payments over a three-year period after closing. Payment of the earn-out is based upon the production of SmartDepot (formerly known as Quickstand) silos and related equipment during the earn-out period. The closing portion of the purchase price was paid using cash on hand and advances under the Company's Credit Facility. The Company expects the earn-out portion of the purchase price to be paid using cash on hand, equipment financing options available to the Company and advances under the Company's Credit Facility. Goodwill in this transaction was attributable to planned expansion into the wellsite proppant storage solutions market, and is fully deductible for tax purposes. The table below presents the calculation of the total purchase consideration.

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Base price - cash	\$	30,000
Contingent consideration – earnout		9,200
Working capital adjustment		(122)
Total purchase consideration	\$	<u>39,078</u>

The Company's allocation of the purchase price in connection with the acquisition was calculated as follows:

	<u>Fair Value</u>	<u>Useful Life (in years)</u>
<u>Assets Acquired</u>		
Accounts receivable	\$ 112	
Inventory	1,700	
Prepaid expenses and other current assets	126	
Total current assets acquired	\$ 1,938	
Property, plant and equipment	740	
Customer relationships	270	1 year
Developed technology	18,800	13 years
Trade name	900	Indefinite
Goodwill	16,935	
Other assets	225	
Total non-current assets acquired	37,870	
Total assets acquired	\$ 39,808	
<u>Liabilities Assumed</u>		
Accounts payable	\$ 331	
Accrued and other expenses	399	
Total liabilities assumed	730	
Estimated fair value of net assets acquired	\$ 39,078	

There were no acquisition costs for the Quickthree acquisition during the three and nine months ended September 30, 2019. Total acquisition costs for the Quickthree acquisition incurred during the three and nine months ended September 30, 2018 were \$0 and \$1,159, respectively, which are included in selling, general and administrative expense in the Company's condensed consolidated income statements. The purchase price allocation was considered complete as of December 31, 2018.

The goodwill and trade name have been fully impaired as of December 31, 2018. The Company conducts its evaluation of goodwill at the reporting unit level on an annual basis as of December 31 and more frequently if events or circumstances indicate that the carrying value of a reporting unit exceeds its fair value. All of the Company's operations are in one reporting unit. The Company determined the fair value of its reporting unit using both a market multiples approach and the discounted cash flows method. In the second half of 2018, the Company saw a decline in demand for frac sand, consistent with the industry as a whole, which resulted in a decline in the Company's stock price near the measurement date. The decline in the Company's stock price near the measurement date and the relationship between the resulting market capitalization and the equity recorded on the Company's balance sheet resulted in a full impairment of goodwill as of December 31, 2018.

The Company impaired \$8,500 of gross intangible assets related to developed technology acquired in the Quickthree acquisition. See Note 6 - Intangible Assets for additional information.

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*Contingent Consideration*

The Company determined the fair value of the contingent consideration to be \$9,200 at June 1, 2018, the acquisition date and recorded it as a liability in the Company's unaudited condensed consolidated balance sheets. Each reporting period, the Company reassesses its inputs including market comparable information and management assessments regarding potential future scenarios, then discounts the liabilities to present value. The Company recorded adjustments to the fair value of contingent consideration in the amount of \$1,215 and \$2,757 for the three and nine months ended September 30, 2019, respectively, and \$2,100 for each the three and nine months ended September 30, 2018, on the condensed consolidated income statements. The Company will continue to reassess earn-out calculations related to the contingent consideration in future periods.

The Company's contingent consideration is remeasured at fair value on a recurring basis and is comprised of payments for production of silos and related equipment during the three-year period after the acquisition. Contingent liabilities are valued using significant inputs that are not observable in the market, which are defined as Level 3 inputs according to fair value measurement accounting. The Company used a probability-weighted average between 10 and 37 manufactured SmartDepot fleets over the earnout period, as the basis of its fair value determination. The actual contingent consideration could vary from the determined amount based on the actual number of SmartDepot silos and related equipment produced and the timing thereof. The Company estimates the fair value of contingent liabilities using a Monte Carlo simulation-based, real option pricing methodology implementation of the Income Approach. This approach utilizes inputs including market comparable information and management assessments regarding potential future scenarios, then discounts the liabilities to present value. The Company believes its estimates and assumptions are reasonable, however, there is significant judgment involved. The Company's financial instruments remeasured and carried at fair value were as follows:

	September 30, 2019	Level 1	Level 2	Level 3
Contingent consideration	\$ 2,800	\$ —	\$ —	\$ 2,800
Total liabilities	\$ 2,800	\$ —	\$ —	\$ 2,800

The following table provides a summary of changes in the fair value of the Company's Level 3 financial instruments for the nine months ended September 30, 2019.

Balance as of December 31, 2018	\$ 7,167
Payment of contingent consideration	(1,610)
Fair value adjustment	(2,757)
Balance as of September 30, 2019	\$ 2,800

**NOTE 4 — Inventories**

Sand inventories consisted of the following:

	September 30, 2019	December 31, 2018
Raw material	\$ 391	\$ 1,201
Work in progress	10,381	10,070
Finished goods	4,351	4,648
Spare parts	803	1,356
Total sand inventory	\$ 15,926	\$ 17,275

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SmartSystems inventory represents work in progress inventory related to existing arrangements at the time the Company acquired Quickthree and consisted of the following:

	September 30, 2019	December 31, 2018
Work in progress	\$ —	\$ 1,300
Total SmartSystems inventory	\$ —	\$ 1,300
Total inventory	\$ 15,926	\$ 18,575

**NOTE 5 — Property, Plant and Equipment, net**

Net property, plant and equipment consisted of:

	September 30, 2019	December 31, 2018
Machinery, equipment and tooling	\$ 16,863	\$ 14,858
SmartSystems	14,123	5,286
Vehicles	2,436	1,955
Furniture and fixtures	1,228	1,140
Plant and building	160,736	158,882
Real estate properties	4,913	4,601
Railroad and sidings	27,347	27,347
Land and land improvements	27,683	27,167
Asset retirement obligation	19,770	16,469
Mineral properties	10,075	10,075
Deferred mining costs	1,883	1,806
Construction in progress	25,022	21,619
	312,079	291,205
Less: accumulated depreciation and depletion	61,593	42,809
Total property, plant and equipment, net	\$ 250,486	\$ 248,396

Depreciation expense was \$6,610 and \$4,608 for the three months ended September 30, 2019 and 2018, respectively, and \$18,648 and \$11,751 for the nine months ended September 30, 2019 and 2018, respectively. Depletion expense was \$20 and \$31 for the three months ended September 30, 2019 and 2018, respectively, and \$38 and \$51 for the nine months ended September 30, 2019 and 2018, respectively.

The Company capitalized no interest expense associated with the construction of new property, plant and equipment for the three and nine months ended September 30, 2019 and 2018.



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**NOTE 6 — Intangible Assets, net**

The following table summarizes the Company's intangible assets as of September 30, 2019 and December 31, 2018:

	Estimated Useful Life (Years)	Gross Carrying Amount at December 31, 2018	Gross Impairment	Accumulated Amortization	Net Book Value at September 30, 2019
Developed technology	13	\$ 18,800	\$ 8,500	\$ 1,056	\$ 9,244
Customer relationships	1	270	—	270	—
		<u>\$ 19,070</u>	<u>\$ 8,500</u>	<u>\$ 1,326</u>	<u>\$ 9,244</u>

The Company uses the straight-line method to determine the amortization expense for its definite lived intangible assets. The weighted-average remaining useful life for the intangible assets is 11.7 years. Amortization expense related to the purchased intangible assets was \$362 and \$289 for the three months ended September 30, 2019 and 2018, respectively, and \$1,199 and \$572 for the nine months ended September 30, 2019 and 2018, respectively. The Company recorded an impairment charge of \$7,628 related to specific developed technology allocated to the Quickload for the three months ended September 30, 2019. Amortizable intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from such assets. The Company is developing and testing a new transload technology and no longer plans to actively market the Quickload system and as such, all developed technology intangible assets related to the Quickload have been impaired as of September 30, 2019.

The table below reflects the future estimated amortization expense for amortizable intangible assets as of September 30, 2019.

