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 June 30, 2022

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

SMART SAND, INC.
(Exact name of registrant as specified in its charter)

Delaware	**45-2809926**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
1725 Hughes Landing Blvd, Suite 800 **The Woodlands, Texas 77380**	**(281) 231-2660**
(Address of principal executive offices)	*(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	**SND**	**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 August 2, 2022: 45,293,519

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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.
“ABL Credit Facility”, “ABL Credit Agreement”, “ABL Security Agreement”	The five-year senior secured asset-based lending credit facility (the “ABL Credit Facility”) pursuant to: (i) an ABL Credit Agreement, dated December 13, 2019, between the Company and Jefferies Finance LLC, as amended from time to time (as amended, the “ABL Credit Agreement”); and (ii) a Guarantee and Collateral Agreement, dated December 13, 2019, between the Company and Jefferies Finance LLC, as agent, as amended from time to time (as amended, the “Security Agreement”).
“Oakdale Equipment Financing”, “MLA”	The five-year Master Lease Agreement, dated December 13, 2019, between Nexseer Capital (“Nexseer”) and related lease schedules in connection therewith (collectively, the “MLA”). The MLA is structured as a sale-leaseback of substantially all of the equipment at the Company’s mining and processing facility located near Oakdale, Wisconsin. The Oakdale Equipment Financing is considered a lease under article 2A of the Uniform Commercial Code but is considered a financing arrangement (and not a lease) for accounting or financial reporting purposes.
“Exchange Act”	The Securities Exchange Act of 1934, as amended.
“Securities Act”	The Securities Act of 1933, as amended.
“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

	June 30, 2022 (unaudited)	December 31, 2021
	(in thousands, except share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 2,098	$ 25,588
Accounts receivable	32,224	17,481
Unbilled receivables	4,751	1,884
Inventory	16,875	15,024
Prepaid expenses and other current assets	9,197	13,886
Total current assets	65,145	73,863
Property, plant and equipment, net	270,593	262,465
Operating lease right-of-use assets	30,818	29,828
Intangible assets, net	7,065	7,461
Other assets	347	402
Total assets	$ 373,968	$ 374,019
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 12,698	$ 8,479
Accrued expenses and other liabilities	14,146	14,073
Current portion of deferred revenue	9,339	9,842
Current portion of long-term debt	6,869	7,127
Current portion of operating lease liabilities	10,663	9,029
Total current liabilities	53,715	48,550
Long-term deferred revenue	2,389	6,428
Long-term debt	14,783	15,353
Long-term operating lease liabilities	22,541	23,690
Deferred tax liabilities, long-term, net	19,170	22,434
Asset retirement obligation	24,816	16,155
Other non-current liabilities	42	249
Total liabilities	137,456	132,859
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock, $0.001 par value, 350,000,000 shares authorized; 44,115,732 issued and 42,242,852 outstanding at June 30, 2022; 43,789,814 issued and 42,012,813 outstanding at December 31, 2021	42	42
Treasury stock, at cost, 1,872,880 and 1,777,001 shares at June 30, 2022 and December 31, 2021, respectively	(4,776)	(4,535)
Additional paid-in capital	176,150	174,486
Retained earnings	64,580	70,593
Accumulated other comprehensive income	516	574
Total stockholders' equity	236,512	241,160
Total liabilities and stockholders' equity	$ 373,968	$ 374,019

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

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands, except per share amounts)			
Revenues:				
Sand sales revenue	$ 67,111	$ 28,801	$ 105,400	$ 51,948
Shortfall revenue	—	—	1,915	1,741
Logistics revenue	1,603	838	3,004	3,400
Total revenue	68,714	29,639	110,319	57,089
Cost of goods sold	59,743	31,999	103,329	64,426
Gross profit	8,971	(2,360)	6,990	(7,337)
Operating expenses:				
Salaries, benefits and payroll taxes	3,225	2,285	6,617	4,660
Depreciation and amortization	563	577	1,090	1,138
Selling, general and administrative	3,795	3,855	7,843	7,009
Bad debt expense	1	19,592	1	19,592
Total operating expenses	7,584	26,309	15,551	32,399
Operating income (loss)	1,387	(28,669)	(8,561)	(39,736)
Other income (expenses):				
Interest expense, net	(406)	(513)	(833)	(1,060)
Other income	56	3,467	268	3,665
Total other income (expenses), net	(350)	2,954	(565)	2,605
Income (loss) before income tax expense (benefit)	1,037	(25,715)	(9,126)	(37,131)
Income tax expense (benefit)	1,127	1,552	(3,113)	(5,952)
Net loss	$ (90)	$ (27,267)	$ (6,013)	$ (31,179)
Net loss per common share:				
Basic	$ 0.00	$ (0.65)	$ (0.14)	$ (0.75)
Diluted	$ 0.00	$ (0.65)	$ (0.14)	$ (0.75)
Weighted-average number of common shares:				
Basic	42,181	41,748	42,134	41,689
Diluted	42,181	41,748	42,134	41,689