Remainder of 2019	\$ 264
2020	792
2021	792
2022	792
2023	792
Thereafter	5,812
<b>Total</b>	<u><u>\$ 9,244</u></u>

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**NOTE 7 — Accrued and Other Expenses**

Accrued and other expenses were comprised of the following:

	September 30, 2019	December 31, 2018
Employee related expenses	\$ 4,085	\$ 1,894
Accrued construction related expenses	226	948
Accrued professional fees	399	465
Accrued royalties	1,903	1,780
Accrued freight and delivery charges	1,978	2,556
Accrued real estate tax	605	—
Accrued utilities	207	—
Accrued income taxes	281	—
Deferred rent	—	712
Other accrued liabilities	550	37
<b>Total accrued liabilities</b>	<b>\$ 10,234</b>	<b>\$ 8,392</b>

**NOTE 8 — Debt**

The current portion of long-term debt consists of the following:

	September 30, 2019	December 31, 2018
Credit Facility	\$ 21,684	\$ —
Finance leases	95	90
Notes payable	2,161	739
<b>Total current portion of long-term debt</b>	<b>\$ 23,940</b>	<b>\$ 829</b>

Long-term debt, net of current portion consists of the following:

	September 30, 2019	December 31, 2018
Credit Facility	\$ —	\$ 44,255
Finance leases	503	547
Notes payable	6,288	3,091
<b>Total long-term debt, net of current portion</b>	<b>\$ 6,791</b>	<b>\$ 47,893</b>

**Credit Facility**

On February 22, 2019, we entered into an agreement with the existing lenders on the Credit Facility to, among other things, (i) extend the maturity date of the Credit Facility to June 30, 2020 and (ii) reduce the total capacity to \$50,000 by December 31, 2019. The outstanding balance on the Credit Facility is included in long-term liabilities on our consolidated balance sheet at December 31, 2018. As of September 30, 2019 and December 31, 2018, \$22,500 and \$44,500, respectively, were outstanding under the Credit Facility and the Company was in compliance with all covenants. As of September 30, 2019, the total borrowing capacity is \$52,500 with undrawn availability at \$30,000. The Credit Facility matures on June 30, 2020 and as such, the Company has included the balance in the current portion of long-term debt as of September 30, 2019. The Company is currently pursuing plans to refinance the Credit Facility and extend the current obligations beyond one year.

As of September 30, 2019 and December 31, 2018, gross deferred financing fees of \$1,815 and \$728 are presented as a discount to the carrying value of the debt and the unamortized amount is presented as a reduction of current portion of long term debt as of September 30, 2019 and long-term debt, net of current portion, as of December 31, 2018 on the consolidated balance sheets. Certain deferred financing costs incurred when there was no balance on the Credit Facility are included in Other assets line item on the consolidated balance sheet. Accretion of debt discount of \$186 and \$65 for the three months ended September 30, 2019 and 2018, respectively, and \$517 and \$181 for the nine months ended September 30, 2019 and 2018, respectively, is included in interest expense. Amortization expense of the deferred financing charges of \$54 and \$85 for the three months ended September 30, 2019 and 2018, respectively, and \$172 and \$223 for the nine months ended September 30, 2019 and 2018, respectively, is included in interest expense.

	September 30, 2019	December 31, 2018
Revolving credit facility	\$ 22,500	\$ 44,500
Less: Debt discount, net	(816)	(245)
<b>Revolving credit facility, net</b>	<b>\$ 21,684</b>	<b>\$ 44,255</b>



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**NOTE 9 — Leases**

***Disclosures subsequent to the adoption of ASC 842***

*Lessee*

At September 30, 2019, the operating and financing components of the Company's right-of-use assets and lease liabilities on the consolidated balance sheet are as follows:

	<u>Balance Sheet Location</u>	<u>September 30, 2019</u>
<b>Right-of-use assets</b>		
Operating	Operating right-of-use assets	\$ 29,702
Financing	Property, plant and equipment, net	650
<b>Total right-of use assets</b>		<b>\$ 30,352</b>
<b>Lease liabilities</b>		
Operating	Operating lease liabilities, current and long-term portions	\$ 29,196
Financing	Long-term debt, current and long-term portions	598
<b>Total lease liabilities</b>		<b>\$ 29,794</b>

Operating lease costs are recorded in a single expense on the income statement and allocated to the right-of-use assets and the related lease liabilities as depreciation expense and interest expense, respectively. Lease cost recognized in the consolidated income statement for the three and nine months ended September 30, 2019 is as follows:

	<u>Three Months Ended</u> <u>September 30, 2019</u>	<u>Nine Months Ended</u> <u>September 30, 2019</u>
<b>Finance lease cost</b>		
Amortization of right-of-use assets	\$ 35	\$ 99
Interest on lease liabilities	10	32
Operating lease cost	4,105	11,469
Short-term lease cost	160	294
<b>Total lease cost</b>	<b>\$ 4,310</b>	<b>\$ 11,894</b>

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Other information related to the Company's leasing activity for the nine months ended September 30, 2019 is as follows:

	<b>Nine Months Ended</b>
	<b>September 30, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows used for finance leases	\$ 33
Operating cash flows used for operating leases	\$ 12,447
Financing cash flows used for finance leases	\$ 79
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 55
Right-of-use assets recorded upon adoption	\$ 35,939
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 5,053
Weighted average remaining lease term - finance leases	3.9 years
Weighted average discount rate - finance leases	6.60%
Weighted average remaining lease term - operating leases	2.8 years
Weighted average discount rate - operating leases	5.50%

Maturities of the Company's lease liabilities as of September 30, 2019 are as follows:

<b>Year</b>	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
Remainder of 2019	\$ 2,841	\$ 32	\$ 2,873
2020	13,238	165	13,403
2021	9,123	165	9,288
2022	4,034	151	4,185
2023	1,394	161	1,555
Thereafter	888	—	888
Total cash lease payments	31,518	674	32,192
Less: amounts representing interest	(2,322)	(76)	(2,398)
Total lease liabilities	\$ 29,196	\$ 598	\$ 29,794

**Disclosures prior to the adoption of ASC 842**

*Capital Leases*

The Company entered into various lease arrangements to lease equipment. Equipment cost of \$657 was capitalized and included in the Company's property, plant and equipment as of December 31, 2018. Depreciation expense under leased assets was approximately \$3 and \$113 for the three and nine months ended September 30, 2018, respectively.

*Operating Leases*

Expense related to operating leases and other rental agreements was \$3,965 and \$10,658 for three and nine months ended September 30, 2018, respectively. Lease expense related to railcars is included in cost of goods sold in the condensed consolidated income statements.

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**NOTE 10 — Asset Retirement Obligation**

The Company had a post-closure reclamation and site restoration obligation of \$14,897 as of September 30, 2019. The following is a reconciliation of the total reclamation liability for asset retirement obligations.

Balance at December 31, 2018	\$	13,322
Additions and revisions of prior estimates		3,301
Accretion expense		623
Settlement of liability		(2,348)
Balance at September 30, 2019	\$	<u>14,897</u>

**NOTE 11 — Revenue**

*Disaggregation of Revenue*

The following table presents the Company's revenues disaggregated by type and percentage of total revenues for the periods indicated.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
Sand sales revenue	\$ 25,153	38%	\$ 39,500	63%	\$ 73,161	40%	\$ 96,417	60%
Reservation revenue	4,500	7%	5,190	8%	13,500	7%	17,656	11%
Shortfall revenue	15,620	24%	1,426	2%	37,659	20%	2,094	1%
Logistics revenue	20,417	31%	17,030	27%	61,086	33%	44,055	28%
Total revenues	<u>\$ 65,690</u>	<u>100%</u>	<u>\$ 63,146</u>	<u>100%</u>	<u>\$ 185,406</u>	<u>100%</u>	<u>\$ 160,222</u>	<u>100%</u>

The Company recorded \$4,095 of deferred revenue on the balance sheet on December 31, 2018, of which \$1,017 has been recognized in the nine months ended September 30, 2019, \$2,500 was recharacterized due to an amended contract, and the Company expects to recognize an additional \$578 in 2020.

**Segment Information**

Reportable operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company and the Chief Executive Officer view the Company's operations and manage its business, including the recently acquired logistics assets and wellsite proppant storage solutions business, as one reportable operating segment.

**NOTE 12 — Earnings Per Share**

Basic net income per share of common stock is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of restricted stock. Diluted net income per share of common stock is computed by dividing the net income attributable to common stockholders by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of restricted stock outstanding during the period calculated in accordance with the treasury stock method, although restricted stock is excluded if their effect is anti-dilutive. The number of shares underlying equity-based

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awards that were excluded from the calculation of diluted earnings per share as their effect would be anti-dilutive was 770 and 1,022 for the three months ended September 30, 2019 and 2018, respectively. The number of shares underlying equity-based awards that were excluded from the calculation of diluted earnings per share as their effect would be anti-dilutive was 760 and 646 for the nine months ended September 30, 2019 and 2018, respectively. The following table reconciles the weighted-average common shares outstanding used in the calculation of basic net income per share to the weighted average common shares outstanding used in the calculation of diluted net income per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted average common shares outstanding	40,233	40,541	40,102	40,483
Assumed conversion of restricted stock	7	10	61	65
Diluted weighted average common stock outstanding	40,240	40,551	40,163	40,548

**NOTE 13 — Stock-Based Compensation**

***Equity Incentive Plans***

In May 2012, the Board approved the 2012 Equity Incentive Plan (“2012 Plan”), which provides for the issuance of equity awards of up to a maximum of 440 shares of the Company’s common stock to employees, non-employee members of the Board, and consultants of the Company. During 2014, the 2012 Plan was amended to provide for the issuance of equity awards of up to 880 shares of the Company’s common stock. The awards can be issued in the form of incentive stock options, non-qualified stock options or restricted stock, and have expiration dates of 5 or 10 years after issuance, depending on whether the recipient already holds above 10% of the voting power of all classes of the Company’s shares. The exercise price will be based on the fair market value of the share on the date of issuance; vesting periods will be determined by the board upon issuance of the equity award. Subsequent to the Company’s initial public offering, no additional equity awards were made under the 2012 Plan.

In November 2016, in connection with its initial public offering, the Company adopted the 2016 Omnibus Incentive Plan (“2016 Plan”) which provides for the issuance of equity awards of up to a maximum of 3,911 shares of the Company’s common stock to employees, non-employee members of the board and consultants of the Company. Together the 2012 Plan and the 2016 Plan are referenced to as the “Plans”.

During the nine months ended September 30, 2019 and 2018, 337 and 742 shares of restricted stock were issued under the Plans, respectively. The grant date fair value per share of all the outstanding restricted stock was \$2.44 - \$19.00. The shares vest over one to four years from their respective grant dates. For equity awards issued under the 2016 Plan, the grant date fair value was either the actual market price of the Company’s shares or an adjusted price using a Monte Carlo simulation for awards subject to the Company’s performance as compared to a defined peer group. For equity awards issued under the 2012 Plan, the grant date fair value was calculated based on a weighted analysis of (i) publicly-traded companies in a similar line of business to the Company (market comparable method)—Level 2 inputs, and (ii) discounted cash flows of the Company—Level 3 inputs. The Company recognized, in operating expenses and cost of goods sold on the condensed consolidated income statements, \$652 and \$873 of compensation expense for the restricted stock during the three months ended September 30, 2019 and 2018, respectively. The Company recognized, in operating expenses on the consolidated income statements, \$2,196 and \$2,133 of compensation expense for the restricted stock during the nine months ended September 30, 2019 and 2018, respectively. At September 30, 2019, the Company had unrecognized compensation expense of \$4,332 related to granted but unvested stock awards, which is to be recognized as follows:

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Remainder of 2019	\$	652
2020		2,076
2021		1,041
2022		461
2023		102
Total	\$	<u>4,332</u>

The following table summarizes restricted stock activity under the Plans from December 31, 2018 through September 30, 2019:

	Number of Shares		Weighted Average
<b>Unvested, December 31, 2018</b>	1,027	\$	9.83
Granted	337	\$	2.54
Vested	(261)	\$	8.77
Forfeited	(18)	\$	6.38
<b>Unvested, September 30, 2019</b>	<u>1,085</u>	\$	<u>9.32</u>

**Employee Stock Purchase Plan**

Shares of the Company's common stock may be purchased by eligible employees under the Company's 2016 Employee Stock Purchase Plan in six-month intervals at a purchase price equal to at least 85% of the lesser of the fair market value of the Company's common stock on either the first day or the last day of each six-month offering period. Employee purchases may not exceed 20% of their gross compensation during an offering period.

**NOTE 14 — Income Taxes**

The Company calculates its interim income tax provision by estimating the annual expected effective tax rate and applying that rate to its ordinary year-to-date earnings or loss. In addition, the effect of changes in enacted tax laws, rates or tax status is recognized in the interim period in which the change occurs.

For the three months ended September 30, 2019 and 2018, the effective tax rate was approximately 19.0% and 27.6%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. For the nine months ended September 30, 2019 and 2018, the effective tax rate was approximately 20.4% and 23.9%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. For the three and nine months ended September 30, 2019 and 2018, the statutory tax rate was 21.0%. The computation of the effective tax rate includes modifications from the statutory rate such as income tax credits, among other items.

In assessing the realizability of deferred tax assets, the Company considered 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 period in which those temporary differences become deductible. At September 30, 2019 and December 31, 2018, based on the Company's future income projections and reversal of taxable temporary differences, management determined it was more likely than not that the Company will be able to realize the benefits of the deductible temporary differences. As of September 30, 2019 and December 31, 2018, the Company determined no valuation allowance was necessary.

The Company has evaluated its tax positions taken as of September 30, 2019 and December 31, 2018 and believes all positions taken would be upheld under examination from income taxing authorities. Therefore, no liability for the effects of uncertain tax positions has been recorded in the accompanying consolidated balance sheets as of September 30, 2019 or December 31, 2018. The Company is open to examination by taxing authorities beginning with the 2014 tax year.



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**NOTE 15 — Concentrations**

As of September 30, 2019, two customers accounted for 80% of the Company's total accounts receivable. As of December 31, 2018, four customers accounted for 89% of the Company's total accounts receivable.

During the three months ended September 30, 2019, 82% of the Company's revenues were earned from four customers. During the three months ended September 30, 2018, 82% of the Company's revenues were earned from five customers. During the nine months ended September 30, 2019, 74% of the Company's revenues were earned from four customers. During the nine months ended September 30, 2018, 55% of the Company's revenues were earned from three customers.

As of September 30, 2019, two vendors accounted for 37% of the Company's accounts payable. As of December 31, 2018, one vendor accounted for 16% of the Company's accounts payable.

During the three months ended September 30, 2019, two suppliers accounted for 57% of the Company's cost of goods sold. During the three months ended September 30, 2018, three suppliers accounted for 58% of the Company's cost of goods sold. During the nine months ended September 30, 2019, two suppliers accounted for 53% of the Company's cost of goods sold. During the nine months ended September 30, 2018, two suppliers accounted for 44% of the Company's cost of goods sold.

Currently, the Company's inventory and operations are primarily located in Wisconsin. There is a risk of loss if there are significant environmental, legal or economic changes to this geographic area. The Company primarily utilizes one third-party rail company to ship its products to customers from its plant. There is a risk of business loss if there are significant impacts to this third party's operations.

**NOTE 16 — Commitments and Contingencies**

***Future Minimum Commitments***

The Company is obligated under certain contracts for minimum payments for the right to use land for extractive activities, which is not within the scope of leases under ASC 842. Future minimum annual commitments under such contracts at September 30, 2019 are as follows:

Remainder of 2019	\$	—
2020		2,275
2021		2,275
2022		2,275
2023		2,275
Thereafter		31,850
Total	\$	<u>40,950</u>

***Litigation***

In addition to the matters described below, we may be subject to various legal proceedings, claims and governmental inspections, audits or investigations arising out of the Company's operations in the normal course of business, which cover matters such as general commercial, governmental and trade regulations, product liability, environmental, intellectual property, employment and other actions. Although the outcomes of these routine claims cannot be predicted with certainty, in the opinion of management, the ultimate resolution of these matters would not have a material adverse effect on the Company's financial statements.

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*U.S. Well Services, LLC*

On January 14, 2019, Smart Sand, Inc. (plaintiff) filed suit against U.S. Well Services, LLC (defendant) (“U.S. Well”) in the Superior Court of the State of Delaware in and for New Castle County (C.A. No. N19C-01-144-PRW [CCLD]). In the suit, plaintiff alleges that defendant is in breach of contract for failure to pay amounts due and payable under a long-term take-or-pay Master Product Purchase Agreement and coterminous Railcar Usage Agreement and is seeking unspecified monetary damages and other appropriate relief. Plaintiff is also seeking a declaratory judgment that the relevant agreements are continuing in full force and effect despite defendant’s purported notice of termination to the contrary. Defendant has filed an Amended Answer, Affirmative Defenses and Counterclaim seeking unspecified monetary damages and declaratory relief. The Company intends to both vigorously prosecute its claims and defend against U.S. Well’s counterclaims. At this time, the Company is unable to express an opinion as to the likely outcome of the matter.

The Company recorded \$16,343 and \$31,893 of revenue for the three and nine months ended September 30, 2019, respectively, related to U.S. Well. As of September 30, 2019, \$35,045 of accounts and unbilled receivables is attributable to U.S. Well. Amounts recorded as accounts and unbilled receivables in the financial statements do not represent the full amounts sought in this lawsuit.