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

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands)			
Net loss	$ (90)	$ (27,267)	$ (6,013)	$ (31,179)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(74)	44	(58)	169
Comprehensive loss	$ (164)	$ (27,223)	$ (6,071)	$ (31,010)

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)

Six Months Ended June 30, 2022

	Common Stock		Treasury Stock					
	Outstanding Shares	Par Value	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	(in thousands, except share amounts)							
Balance at December 31, 2021	42,012,813	$ 42	1,777,001	$ (4,535)	$ 174,486	$ 70,593	$ 574	$ 241,160
Foreign currency translation adjustment	—	—	—	—	—	—	16	16
Vesting of restricted stock	179,630	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	826	—	—	826
Employee stock purchase plan compensation	—	—	—	—	5	—	—	5
Employee stock purchase plan issuance	16,285	—	—	—	25	—	—	25
Purchase of treasury stock	(56,400)	—	56,400	(127)	—	—	—	(127)
Net loss	—	—	—	—	—	(5,923)	—	(5,923)
Balance at March 31, 2022	42,152,328	$ 42	1,833,401	$ (4,662)	$ 175,342	$ 64,670	$ 590	$ 235,982
Foreign currency translation adjustment	—	—	—	—	—	—	(74)	(74)
Vesting of restricted stock	130,003	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	802	—	—	802
Employee stock purchase plan compensation	—	—	—	—	6	—	—	6
Purchase of treasury stock	(39,479)	—	39,479	(114)	—	—	—	(114)
Net loss	—	—	—	—	—	(90)	—	(90)
Balance at June 30, 2022	42,242,852	$ 42	1,872,880	$ (4,776)	$ 176,150	$ 64,580	$ 516	$ 236,512

SMART SAND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
(UNAUDITED)

Six Months Ended June 30, 2021

	Common Stock		Treasury Stock					
	Outstanding Shares	Par Value	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	(in thousands, except share amounts)							
Balance at December 31, 2020	41,575,129	$ 42	1,618,265	$ (4,134)	$ 171,209	$ 121,267	$ 423	$ 288,807
Foreign currency translation adjustment	—	—	—	—	—	—	125	125
Acquisition stock issuance	14,430	—	—	—	20	—	—	20
Vesting of restricted stock	158,364	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	678	—	—	678
Employee stock purchase plan compensation	—	—	—	—	7	—	—	7
Employee stock purchase plan issuance	19,483	—	—	—	17	—	—	17
Purchase of treasury stock	(48,077)	—	48,077	(140)	—	—	—	(140)
Net loss	—	—	—	—	—	(3,912)	—	(3,912)
Balance at March 31, 2021	41,719,329	$ 42	1,666,342	$ (4,274)	$ 171,931	$ 117,355	$ 548	285,602
Foreign currency translation adjustment	—	—	—	—	—	—	44	44
Vesting of restricted stock	162,253	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	574	—	—	574
Employee stock purchase plan compensation	—	—	—	—	7	—	—	7
Employee stock purchase plan issuance	—	—	—	—	—	—	—	—
Purchase of treasury stock	(48,793)	—	48,793	(148)	—	—	—	(148)
Net loss	—	—	—	—	—	(27,267)	—	(27,267)
Balance at June 30, 2021	41,832,789	$ 42	1,715,135	$ (4,422)	$ 172,512	$ 90,088	$ 592	$ 258,812

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

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
	(in thousands)	
Operating activities:		
Net loss	$ (6,013)	$ (31,179)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion and accretion of asset retirement obligation	13,206	12,604
Amortization of intangible assets	398	398
Gain on disposal of assets	(16)	(58)
Provision for bad debt	1	19,592
Amortization of deferred financing cost	53	53
Accretion of debt discount	93	93
Deferred income taxes	(3,264)	(5,839)
Stock-based compensation, net	1,628	1,252
Employee stock purchase plan compensation	11	14
Changes in assets and liabilities:		
Accounts receivable	(10,974)	39,756
Unbilled receivables	(6,635)	(1,094)
Inventory	(1,850)	3,199
Prepaid expenses and other assets	1,854	(2,391)
Deferred revenue	(4,542)	1,215
Accounts payable	3,229	1,698
Accrued and other expenses	1,872	(2,833)
Net cash (used in) provided by operating activities	(10,949)	36,480
Investing activities:		
Acquisition of Blair facility	(6,547)	—
Purchases of property, plant and equipment	(5,137)	(5,043)
Proceeds from disposal of assets	—	2
Net cash used in investing activities	(11,684)	(5,041)
Financing activities:		
Repayments of notes payable	(3,581)	(3,370)
Payments under finance leases	(60)	(65)
Proceeds from revolving credit facility	3,000	—
Payment of contingent consideration	—	(180)
Employee stock purchase plan issuance	25	17
Purchase of treasury stock	(241)	(288)
Net cash used in financing activities	(857)	(3,886)
Net decrease in cash and cash equivalents	(23,490)	27,553
Cash and cash equivalents at beginning of year	25,588	11,725
Cash and cash equivalents at end of period	$ 2,098	$ 39,278
Supplemental disclosure of cash flow information		
Capitalized expenditures in accounts payable and accrued expenses	$ 927	$ 172
Issuance of acquisition common stock	$ —	$ 20
Asset retirement obligation	$ 8,281	$ 737

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

NOTE 1 — Organization and Nature of Business & Market Update

Organization and Nature of Business

The Company was incorporated in July 2011 and is headquartered in The Woodlands, Texas. The Company primarily operates as a fully integrated frac and industrial sand supply and services company. The Company offers complete mine to wellsite proppant supply and logistics solutions to our frac sand customers. These operations include the excavation, processing and sale of sand, or proppant, for use in hydraulic fracturing operations for the oil and natural gas industry. The Company also offers proppant logistics and wellsite storage solutions through its SmartSystems™ products and services. In late 2021, the Company created its Industrial Products Solutions ("IPS") business in order to diversify its customer base and markets it serves by offering sand to customers for industrial uses, such as glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, and recreation.

The Company commenced mining operations at its Oakdale, Wisconsin facility in July 2012. Through multiple expansions at Oakdale and the acquisition of the Utica, Illinois facility in September 2020, the Company has current annual processing capacity of approximately 7.1 million tons. With the acquisition of the Blair, Wisconsin mine and processing facility in March 2022, which is currently idled, we have the ability to expand to approximately 10.0 million tons should the Company decide to bring the Blair facility online.

The Company acquired rights in 2018 to operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin. In 2020, the Company, as part of its acquisition of the Utica, Illinois facility, obtained rights to use a rail terminal located in El Reno, Oklahoma. In September 2021, the Company acquired the rights to construct and operate another transloading terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formations, which became operational in January 2022.

The Company provides complete logistics solutions through its mine sites and transload facilities with direct access to four Class I rail lines, and has the ability to access all Class I rail lines within the United States and Canada.

The Company provides proppant storage and management solutions through its SmartSystems products and services under which it offers 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. The self-contained SmartPath™ transloader, is a mobile sand transloading system designed to work with bottom dump trailers and features a drive over conveyor, surge bin, and dust collection system. Rapid deployment trailers are designed for quick setup, takedown and transportation of the entire SmartSystem, and they detach from the wellsite equipment, which allows for removal from the wellsite during operation. A proprietary software program, the SmartSystem Tracker™ allows customers to monitor silo-specific information, including location, proppant type and proppant inventory. We believe that our SmartSystems reduce trucking and related fuel consumption for our customers, helping them meet their goals to reduce their carbon footprint in their daily operations.

NOTE 2 — Summary of Significant Accounting Policies

The information presented below supplements the complete description of our significant accounting policies disclosed in our 2021 Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 8, 2022.

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 SEC 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, 2021 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2021. These interim statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2021.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these financial statements include, but are not limited to: impairment considerations of assets, including intangible assets, fixed assets, and inventory; estimated cost of future asset retirement obligations; fair value of acquired assets and assume liabilities; recoverability of deferred tax assets; inventory reserve; and the collectability of receivables; and certain liabilities.

Actual results could differ materially from management's best estimates as additional information or actual results become available in the future, and those differences could be material. The decreases in demand related to the coronavirus ("COVID-19") pandemic in 2020 and 2021 and the ongoing conflict in Ukraine have caused dramatic swings in oil and natural gas prices and significant volatility in the oilfield service sector. The Company is currently unable to estimate the impact of these events on its future financial position and results of operations. Therefore, the Company can give no assurances that these events will not have a material adverse effect on its financial position or results of operations.

Employee Retention Credit

The Company qualified for federal government assistance through employee retention credit provisions of the Consolidated Appropriations Act of 2021. As of December 31, 2021 and June 30, 2022, the Company included $4,676 and $4,317, respectively, in prepaid expenses and other current assets on its consolidated balance sheets related to receivables for the employee retention credits. The calculation of the credit was based on employees continued employment and represents a portion of the wages paid to them. For income tax purposes, the credit will result in decreased expense related to the wages it offsets in the period received.