*Schlumberger Technology Corporation*

On January 3, 2019, Smart Sand, Inc. (plaintiff) filed suit against Schlumberger Technology Corporation (defendant) (“STC”) in the District Court of Harris County, Texas (Case No. 2019-00557). In the suit, plaintiff alleged that defendant was in breach of contract for failure to pay amounts due and payable under a long-term take-or-pay Master Product Purchase Agreement and was seeking unspecified monetary damages and other appropriate relief. Defendant filed an Answer, Affirmative Defenses and Counterclaim seeking unspecified monetary damages and declaratory relief. On September 10, 2019, the Company and defendant entered into an agreement to settle such lawsuit and the case has been dismissed with prejudice. The settlement included an upfront cash payment, a new 4-year take-or-pay contract, and amounts recorded as accounts and unbilled receivables and deferred revenue to be removed from the Company’s balance sheet.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of the Company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related information contained herein and our audited financial statements as of December 31, 2018. We use EBITDA, Adjusted EBITDA and contribution margin herein as non-GAAP measures of our financial performance. For further discussion of EBITDA, Adjusted EBITDA and contribution margin, see the section entitled "Non-GAAP Financial Measures." We define various terms to simplify the presentation of information in this Report. All share amounts are presented in thousands.*

### Forward-Looking Statements

This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors, including those discussed herein and in the section entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2018. Our estimates and forward-looking statements are primarily based on our current expectations and estimates of future events and trends, which affect or may affect our business and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Important factors, in addition to the factors described in this quarterly report, may adversely affect our results as indicated in forward-looking statements. You should read this quarterly report and the documents that we have filed as exhibits hereto completely and with the understanding that our actual future results may be materially different from what we expect. The words "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential," "might," "would," "continue" or the negative of these terms or other comparable terminology and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update, to revise or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this quarterly report might not occur and our future results, level of activity, performance or achievements may differ materially from those expressed in these forward-looking statements due to, including, but not limited to, the factors mentioned above, and the differences may be material and adverse. Because of these uncertainties, you should not place undue reliance on these forward-looking statements.

### Overview

We are a fully integrated frac sand supply and services company, offering complete mine to wellsite logistics solutions to our customers. We produce low-cost, high quality Northern White frac sand, which is a premium proppant used to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells. We also offer proppant logistics solutions to our customers through our in-basin transloading terminal and our SmartSystems™ wellsite proppant storage solution capabilities. We provide our products and services primarily to oil and natural gas exploration and production companies and oilfield service companies through a combination of long-term take-or-pay contracts, spot sales in the open market and wellsite proppant storage solutions service and equipment contracts. We believe that the size and favorable geologic characteristics of our sand reserves, the strategic location and logistical advantages of our facilities, our proprietary SmartDepot™ portable wellsite proppant storage solution and the industry experience of our senior management team have positioned us as an attractive provider of frac sand and proppant logistics services from the mine to the wellsite.

We own and operate a frac sand mine and related processing facility near Oakdale, Wisconsin, at which we have approximately 317 million tons of proven recoverable sand reserves as of December 31, 2018. We began operations with 1.1 million tons of annual nameplate processing capacity in July 2012. After several expansions, our current annual nameplate processing capacity at our Oakdale facility is approximately 5.5 million tons of frac sand. Our integrated Oakdale facility, with onsite rail infrastructure and wet and dry sand processing facilities, has access to two Class I rail lines and enables us to process and cost-effectively deliver products to our customers.

### Market Trends

From 2017 through the second quarter of 2018, improvements in oil and natural gas prices created a stable market environment. During the second half of 2018, the demand for Northern White sand decreased, which we believe was due primarily to reduced takeaway capacity and increased availability of in-basin sand in the Permian basin, a reduction in spending

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by oil and natural gas companies in the latter portion of the year, and decreased oil prices, particularly in the fourth quarter of 2018. Demand improved late in the first half of 2019 and leveled off in the third quarter of 2019.

We generally expect the price of frac sand to correlate with the level of drilling activity for oil and natural gas, although the increasing supply of sand, particularly in-basin sand, could keep the price depressed. The willingness of exploration and production companies to engage in new drilling is determined by a number of factors, the most important of which are the prevailing and projected prices of oil and natural gas, the cost to drill, complete and operate a well, the availability and cost of capital and environmental and government regulations, as well as their ability to acquire the sand at the wellsite. We generally expect the level of drilling to correlate with long-term trends in commodity prices. Similarly, oil and natural gas production levels nationally and regionally tend to correlate with drilling activity.

Our sand is sold through long-term take-or-pay contracts or through spot market pricing. Our long-term take-or-pay contracts reduce exposure to fluctuations in price and provide predictability of volumes and price over the contract term. The pricing under many of our take-or-pay contracts adjusts quarterly based on Average Cushing Oklahoma WTI Spot Prices ("WTI Prices"). Average WTI Prices were down in the first quarter of 2019, and accordingly we adjusted many of our contract prices downward for the second quarter of 2019. Average WTI prices were up in the second quarter of 2019, and accordingly we adjusted many of our contract prices upward for the third quarter of 2019. There will be no change in pricing based on Average WTI for the fourth quarter of 2019. By contrast, the spot market provides us with direct access to current market-based prices, offering an outlet to sell excess production at opportunistic times or during favorable market conditions, which also comes with accompanying exposure to price volatility and uncertainty.

**GAAP Results of Operations**

**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

The following table summarizes our revenue and expenses for the periods indicated.

	Three Months Ended September 30,		Change	
	2019	2018	Dollars	Percentage
	(in thousands)			
Revenues	\$ 65,690	\$ 63,146	\$ 2,544	4 %
Cost of goods sold	38,555	40,595	(2,040)	(5)%
Gross profit	27,135	22,551	4,584	20 %
Operating expenses:				
Salaries, benefits and payroll taxes	2,958	3,232	(274)	(8)%
Depreciation and amortization	623	501	122	24 %
Selling, general and administrative	2,693	3,512	(819)	(23)%
Change in the estimated fair value of contingent consideration	(1,215)	(2,100)	885	(42)%
Impairment of intangible asset	7,628	—	7,628	Not meaningful
Total operating expenses	12,687	5,145	7,542	147 %
Operating income	14,448	17,406	(2,958)	(17)%
Other income (expenses):				
Interest expense, net	(968)	(758)	(210)	28 %
Other income	15	90	(75)	(83)%
Total other expenses, net	(953)	(668)	(285)	43 %
Income before income tax expense	13,495	16,738	(3,243)	(19)%
Income tax expense	2,569	4,613	(2,044)	(44)%
Net income	\$ 10,926	\$ 12,125	\$ (1,199)	(10)%

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*Revenues*

Revenues were \$65.7 million for the three months ended September 30, 2019, during which time we sold approximately 611,000 tons of sand. Revenues for the three months ended September 30, 2018 were \$63.1 million, during which time we sold approximately 823,000 tons of sand. The key factors contributing to the increase in revenues for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 were as follows:

- We had \$15.6 million of shortfall revenue for the three months ended September 30, 2019 compared to \$1.4 million shortfall revenue for the three months ended September 30, 2018. Our customer contracts dictate whether customers are invoiced quarterly or at the end of their respective contract year for shortfall payments. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract. Shortfall revenue of \$14.0 million for the three months ended September 30, 2019 was from a customer with which we have ongoing litigation.
- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services, and SmartSystems rentals, was approximately \$20.4 million for the three months ended September 30, 2019 compared to \$17.0 million for the three months ended September 30, 2018. The increase in logistics revenue was due to increased in-basin sales volumes in the third quarter of 2019 and SmartSystems being deployed.
- Sand sales revenue decreased from \$39.5 million for the three months ended September 30, 2018 to \$25.2 million for the three months ended September 30, 2019 as a result of lower total volumes sold. The volumes sold during the third quarter 2019 were negatively impacted by weather-related shipping delays in the Bakken and a slow-down in spot sales due to a decline in the overall well completions activity in the third quarter 2019.

*Cost of Goods Sold*

Cost of goods sold was \$38.6 million and \$40.6 million for the three months ended September 30, 2019 and 2018, respectively. Cost of goods sold decreased for the three months ended September 30, 2019 as compared to the same period in 2018, primarily due to lower overall sales volumes partially offset by increased depreciation and amortization relating to our Oakdale expansion project, which became operational in the second quarter of 2019, and additional asset retirement obligations due to expanded mining operations.

*Gross Profit*

Gross profit was \$27.1 million and \$22.6 million for the three months ended September 30, 2019 and 2018, respectively. The increase in gross profit for the three months ended September 30, 2019 was primarily due to higher shortfall revenue and logistics revenue partially offset by lower total sales volumes.

*Operating Expenses*

Operating expenses were \$12.7 million and \$5.1 million for the three months ended September 30, 2019 and 2018, respectively. Operating expenses for the three months ended September 30, 2019 include an impairment charge of \$7.6 million relating to the Quickload system we acquired in connection with our acquisition of Quickthree in 2018. We have no plans to actively market the Quickload system for the foreseeable future, which resulted in the impairment charge. All developed technology intangible assets related to the Quickload have been impaired of as of September 30, 2019. We recorded \$1.2 million reduction to the fair value of contingent consideration for the three months ended September 30, 2019, compared to \$2.1 million for the three months ended September 30, 2018. Salaries, benefits, and payroll taxes decreased by \$0.3 million and selling, general and administrative expense decreased by \$0.8 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018.