Recent Accounting Pronouncements

There are no recent accounting pronouncements that materially affect the financial statements of the Company.

NOTE 3 — Acquisition

Asset Acquisition Blair Facility

On March 4, 2022, the Company entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Hi-Crush Inc., a Delaware corporation ("HCR"), and Hi-Crush Blair LLC, a Delaware limited liability company and wholly-owned subsidiary of HCR ("Blair"), pursuant to which the Company acquired all of the issued and outstanding limited liability company interest of Blair from HCR for aggregate cash consideration of $6,450, subject to customary purchase price adjustments as set forth in the Purchase Agreement (the "Transaction").

The primary assets of Blair consist of an idle frac sand mine and related processing facility located in Blair, Wisconsin. The Blair facility, once operational, will have approximately 2.9 million tons of total annual processing capacity and contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway.

The Company accounted for this transaction as an asset acquisition based on an evaluation of the guidance in ASC 805. The Company determined that there was not a substantive process in place that generates outputs that can be sold to a customer, and therefore the acquisition did not meet the definition of a business. The Company recognized identifiable assets acquired on a relative fair value basis. All assets acquired are allocated to property, plant and equipment, net on the balance sheet as of March 31, 2022. The Company also recorded an increase to its asset retirement obligations and a corresponding increase in purchases of property plant and equipment in the amount of $8,281 for the six months ended June 30, 2022.

The table below presents the calculation of the total purchase consideration:

Base price consideration	$	6,450
Net working capital adjustments and capitalized costs		97
Total purchase consideration	$	6,547

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 4 — Inventory

Inventory consisted of the following:

	June 30, 2022	December 31, 2021
Raw material	$ 727	$ 293
Work in progress	3,063	3,082
Finished goods	8,349	7,269
Spare parts	4,736	4,380
Total inventory	$ 16,875	$ 15,024

NOTE 5 — Property, Plant and Equipment, net

Net property, plant and equipment consisted of:

	June 30, 2022	December 31, 2021
Machinery, equipment and tooling	$ 32,993	$ 30,813
SmartSystems	27,534	27,343
Vehicles	3,199	3,066
Furniture and fixtures	1,336	1,325
Plant and building	200,129	199,958
Real estate properties	6,507	6,496
Railroad and sidings	33,622	27,703
Land and land improvements	40,172	35,652
Asset retirement obligation	28,818	20,536
Mineral properties	7,442	7,442
Deferred mining costs	2,455	2,455
Construction in progress	9,064	9,574
	393,271	372,363
Less: accumulated depreciation and depletion	122,678	109,898
Total property, plant and equipment, net	$ 270,593	$ 262,465

Depreciation expense was $6,449 and $6,037 for the three months ended June 30, 2022 and 2021, respectively, and $12,810 and $12,213 for the six months ended June 30, 2022 and 2021, respectively.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 6 — Accrued and Other Expenses

Accrued and other expenses were comprised of the following:

	June 30, 2022	December 31, 2021
Employee related expenses	$ 1,615	$ 806
Accrued equipment expense	—	58
Accrued professional fees	410	691
Accrued royalties	2,617	2,701
Accrued freight and delivery charges	3,818	2,164
Accrued real estate tax	1,206	1,010
Accrued utilities	1,720	1,264
Sales tax liability	666	665
Income tax payable	—	2,332
Other accrued liabilities	2,094	2,382
Total accrued liabilities	$ 14,146	$ 14,073

NOTE 7 — Debt

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

	June 30, 2022	December 31, 2021
Oakdale Equipment Financing	3,926	3,814
Finance leases	115	117
Notes payable	2,828	3,196
Long-term debt, net, current	$ 6,869	$ 7,127

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

	June 30, 2022	December 31, 2021
ABL Credit Facility	$ 3,000	$ —
Oakdale Equipment Financing, net	9,709	11,608
Finance leases	176	234
Notes payable	1,898	3,511
Long-term debt, net	$ 14,783	$ 15,353

(IN THOUSANDS, EXCEPT PER SHARE DATA)

The follow summarizes the maturity of our debt:

	ABL Credit Facility	Oakdale Equipment Financing	Notes Payable	Finance Leases	Total
Remainder of 2022	$ —	$ 2,319	$ 1,596	$ 66	$ 3,981
2023	—	4,639	2,073	245	6,957
2024	3,000	6,888	807	—	10,695
2025	—	1,724	187	—	1,911
2026	—	—	181	—	181
2027 and thereafter	—	—	174	—	174
Total minimum payments	3,000	15,570	5,018	311	23,899
Amount representing interest	—	(1,481)	(292)	(20)	(1,793)
Amount representing unamortized lender fees	—	(454)	—	—	(454)
Present value of payments				291	
Less: current portion	—	(3,926)	(2,828)	(115)	(6,869)
Total long-term debt, net	$ 3,000	$ 9,709	$ 1,898	$ 176	$ 14,783

ABL Credit Facility

On December 13, 2019, the Company entered into a $20,000 five-year senior secured asset-based credit facility with Jefferies Finance LLC. The available borrowing amount under the ABL Credit Facility as of June 30, 2022 was $20,000 and is based on the Company's eligible accounts receivable and inventory, as described in the ABL Credit Agreement. As of June 30, 2022, there was $3,000 outstanding under the ABL Credit Facility, $1,000 letters of credit and $16,000 was available to be drawn. As of June 30, 2022 and December 31, 2021, the Company was in compliance with all financial covenants.

Oakdale Equipment Financing

On December 13, 2019, the Company received net proceeds of $23,000 in an equipment financing arrangement with Nexseer. Substantially all of the Company's mining and processing equipment at its Oakdale facility are pledged as collateral under the Oakdale Equipment Financing. The Oakdale Equipment Financing bears interest at a fixed rate of 5.79%.

Notes Payable

The Company has entered into various financing arrangements, primarily to finance its manufactured wellsite proppant storage solutions equipment. Upon completion of the equipment manufacturing, title to the subject equipment passes to the financial institutions as collateral. All notes payable bear interest at rates between 4.00% and 7.49%.

NOTE 8 — Leases

Lessee

The operating and financing components of the Company's right-of-use assets and lease liabilities on the consolidated balance sheets were as follows:

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Balance Sheet Location	June 30, 2022	December 31, 2021
Right-of-use assets			
Operating	Operating right-of-use assets	$ 30,818	$ 29,828
Financing	Property, plant and equipment, net	161	262
Total right-of use assets		$ 30,979	$ 30,090
Lease liabilities			
Operating	Operating lease liabilities, current and long-term portions	$ 33,204	$ 32,719
Financing	Long-term debt, current and long-term portions	291	351
Total lease liabilities		$ 33,495	$ 33,070

Operating lease costs are recorded as a single expense on the statement of operations 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 statement of operations for the three and six months ended June 30, 2022 and 2021 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Finance lease cost				
Amortization of right-of-use assets	$ 31	$ 35	$ 66	$ 70
Interest on lease liabilities	5	7	11	15
Operating lease cost	3,073	2,878	5,880	5,765
Short-term lease cost	122	34	446	34
Total lease cost	$ 3,231	$ 2,954	$ 6,403	$ 5,884

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Other information related to the Company’s leasing activity for the six months ended June 30, 2022 and 2021 is as follows:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows used for finance leases	$ 11	$ 150
Operating cash flows used for operating leases	$ 6,384	$ 4,693
Financing cash flows used for finance leases	$ 60	$ 65
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 5,948	$ —
Weighted average remaining lease term - finance leases	1.3 years	2.0 years
Weighted average discount rate - finance leases	6.87 %	6.60 %
Weighted average remaining lease term - operating leases	3.2 years	3.7 years
Weighted average discount rate - operating leases	5.81 %	5.80 %

Maturities of the Company’s lease liabilities as of June 30, 2022 are as follows:

	Operating Leases	Finance Leases	Total
Remainder of 2022	$ 5,865	$ 66	$ 5,931
2023	12,199	245	12,444
2024	9,230	—	9,230
2025	4,422	—	4,422
2026	3,191	—	3,191
Thereafter	1,806	—	1,806
Total cash lease payments	36,713	311	37,024
Less: amounts representing interest	(3,509)	(20)	(3,529)
Total lease liabilities	$ 33,204	$ 291	$ 33,495

NOTE 9 — Asset Retirement Obligation

The Company had a post-closure reclamation and site restoration obligation of $24,816 as of June 30, 2022. The following is a reconciliation of the total reclamation liability for asset retirement obligations.

Balance at December 31, 2021	$ 16,155
Additions and revisions of prior estimates	8,282
Accretion expense	379
Balance at June 30, 2022	$ 24,816

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 10 — 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 June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
Sand sales revenue	$ 67,111	98 %	$ 28,801	97 %	$ 105,400	95 %	$ 51,948	91 %
Shortfall revenue	—	— %	—	— %	1,915	2 %	1,741	3 %
Logistics revenue	1,603	2 %	838	3 %	3,004	3 %	3,400	6 %
Total revenue	$ 68,714	100 %	$ 29,639	100 %	$ 110,319	100 %	$ 57,089	100 %

The Company recorded $16,270 of deferred revenue on the consolidated balance sheet as of December 31, 2021, of which $5,493 has been recognized in the six months ended June 30, 2022. Of the remaining amount, the Company expects to recognize $4,556 through December 31, 2022 and the remainder through 2023.