*Interest Expense*

We incurred \$1.0 million and \$0.8 million of net interest expense for the three months ended September 30, 2019 and 2018, respectively. The increase in interest expense for the three months ended September 30, 2019 was primarily due to higher average borrowings under the Credit Facility. Our borrowings under the Credit Facility were reduced late in the third quarter 2019.

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*Income Tax Expense*

For the three months ended September 30, 2019 and 2018, our effective tax rate was approximately 19.0% and 27.6%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate includes modifications for income tax credits, among other items.

*Net Income*

Net income was \$10.9 million and \$12.1 million for the three months ended September 30, 2019 and 2018, respectively. The increase in net income for the three months ended September 30, 2019 as compared to the same period in the prior year was primarily due to increased shortfall revenue, partially offset by decreased total volumes sold and the intangible asset impairment charge related to the Quickload system.

**Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

The following table summarizes our revenue and expenses for the periods indicated.

	Nine Months Ended September 30,		Change	
	2019	2018	Dollars	Percentage
	(in thousands)			
Revenues	\$ 185,406	\$ 160,222	\$ 25,184	16 %
Cost of goods sold	122,228	110,686	11,542	10 %
Gross profit	63,178	49,536	13,642	28 %
Operating expenses:				
Salaries, benefits and payroll taxes	8,466	8,595	(129)	(2)%
Depreciation and amortization	1,954	1,165	789	68 %
Selling, general and administrative	8,283	10,208	(1,925)	(19)%
Change in the estimated fair value of contingent consideration	(2,757)	(2,100)	(657)	31 %
Impairment of intangible asset	7,628	—	7,628	Not meaningful
Total operating expenses	23,574	17,868	5,706	32 %
Operating income	39,604	31,668	7,936	25 %
Other income (expenses):				
Interest expense, net	(2,943)	(1,438)	(1,505)	105 %
Other income	89	149	(60)	(40)%
Total other expenses, net	(2,854)	(1,289)	(1,565)	121 %
Income before income tax expense	36,750	30,379	6,371	21 %
Income tax expense	7,515	7,258	257	4 %
Net income	\$ 29,235	\$ 23,121	\$ 6,114	26 %

*Revenues*

Revenues were \$185.4 million for the nine months ended September 30, 2019, during which time we sold approximately 2,000,000 tons of sand. Revenues for the nine months ended September 30, 2018 were \$160.2 million, during which time we sold approximately 2,384,000 tons of sand. The key factors contributing to the increase in revenues for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 were as follows:

- We had \$37.7 million of shortfall revenue for the nine months ended September 30, 2019 compared to \$2.1 million shortfall revenue for the nine months ended September 30, 2018. Our customer contracts dictate whether customers are invoiced quarterly or at the end of their respective contract year for shortfall payments. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract.

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Shortfall revenue of \$24.8 million for the nine months ended September 30, 2019 was from a customer with which we have ongoing litigation.

- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services, and SmartSystems rentals, was approximately \$61.1 million for the nine months ended September 30, 2019 compared to \$44.1 million for the nine months ended September 30, 2018. The increase in logistics revenue was due to increased in-basin sales volumes and a greater number of SmartSystems deployed.
- Sand sales revenue decreased from \$96.4 million for the nine months ended September 30, 2018 to \$73.2 million for the nine months ended September 30, 2019 as a result of lower total volumes of sand sold.

*Cost of Goods Sold*

Cost of goods sold was \$122.2 million and \$110.7 million for the nine months ended September 30, 2019 and 2018, respectively. Cost of goods sold increased for the nine months ended September 30, 2019 as compared to the same period in 2018, primarily due to higher transportation costs as a result of increased in-basin sales volumes, increased depreciation and amortization due to our Oakdale expansion project becoming operational, partially offset by decreases in labor and equipment costs.

*Gross Profit*

Gross profit was \$63.2 million and \$49.5 million for the nine months ended September 30, 2019 and 2018, respectively. The increase in gross profit for the nine months ended September 30, 2019 was primarily due to higher shortfall revenue and logistics revenue partially offset by increased transportation costs as a result of increased in-basin sales volumes and lower total sales volumes.

*Operating Expenses*

Operating expenses were \$23.6 million and \$17.9 million for the nine months ended September 30, 2019 and 2018, respectively. Operating expenses for the nine months ended September 30, 2019 include an impairment charge of \$7.6 million relating to the Quickload system acquired in connection with the acquisition of Quickthree in 2018. We have no plans to actively market the Quickload system for the foreseeable future, which resulted in the impairment charge. All developed technology intangible assets related to the Quickload have been impaired of as of September 30, 2019. We recorded \$2.8 million reduction to the fair value of contingent consideration for the three months ended September 30, 2019, compared to \$2.1 million for the three months ended September 30, 2018. Salaries, benefits and payroll taxes were consistent at \$8.5 million and \$8.6 million for the nine months ended September 30, 2019 and 2018, respectively. Depreciation and amortization increased from \$1.2 million for the nine months ended September 30, 2018 to \$2.0 million for the nine months ended September 30, 2019 primarily as a result of amortization of our intangible assets related to the acquisition of Quickthree. Selling, general and administrative expenses decreased from \$10.2 million for the nine months ended September 30, 2018 to \$8.3 million for the nine months ended September 30, 2019, primarily as a result of decreased development costs.

*Interest Expense*

We incurred \$2.9 million and \$1.4 million of net interest expense for the nine months ended September 30, 2019 and 2018, respectively. The increase in interest expense for the nine months ended September 30, 2019 was primarily due to higher average borrowings under the Credit Facility, which were primarily used to fund acquisition activity in 2018. Our borrowings under the Credit Facility were reduced late in the third quarter 2019.

*Income Tax Expense*

For the nine months ended September 30, 2019 and 2018, our effective tax rate was approximately 20.4% and 23.9%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate includes modifications for income tax credits, among other items.

*Net Income*

Net income was \$29.2 million and \$23.1 million for the nine months ended September 30, 2019 and 2018, respectively. The increase in net income for the nine months ended September 30, 2019 as compared to the same period in the prior year was

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primarily due to increased shortfall and logistics revenue and decreased operating expenses, partially offset by increased interest expense.

**Non-GAAP Financial Measures**

EBITDA, Adjusted EBITDA and contribution margin are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial condition and results of operations. Net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA and gross profit is the GAAP measure most directly comparable to contribution margin. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measures. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some, but not all, items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA, Adjusted EBITDA or contribution margin in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA, Adjusted EBITDA and contribution margin may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

***EBITDA and Adjusted EBITDA***

We define EBITDA as net income, plus: (i) depreciation, depletion and amortization expense; (ii) income tax expense; (iii) interest expense; and (iv) franchise taxes. We define Adjusted EBITDA as EBITDA, plus: (i) gain or loss on sale of fixed assets or discontinued operations; (ii) integration and transition costs associated with specified transactions; (iii) equity compensation; (iv) acquisition and development costs; (v) non-recurring cash charges related to restructuring, retention and other similar actions; (vi) earn-out, contingent consideration obligations and other acquisition and development costs; and (vii) non-cash charges and unusual or non-recurring charges. Adjusted EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors and commercial banks, to assess:

- the financial performance of our assets without regard to the impact of financing methods, capital structure or historical cost basis of our assets;
- the viability of capital expenditure projects and the overall rates of return on alternative investment opportunities;
- our ability to incur and service debt and fund capital expenditures;
- our operating performance as compared to those of other companies in our industry without regard to the impact of financing methods or capital structure; and
- our debt covenant compliance, as Adjusted EBITDA is a key component of critical covenants to the Credit Facility.

We believe that our presentation of EBITDA and Adjusted EBITDA will provide useful information to investors in assessing our financial condition and results of operations. Net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. EBITDA and Adjusted EBITDA should not be considered alternatives to net income presented in accordance with GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing their utility. The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net income for each of the periods indicated.



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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income	\$ 10,926	\$ 12,125	\$ 29,235	\$ 23,121
Depreciation, depletion and amortization	6,992	4,929	19,885	12,374
Income tax expense	2,569	4,612	7,515	7,258
Interest expense	969	760	2,947	1,489
Franchise taxes	56	54	234	383
EBITDA	\$ 21,512	\$ 22,480	\$ 59,816	\$ 44,625
(Gain) on sale of fixed assets	(15)	253	(41)	253
Equity compensation <sup>(1)</sup>	663	791	2,047	1,950
Acquisition and development costs <sup>(2)</sup>	(1,208)	(1,723)	(2,732)	(480)
Non-cash impairment of intangible asset	7,628	—	7,628	—
Cash charges related to restructuring and retention <sup>(3)</sup>	—	198	82	562
Accretion of asset retirement obligations	178	139	623	328
Adjusted EBITDA	\$ 28,758	\$ 22,138	\$ 67,423	\$ 47,238

(1) Represents the non-cash expenses for stock-based awards issued to our employees and employee stock purchase plan compensation expense.