NOTE 11 — Stock-Based Compensation

Equity Incentive 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 Awards (as defined in the 2016 Plan) of up to a maximum of 3,911 shares of the Company's common stock to employees, non-employee members of the Company's board of directors and consultants of the Company. On April 3, 2020, the Company's board of directors adopted an amendment to the 2016 Plan to increase the available shares of common stock authorized for issuance by an additional 2,088 shares. On July 27, 2021, the Company's board of directors authorized 231 shares currently held in treasury stock for issuance under the 2016 Plan. On April 22, 2022, the board of directors adopted an amendment to the 2016 Plan to increase the number of shares of common stock authorized for issuance by an additional 3,900 shares.

During the six months ended June 30, 2022 and 2021, 824 and 0 shares of restricted stock were issued under the 2016 Plan, respectively. The grant date fair value per share of all the outstanding restricted stock was $1.78 - $5.77. 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. The Company recognized, in operating expenses and cost of goods sold on the condensed consolidated statement of operations, $802 and $572 of compensation expense for the restricted stock during the three months ended June 30, 2022 and 2021, respectively. The Company recognized, in operating expenses and cost of goods sold on the condensed consolidated statement of operations, $1,628 and $1,252 of compensation expense for the restricted stock during the six months ended June 30, 2022 and 2021, respectively. There is no impact to the cash flows of the Company related to stock-based compensation expense. At June 30, 2022, the Company had unrecognized compensation expense of $7,155 related to granted but unvested stock awards, which is to be recognized as follows:

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Remainder of 2022	$	1,526
2023		2,684
2024		1,845
2025		955
2026		145
Total	$	7,155

The following table summarizes restricted stock activity under the Plans from December 31, 2021 through June 30, 2022:

	Number of Shares		Weighted Average
Unvested, December 31, 2021	3,151	$	3.06
Granted	824	$	3.43
Vested	(310)	$	4.75
Forfeited	(577)	$	2.68
Unvested, June 30, 2022	3,088	$	3.01

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 12 — 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 June 30, 2022 and 2021, the effective tax rate was approximately 108.7% and (6.0)%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. For the six months ended June 30, 2022 and 2021, the effective tax rate was approximately 34.1% and 16.0%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. For the three and six months ended June 30, 2022 and 2021, 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, tax depletion deduction, carrybacks, and state apportionment changes, among other items.

The Company has recorded a liability for uncertain tax positions included in its consolidated balance sheet as of June 30, 2022, related to its depletion deduction methodology, and a corresponding increase to the income tax expense on its condensed consolidated statement of operations. There was $2,163 liability for uncertain tax positions as of December 31, 2021 and there was no material change for the six months ended June 30, 2022.

As of June 30, 2022, the Company determined that it is more likely than not that it will not be able to fully realize the benefits of certain existing deductible temporary differences and has recorded a partial valuation allowance against the gross deferred tax assets, which is included in the deferred tax liabilities, long-term, net on its consolidated balance sheet, and a corresponding increase to the income tax expense on its condensed consolidated statement of operations. At December 31, 2021, the Company recorded a partial valuation allowance against the gross deferred tax assets on its consolidated balance sheet in the amount of $1,574 and a corresponding increase to the income tax expense on its consolidated statements of operations and there was no material change for the three and six months ended June 30, 2022.

The Company's federal income tax returns subsequent to 2017 remain open to audit by taxing authorities. The Company has not been informed that its tax returns are the subject of any audit or investigation by taxing authorities.

NOTE 13 — Concentrations

As of June 30, 2022 three customers accounted for 69% of the Company's total accounts receivable. As of December 31, 2021, 59% of the Company's total accounts receivable balance was with two customers.

During the three months ended June 30, 2022, 72% of the Company's revenues were earned from three customers. During the three months ended June 30, 2021, 75% of the Company's revenues were earned from four customers. During the six months ended June 30, 2022, 57% of the Company's revenues were earned from three customers. During the six months ended June 30, 2021, 66% of the Company's revenues were earned from three customers.

As of June 30, 2022, one vendor accounted for 10% of the Company's accounts payable. As of December 31, 2021, one vendor accounted for 19% of the Company's accounts payable.

During the three months ended June 30, 2022, two suppliers accounted for 37% of the Company's cost of goods sold. During the three months ended June 30, 2021, two suppliers accounted for 53% of the Company's cost of goods sold. During the six months ended June 30, 2022, two suppliers accounted for 31% of the Company's cost of goods sold. During the six months ended June 30, 2021, two suppliers accounted for 51% of the Company's cost of goods sold.

The Company's primary product is Northern White sand and its mining operations are limited to Wisconsin and Illinois. There is a risk of loss if there are significant environmental, legal or economic changes to these geographic areas of our mines, the oil and natural gas producing basins they serve, or the transportation routes between them.

NOTE 14 — Commitments and Contingencies

Litigation

We may be subject to various legal proceedings, claims and governmental inspections, audits or investigations arising out of our 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 will not have a material adverse effect on our financial statements.

Bonds

The Company has performance bonds with various public and private entities regarding reclamation, permitting and maintenance of public roadways. Total aggregate principal amount of performance bonds outstanding as of June 30, 2022 was $17,651.

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, 2021 contained in our Annual Report on Form 10-K. We use contribution margin, EBITDA, Adjusted EBITDA and free cash flow herein as non-GAAP measures of our financial performance. For further discussion of contribution margin, EBITDA, Adjusted EBITDA and free cash flow, see the section entitled "Non-GAAP Financial Measures." We define various terms to simplify the presentation of information in this Quarterly Report on Form 10-Q (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, 2021. 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 Report, may adversely affect our results as indicated in forward-looking statements. You should read this 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 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

The Company

We are a fully integrated frac and industrial sand supply and services company. The Company offers complete mine to wellsite proppant supply and logistics solutions to our frac sand customers. We produce low-cost, high quality Northern White sand, which is a premium sand used as proppant used to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells and for a variety of industrial applications. We also offer proppant logistics solutions to our customers through our in-basin transloading terminals and our SmartSystems™ wellsite storage capabilities. In late 2021, we created our Industrial Products Solutions ("IPS") business in order to diversify our customer base and markets we serve by offering sand for industrial uses. We market our products and services to oil and natural gas exploration and production companies, oilfield service companies, and industrial manufacturers. We sell our sand through long-term contracts or spot sales in the open market. We provide wellsite proppant storage solutions services and equipment under flexible contract terms custom tailored to meet the needs of our customers. We believe that, among other things, the size and favorable geologic characteristics of our sand reserves, the strategic location and logistical advantages of our facilities, our proprietary SmartDepot™ portable wellsite storage silos and SmartPath™ transloader, access to all Class I rail lines, and the industry experience of our senior management team make us as a highly attractive provider of sand and logistics services.

We incorporated in Delaware in July 2011 and began operations at our Oakdale facility with 1.1 million tons of annual processing capacity in July 2012. We currently have 7.1 million tons of annual capacity at our Oakdale and Utica facilities with the ability to expand annual processing capacity to approximately 10.0 million tons of sand should we bring the Blair facility online.

We operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin. We operate this terminal under a long-term agreement with Canadian Pacific Railway to service the Van Hook terminal directly along with the other key oil and natural gas exploration and production basins of North America. In January 2022, we began operations at an additional unit train capable transloading terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formations. These terminals allow us to offer more efficient and sustainable delivery options to our customers.

We also offer to our customers portable wellsite storage and management solutions through our SmartSystems products and services. Our SmartSystems provide our customers with 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. This capability creates efficiencies, flexibility, enhanced safety and reliability for customers. Through our SmartSystems wellsite proppant storage solutions, we offer the SmartDepot and SmartDepotXL™ silo systems, SmartPath transloader, and our rapid deployment trailers. Our SmartDepot silos include passive and active dust suppression technology, along with the capability of a gravity-fed operation. Our self-contained SmartPath transloader is a mobile sand transloading system designed to work with bottom dump trailers and features a drive over conveyor, surge bin, and dust collection system, and we believe the system has the ability to keep up with any hydraulic fracturing operation. Our rapid deployment trailers are designed for quick setup, takedown and transportation of the entire SmartSystem, and detach from the wellsite equipment, which allows for removal from the wellsite during operation. We have also developed a proprietary software program, the SmartSystem Tracker™, which allows our SmartSystems customers to monitor silo-specific information, including location, proppant type and proppant inventory. We believe that our SmartSystems reduce tracking and related fuel consumption for our customers, helping them meet their goals to reduce their carbon footprint in their daily operations.

In the fourth quarter of 2021 we started our IPS business whereby we offer our sand to customers for various industrial purposes, such as glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, and recreation. While we are still in the early stages of this business, we believe that as it grows, it will provide us with the ability to diversify our sales into more stable, consumer-driven products to help mitigate price volatility in the oil and gas industry.

Recent Acquisitions

On March 4, 2022, we entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Hi-Crush Inc., a Delaware corporation ("HCR"), and Hi-Crush Blair LLC, a Delaware limited liability company and wholly-owned subsidiary of HCR ("Blair") pursuant to which we acquired all of the issued and outstanding limited liability company interest of Blair from HCR for aggregate cash consideration of approximately $6.5 million, subject to customary working capital adjustments.