(2) Includes \$1,215 and \$2,757 fair value adjustment of contingent consideration for the three and nine months ended September 30, 2019, respectively, and \$2,100 fair value adjustment of contingent consideration for each the three and nine months ended September 30, 2018, as well as \$0 and \$1,159 acquisition costs related to our acquisition of Quickthree for the three and nine months ended September 30, 2018, respectively.

(3) Represents costs associated with the retention and relocation of employees.

Adjusted EBITDA was \$28.8 million for the three months ended September 30, 2019 compared to \$22.1 million for the three months ended September 30, 2018. Adjusted EBITDA was \$67.4 million for the nine months ended September 30, 2019 compared to \$47.2 million for the nine months ended September 30, 2018. The increase in Adjusted EBITDA for the three and nine months ended September 30, 2019, as compared to the corresponding period in the prior year, was primarily due to higher shortfall revenue, partially offset by lower volumes of sand sales.

**Contribution Margin**

We also use contribution margin, which we define as total revenues less costs of goods sold excluding depreciation, depletion and accretion of asset retirement obligations, to measure our financial and operating performance. Contribution margin excludes other operating expenses and income, including costs not directly associated with the operations of our business such as accounting, human resources, information technology, legal, sales and other administrative activities.

We believe that reporting contribution margin and contribution margin per ton sold provides useful performance metrics to management and external users of our financial statements, such as investors and commercial banks, because these metrics provide an operating and financial measure of our ability, as a combined business, to generate margin in excess of our operating cost base.

Gross profit is the GAAP measure most directly comparable to contribution margin. Contribution margin should not be considered an alternative to gross profit presented in accordance with GAAP. Because contribution margin may be defined differently by other companies in our industry, our definition of contribution margin may not be comparable to similarly titled measures of other companies, thereby diminishing its utility. The following table presents a reconciliation of contribution margin to gross profit.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Revenue	\$ 65,690	\$ 63,146	\$ 185,406	\$ 160,222
Cost of goods sold	38,555	40,595	122,228	110,686
Gross profit	27,135	22,551	63,178	49,536
Depreciation, depletion, and accretion of asset retirement obligations	6,547	4,567	18,554	11,539
Contribution margin	\$ 33,682	\$ 27,118	\$ 81,732	\$ 61,075
Contribution margin per ton	\$ 55.13	\$ 32.95	\$ 40.87	\$ 25.62
Total tons sold	611	823	2,000	2,384

Contribution margin was \$33.7 million and \$27.1 million, or \$55.13 and \$32.95 per ton sold, for the three months ended September 30, 2019 and 2018, respectively. Contribution margin was \$81.7 million and \$61.1 million, or \$40.87 and \$25.62 per ton sold, for the nine months ended September 30, 2019 and 2018, respectively. The increase in contribution margin and contribution margin per ton sold for the three and nine months ended September 30, 2019 as compared to the corresponding period in the prior year was primarily due to increased shortfall revenue, as well as increased in-basin sales volumes.

### Liquidity and Capital Resources

Our primary source of liquidity is cash flow generated from operations, borrowings under our Credit Facility and other equipment financing arrangements.

### Going Concern

We evaluate at each annual and interim period whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. Our evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the consolidated financial statements are issued. Our Credit Facility matures on June 30, 2020 and without additional sources of capital or refinancing of the Credit Facility, the maturity of the Credit Facility raises substantial doubt about our ability to continue as a going concern, which means that we may be unable to meet our obligations as they become due.

We are currently pursuing plans to refinance the Credit Facility and extend the current obligations beyond one year as mitigation to the substantial doubt raised regarding our ability to continue as a going concern, however there can be no assurance that sufficient liquidity can be raised or that such a transaction can be completed prior to the maturity date of the Credit Facility or that any refinancing would be on favorable terms to us. The Credit Facility has been recorded as a current liability in the consolidated balance sheet as of September 30, 2019.

### Working Capital

The following table presents the components of our working capital as of September 30, 2019 compared to December 31, 2018.

	September 30,		December 31,	
	2019		2018	
	(in thousands)			
Total current assets	\$ 79,054	\$	50,096	\$
Total current liabilities	61,557		24,652	
Working capital	\$ 17,497	\$	25,444	\$

Our working capital was \$17.5 million at September 30, 2019 compared to \$25.4 million at December 31, 2018. The decrease in working capital was primarily a result of classifying our Credit Facility as a short-term obligation, and new short-

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term lease liabilities of \$11.8 million on our balance sheet in connection with the adoption of the new lease accounting standard on January 1, 2019, partially offset by an increase in accounts and unbilled receivables of \$33.1 million. As of September 30, 2019, \$35.0 million of the \$59.9 million total accounts and unbilled receivables is attributable to a customer with which we have pending litigation.

**Summary Cash Flows for the Nine Months Ended September 30, 2019 and 2018:**

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Net cash provided by operating activities	\$ 40,328	\$ 33,723
Net cash used in investing activities	\$ (19,518)	\$ (111,553)
Net cash (used in) provided by financing activities	\$ (20,178)	\$ 43,789

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities was \$40.3 million for the nine months ended September 30, 2019, compared to \$33.7 million for the nine months ended September 30, 2018. Operating cash flows include net income of \$29.2 million and \$23.1 million in net earnings generated from revenue in the nine months ended September 30, 2019 and 2018, respectively, offset by cost of goods sold, general and administrative expenses and cash interest expense, adjusted for changes in working capital.

*Net Cash Used in Investing Activities*

Net cash used in investing activities was \$19.5 million for the nine months ended September 30, 2019, which was primarily for manufacturing of our SmartDepot silos and plant upgrades and maintenance capital. Net cash used in investing activities was \$111.6 million for the nine months ended September 30, 2018, which was primarily used for the expansion of our processing facility in Oakdale, Wisconsin and our acquisitions of the Van Hook terminal and Quickthree.

*Net Cash (Used in) Provided by Financing Activities*

Net cash used in financing activities was \$20.2 million for the nine months ended September 30, 2019, which consisted primarily of \$22.0 million of net repayments on our Credit Facility, \$1.6 million of payments of contingent consideration related to the manufacture of our SmartSystem equipment, partially offset by \$4.7 million of net proceeds from the issuance of notes payable. Net cash provided by financing activities was \$43.8 million for the nine months ended September 30, 2018, which consisted primarily of net proceeds from the Credit Facility of \$45.0 million.

**Indebtedness**

*Credit Facility*

Our primary source of debt is our Credit Facility. We had total borrowing capacity of \$52.5 million on our Credit Facility as of September 30, 2019 with \$30.0 million in total undrawn availability. Substantially all of our assets are pledged as collateral. In February 2019, we entered into an agreement with the existing lenders on our Credit Facility to, among other things, extend the maturity date of the Credit Facility to June 30, 2020 and reduce the borrowing capacity to \$50.0 million by December 31, 2019. The Credit Facility matures on June 30, 2020 and as such, the Company has included the balance in the current portion of long-term debt as of September 30, 2019. The Company is currently pursuing plans to refinance the Credit Facility and extend the current obligations beyond one year.

The Credit Facility contains various reporting requirements, negative covenants and restrictive provisions and requires maintenance of financial covenants, including a fixed charge coverage ratio and a leverage ratio (each as defined in the Credit Agreement). As of September 30, 2019 and December 31, 2018, we were in compliance with all covenants.

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*Notes Payable*

We have entered into various financing arrangements to support the manufacturing of our SmartSystems wellsite proppant storage solutions equipment with interest rates between 4.17% and 7.49%. Title to the equipment is held by the financial institutions as collateral, though the equipment is included in our property, plant and equipment.

**Capital Requirements**

For the nine months ended September 30, 2019, we spent approximately \$19.5 million on capital expenditures. We estimate that full year 2019 capital expenditures will be approximately \$25 million to \$30 million, excluding any additional acquisitions, which are anticipated to support incremental growth and efficiency initiatives. These projects are expected to provide efficiencies in our plant operations and improve our logistics capabilities to further position us to capitalize upon growth opportunities that we anticipate will continue to develop with both current and potential new customers. We expect to fund these capital expenditures with cash from operations, equipment financing options available to us or potential borrowings under the Credit Facility.

**Share Repurchases**

The Company is authorized to repurchase shares through open market purchases at prevailing market prices or through privately negotiated transactions as permitted by securities laws and other legal requirements. On November 8, 2018, the Company announced that the board of directors authorized the Company to repurchase up to 2,000,000 shares of the Company's common stock during the twelve-month period following the announcement of the share repurchase program. On September 11, 2019, the board of directors reauthorized the existing share repurchase program for 1 year. At September 30, 2019, the maximum number of shares that the Company may repurchase under the current repurchase authority was 1,411,800 shares. There were no share repurchases during the nine months ended September 30, 2019.

The program allows the Company to repurchase shares at its discretion. Market conditions, price, corporate and regulatory requirements, alternative investment opportunities, and other economic conditions will influence the timing of the repurchase and the number of shares repurchased, if any. The program does not obligate the Company to repurchase any specific number of shares and, subject to compliance with applicable securities laws and other legal requirements, may be suspended or terminated at any time without prior notice.

**Off-Balance Sheet Arrangements**

We had outstanding performance bonds of \$7.9 million and \$8.6 million at September 30, 2019 and December 31, 2018, respectively.

**Contractual Obligations**

As of September 30, 2019, we had contractual obligations for the Credit Facility, notes payable, operating and finance leases, minimum payments for the rights to mine land, capital expenditures and asset retirement obligations. Operating leases are primarily for railcars and heavy equipment. As part of the acquisition of substantially all of the assets of Quickthree on June 1, 2018, we recorded a \$9.2 million contingent consideration liability related to certain earn-out provisions included in the terms of the acquisition. Each reporting period, we reassess our inputs including market comparable information and management assessments regarding potential future scenarios, then discount the liabilities to present value. As of December 31, 2018, our contingent consideration liability was \$7.2 million. For the nine months ended September 30, 2019, we paid \$1.6 million in contingent consideration and recorded an adjustment to reduce the fair value of contingent consideration in the amount of \$2.8 million, which reduced our contingent consideration liability to \$2.8 million as of September 30, 2019.

**Environmental Matters**

We are subject to various federal, state and local laws and regulations governing, among other things, hazardous materials, air and water emissions, environmental contamination and reclamation and the protection of the environment and natural resources. We have made, and expect to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

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**Seasonality**

Our business is affected to some extent by seasonal fluctuations in weather that impact the production levels at our wet processing plant. While our dry plants are able to process finished product volumes evenly throughout the year, our excavation and our wet sand processing activities have historically been limited to primarily non-winter months. As a consequence, we have experienced lower cash operating costs in the first and fourth quarter of each calendar year, and higher cash operating costs in the second and third quarter of each calendar year when we overproduced to meet demand in the winter months. During the fourth quarter of 2017, we finished construction of a new wet plant, which is an indoor facility that allows us to produce wet sand inventory year-round to support a portion of our dry sand processing capacity, which may reduce certain of the effects of this seasonality. We may also sell raw frac sand for use in oil and natural gas producing basins where severe weather conditions may curtail drilling activities and, as a result, our sales volumes to those areas may be reduced during such severe weather periods.

**Customer Concentration**

For the nine months ended September 30, 2019, revenue from Liberty, Rice Energy (a subsidiary of EQT Corporation), U.S. Well Services and Hess Corporation accounted for 26.5%, 19.0%, 17.2%, and 11.3%, respectively, of total revenue. For the nine months ended September 30, 2018, sales to Rice Energy (a subsidiary of EQT Corporation), Liberty, and WPX Energy accounted for 21.9%, 20.5%, and 12.7%, respectively, of total revenue.

Revenue from U.S. Well Services for the nine months ended September 30, 2019 is the subject of ongoing litigation. See Note 16 to the financial statements for additional information.

**Critical Accounting Policies and Estimates**

Except for the following, there have been no material changes in our critical accounting policies and procedures during the nine months ended September 30, 2019.

**Leases**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), and related amendments, which replaced the existing guidance in ASC 840, Leases. ASU 2016-02 requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The new lease standard does not substantially change lessor accounting. The new standard is effective for interim and annual reporting periods beginning after December 15, 2018. We adopted ASU 2016-02 and its related updates using the transition practical expedients, which allows us to use the existing lease population, classification and determination of initial direct costs when calculating the lease liability and right-of-use asset balances. We also used the optional transition method, which allows us to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. There was no adjustment made to the opening balance of retained earnings. We have implemented new accounting policies and software to facilitate the recording and reporting of lease transactions and balances. We recorded initial operating right-of-use assets of \$35.9 million and related lease liabilities of \$36.5 million on our consolidated balance sheet on January 1, 2019. New disclosures are included in Note 9 - Leases to these interim financial statements.

*Leases - Lessee*

We use leases primarily to procure certain office space, railcars and heavy equipment as part of our operations. The majority of our lease payments are fixed and determinable with certain lease payments containing immaterial variable payments based on the number of hours the equipment is used. Certain of our leases have options that allow for renewal at market rates, purchase at fair market value or termination of the lease. We must determine that it is reasonably certain that a lease option will be exercised for such an option to be included in the right-of-use asset or lease liability. We are not reasonably certain that any of our lease options will be exercised and, as such, have not included those options in our right-of-use assets or lease liabilities. Certain of our equipment leases contain residual value guarantees which guarantee various parts of heavy equipment will have a remaining life when the equipment is returned to the lessor. It is possible that we could owe additional amounts to the lessor upon return of equipment. There are no restrictions or covenants imposed by any of our leases.

We evaluate contracts during the negotiation process and when they are executed to determine the existence of leases. A contract contains a lease when it conveys the right to use property, plant or equipment for a stated period of time in exchange

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for consideration. Leases with an initial term of twelve months or less are not recorded on the balance sheet. We recognize lease expense on a straight-line basis over the term of the lease. We evaluate the classification of our leases at the commencement date and include both lease and non-lease components in our calculation of consideration in the contract for all classes of operating leases.

We apply a single discount rate to all operating leases. We determined our incremental borrowing rate based on an average of collateralized borrowing rates offered by various lenders. We considered the nature of the assets and the life of the leases and determined that there is no significant difference in the incremental borrowing rate. See Note 9 — Leases in these interim financial statements for additional disclosures regarding our leasing activity.

*Leases - Lessor*

We manufacture equipment and offer for lease our SmartSystems wellsite proppant storage solutions. We negotiate the terms of our lease agreements on a case-by-case basis. There are no significant options that are reasonably certain to be exercised, residual value guarantees or restrictions or covenants in our lease contracts and, therefore, no such terms have been included in our accounting for the leases.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have considered changes in our exposure to market risks during the nine months ended September 30, 2019 and have determined that there have been no material changes to our exposure to market risks from those described in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 14, 2019.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as 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 such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in internal control over financial reporting for the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time we may be involved in litigation relating to claims arising out of our operations in the normal course of business. The disclosure called for by Part II, Item 1 regarding our legal proceedings is incorporated by reference herein from Part I, Item 1. Note 16 - Commitments and Contingencies - Litigation of the notes to the condensed consolidated financial statements in this Form 10-Q for the three and nine months ended September 30, 2019.

### **ITEM 1A. RISK FACTORS**

Except as set forth below, there have been no material changes to the risk factors described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

**A substantial portion of our accounts and unbilled receivables consists of shortfall payments due from one customer under a long-term take-or-pay contract, which is currently subject to litigation.**

A substantial portion of our accounts and unbilled receivables consists of shortfall payments due from one customer under a long-term take-or-pay contract. We expect additional shortfall amounts to continue to accrue in 2020. We are currently in litigation with such customer regarding, among other things, nonpayment of shortfall amounts due. Litigation, by its nature, can be costly, time consuming, and unpredictable, and we can provide no assurance that the outstanding amounts due will be collected in a timely manner, if at all. As of September 30, 2019, \$35.0 million of accounts and unbilled receivables were from the foregoing customer.

**We may not be able to refinance or replace our Credit Facility on favorable terms, or at all, which will have a material adverse effect on our business, results of operations, financial condition and cash flows.**

Our Credit Facility matures on June 30, 2020. As of September 30, 2019, the total borrowing capacity under the facility is \$52.5 million with undrawn availability of \$30.0 million. We have been involved in discussions with our current lenders and other sources of capital regarding alternatives that would include the replacement or refinancing of the Credit Facility. There is no assurance, however, that such discussions will result in a refinancing of the Credit Facility on acceptable terms, if at all, and in such case there is substantial doubt that the Company could continue as a going concern.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

We are committed to maintaining a culture that prioritizes mine safety. We believe that our commitment to safety, the environment and the communities in which we operate is critical to the success of our business. Our sand mining operations are subject to mining safety regulation. The U.S. Mining Safety and Health Administration (“MSHA”) is the primary regulatory organization governing frac sand mining and processing. Accordingly, MSHA regulates quarries, surface mines, underground mines and the industrial mineral processing facilities associated with and located at quarries and mines. The mission of MSHA is to administer the provisions of the Federal Mine Safety and Health Act of 1977 and to enforce compliance with mandatory miner safety and health standards. As part of MSHA’s oversight, representatives perform at least two unannounced inspections annually for each above-ground facility.

We are also subject to regulations by the U.S. Occupational Safety and Health Administration (“OSHA”) which has promulgated rules for workplace exposure to respirable silica for several other industries. Respirable silica is a known health hazard for workers exposed over long periods. MSHA is expected to adopt similar rules as part of its “Long Term Items” for rulemaking. Airborne respirable silica is associated with work areas at our site and is monitored closely through routine testing and MSHA inspection. If the workplace exposure limit is lowered significantly, we may be required to incur certain capital expenditures for equipment to reduce this exposure. Smart Sand also adheres to the National Industrial Sand Association’s (“NISA”) respiratory protection program, and ensures that workers are provided with fitted respirators and ongoing radiological monitoring.

Our operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of

mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment, and other matters. Our failure to comply with such standards, or changes in such standards or the interpretation or enforcement thereof, could have a material adverse effect on our business and financial condition or otherwise impose significant restrictions on our ability to conduct mineral extraction and processing operations. Following passage of The Mine Improvement and New Emergency Response Act of 2006, MSHA significantly increased the numbers of citations and orders charged against mining operations. The dollar penalties assessed for citations issued has also increased in recent years. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Report.

**ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

- 3.1 [Second Amended and Restated Certificate of Incorporation of Smart Sand, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016\)](#)
- 3.2 [Second Amended and Restated Bylaws of Smart Sand, Inc. \(incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016\)](#)
- 10.1‡ [Second Amended and Restated Master Product Purchase Agreement, dated September 10, 2019, by and between Smart Sand, Inc. and Schlumberger Technology Corporation \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 13, 2019\)](#)
- 31.1\* [Certification Pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2\* [Certification Pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1\*† [Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2\*† [Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 95.1\* [Mine Safety Disclosure Exhibit](#)
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase

\* Filed Herewith.

† This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

‡ Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(b)(10).

## 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.

### Smart Sand, Inc.

November 6, 2019

By: /s/ Charles E. Young

Charles E. Young, Chief Executive Officer  
(Principal Executive Officer)

### Smart Sand, Inc.

November 6, 2019

By: /s/ Lee E. Beckelman

Lee E. Beckelman, Chief Financial Officer  
(Principal Financial Officer)

## CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER

I, Charles E. Young, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smart Sand, Inc.;
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)) for the registrant and 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.

Dated: November 6, 2019

/s/ Charles E. Young

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Charles E. Young, Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER

I, Lee E. Beckelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smart Sand, Inc.;
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)) for the registrant and 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.

Dated: November 6, 2019

/s/ Lee E. Beckelman

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Lee E. Beckelman, Chief Financial Officer  
(Principal Financial Officer)

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

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

- (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.

Dated: November 6, 2019

/s/ Charles E. Young

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Charles E. Young, Chief Executive Officer  
(Principle Executive Officer)

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

In connection with the Quarterly Report of Smart Sand, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee E. Beckelman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (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.

Dated: November 6, 2019

/s/ Lee E. Beckelman

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Lee E. Beckelman, Chief Financial Officer  
(Principle Financial Officer)



## MINE SAFETY DISCLOSURES

The following disclosures are provided pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”) and Item 104 of Regulation S-K, which requires certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”).

### *Mine Safety Information*

Whenever the Federal Mine Safety and Health Administration (“MSHA”) believes a violation of the Mine Act, any health or safety standard or any regulation has occurred, it may issue a citation which describes the alleged violation and fixes a time within which the U.S. mining operator must abate the alleged violation. In some situations, such as when MSHA believes that conditions pose a hazard to miners, MSHA may issue an order removing miners from the area of the mine affected by the condition until the alleged hazards are corrected. When MSHA issues a citation or order, it generally proposes a civil penalty, or fine, as a result of the alleged violation, that the operator is ordered to pay. Citations and orders can be contested and appealed, and as part of that process, may be reduced in severity and amount, and are sometimes dismissed. The number of citations, orders and proposed assessments vary depending on the size and type (underground or surface) of the mine as well as by the MSHA inspector(s) assigned.

### *Mine Safety Data*

The following provides additional information about references used in the table below to describe the categories of violations, orders or citations issued by MSHA under the Mine Act:

- *Section 104 S&S Citations:* Citations received from MSHA under section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard.
- *Section 104(b) Orders:* Orders issued by MSHA under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA. This results in an order of immediate withdrawal from the area of the mine affected by the condition until MSHA determines that the violation has been abated.
- *Section 104(d) Citations and Orders:* Citations and orders issued by MSHA under section 104(d) of the Mine Act for an unwarrantable failure to comply with mandatory health or safety standards.
- *Section 110(b)(2) Violations:* Flagrant violations issued by MSHA under section 110(b)(2) of the Mine Act.
- *Section 107(a) Orders:* Orders issued by MSHA under section 107(a) of the Mine Act for situations in which MSHA determined an “imminent danger” (as defined by MSHA) existed.

### *Pattern or Potential Pattern of Violations*

The following provides additional information about references used in the table below to describe elevated pattern of violation enforcement actions taken by MSHA under the Mine Act:

- *Pattern of Violations:* A pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under section 104(e) of the Mine Act.
- *Potential Pattern of Violations:* The potential to have a pattern of violations under section 104(e).

### *Pending Legal Actions*

The following provides additional information of the types of proceedings brought before the Federal Mine Safety and Health Review Commission (“FMSHRC”):

- *Contest Proceedings:* A contest proceeding may be filed by an operator to challenge the issuance of a citation or order issued by MSHA.
- *Civil Penalty Proceedings:* A civil penalty proceeding may be filed by an operator to challenge a civil penalty MSHA has proposed for a violation contained in a citation or order. The operator does not institute civil penalty proceedings based solely on the assessment amount of proposed penalties. Any initiated adjudications address substantive matters of law and policy instituted on conditions that are alleged to be in violation of mandatory standards of the Mine Act.
- *Discrimination Proceedings:* Involves a miner's allegation that he or she has suffered adverse employment action because he or she engaged in activity protected under the Mine Act, such as making a safety complaint. Also includes temporary reinstatement proceedings involving cases in which a miner has filed a complaint with MSHA stating that he or she has suffered discrimination and the miner has lost his or her position.
- *Compensation Proceedings:* A compensation proceeding may be filed by miners entitled to compensation when a mine is closed by certain closure orders issued by MSHA. The purpose of the proceeding is to determine the amount of compensation, if any, due to miners idled by the orders.
- *Temporary Relief:* Applications for temporary relief are applications filed under section 105(b)(2) of the Mine Act for temporary relief from any modification or termination of any order.
- *Appeals:* An appeal may be filed by an operator to challenge judges' decisions or orders to the Commission, including petitions for discretionary review and review by the Commission on its own motion.

**For the Three Months Ended September 30, 2019:**

Mine (1)	Oakdale, WI
Section 104 citations for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard (#)	—
Section 104(b) orders (#)	—
Section 104(d) citations and orders (#)	—
Section 110(b)(2) violations (#)	—
Section 107(a) orders (#)	—
Proposed assessments under MSHA (2)	\$996
Mining-related fatalities (#)	—
Section 104(e) notice	No
Notice of the potential for a pattern of violations under Section 104(e)	No
Legal actions before the FMSHRC initiated (#)	1
Legal actions before the FMSHRC resolved (#)	—
Legal actions pending before the FMSHRC, end of period:	
Contests of citations and orders referenced in Subpart B of 29 CFR Part 2700 (#)	—
Contests of proposed penalties referenced in Subpart C of 29 CFR Part 2700 (#)	2
Complaints for compensation referenced in Subpart D of 29 CFR Part 2700 (#)	—
Complaints of discharge, discrimination or interference referenced in Subpart E of 29 CFR Part 2700 (#)	—
Applications for temporary relief referenced in Subpart F of 29 CFR Part 2700 (#)	—
Appeals of judges' decisions or orders referenced in Subpart H of 29 CFR Part 2700 (#)	—
Total pending legal actions (#)	2

(1) The definition of mine under section 3 of the Mine Act includes the mine, as well as other items used in, or to be used in, or resulting from, the work of extracting minerals, such as land, structures, facilities, equipment, machines, tools and minerals preparation facilities. Unless otherwise indicated, any of these other items associated with a single mine have been aggregated in the totals for that mine. MSHA assigns an identification number to each mine and may or may not assign separate identification numbers to related facilities such as preparation facilities. We are providing the information in the table by mine rather than MSHA

identification number because that is how we manage and operate our mining business and we believe this presentation will be more useful to investors than providing information based on MSHA identification numbers.

(2) Represents the total dollar value of the proposed assessments from MSHA under the Mine Act, for the three months preceding September 30, 2019, for all citations / orders assessed, not just those disclosed in the rows preceding such dollar value.