Market Trends

Our historical results of operations and cash flows are not indicative of results of operations and cash flows to be expected in the future.

During most of 2020, demand for frac sand declined significantly as a result of decreased demand for oil and natural gas as a result of the ongoing effects of the coronavirus ("COVID-19") pandemic, which caused a global decrease in all means of travel, the closure of borders between countries and a general slowing of economic activity worldwide. Activity in the oil and gas industry began to rebound in the fourth quarter of 2020 and through 2021 as the global distribution of COVID-19 vaccines ramped up and travel restrictions lessened. However, the prices of frac sand remained depressed during 2021 as supply remained out of balance with demand even though market activity was improving. Through the first six months of 2022, supply and demand fundamentals have continued to improve and frac sand prices began recovering from previous historic lows.

Additionally, the ongoing conflict in the Ukraine has also contributed to dramatic swings in oil and natural gas prices and significant volatility in the oilfield service sector. However, we cannot predict if this trend will continue or if sand prices will increase, decrease or stabilize.

Northern White sand, which is found predominantly in Wisconsin and limited portions of Minnesota, Illinois, and Missouri**,** is considered a premium proppant due to its favorable physical characteristics. While we anticipate that regional sand will continue to affect the demand for Northern White sand in some of the oil and natural gas producing basins in which we operate, we believe there will continue to be demand for our high-quality Northern White sand. In particular, we believe that Northern White sand has logistical advantages in the Appalachian basin, Bakken basin, the western basins of Colorado, Wyoming, and in Canada. We expect demand for our frac sand to continue to be supported by customers who are focused on long-term well performance and ultimate recovery of reserves from the oil and natural gas wells they are completing as well as those interested in the efficiency of their logistics supply chain and delivery of sand to the wellsite. Additionally, we believe market trends continue to support increased proppant usage per well drilled due to operator focus on well efficiencies through increasing lengths of drilling laterals, use of simul-fracking techniques and other well enhancement strategies. As the amount of sand per well continues to increase, we believe the delivery of sand to the operating basins by rail in bulk shipments to terminals in close proximity to drilling activity provides more sustainable and efficient delivery of sand to meet a customer's long term proppant needs. Finally, we believe that the adoption of our SmartSystems in the marketplace, which has a smaller footprint on customer sites than other sand storage solutions, will allow us to sell more sand when packaged with our last mile solutions. We believe the combination of our high quality Northern White sand delivered in bulk to in basin terminals and ultimately delivered to the wellsite through our SmartSystems wellsite proppant storage solutions provides our customers efficient and sustainable sand supply to the wellsite that will reduce trucking and related fuel consumption for our customers, helping them to meet their goals to reduce their carbon footprint in their daily operations.

Demand in the IPS business is relatively stable as customers are spread over a wide range of industries including glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, recreation and more. The IPS business is primarily influenced by macroeconomic drivers such as consumer demand and population growth. We began our diversification into the IPS business in late 2021 and we expect to see continued growth throughout North America.

GAAP Results of Operations

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

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

	Three Months Ended June 30,		Change	
	2022	2021	Dollars	Percentage
Revenues:				
Sand sales revenue	$ 67,111	$ 28,801	$ 38,310	133 %
Logistics revenue	1,603	838	765	91 %
Total revenue	68,714	29,639	39,075	132 %
Cost of goods sold	59,743	31,999	27,744	87 %
Gross profit	8,971	(2,360)	11,331	(480)%
Operating expenses:				
Salaries, benefits and payroll taxes	3,225	2,285	940	41 %
Depreciation and amortization	563	577	(14)	(2)%
Selling, general and administrative	3,795	3,855	(60)	(2)%
Bad debt expense	1	19,592	(19,591)	(100)%
Total operating expenses	7,584	26,309	(18,725)	(71)%
Operating income (loss)	1,387	(28,669)	30,056	(105)%
Other income (expenses):				
Interest expense, net	(406)	(513)	107	(21)%
Other income	56	3,467	(3,411)	(98)%
Total other income (expenses), net	(350)	2,954	(3,304)	(112)%
Income (loss) before income tax expense (benefit)	1,037	(25,715)	26,752	(104)%
Income tax expense (benefit)	1,127	1,552	(425)	(27)%
Net loss	$ (90)	$ (27,267)	$ 27,177	(100)%

Revenues

Revenues were $68.7 million for the three months ended June 30, 2022, during which time we sold approximately 1,196,000 tons of sand. Revenues for the three months ended June 30, 2021 were $29.6 million, during which time we sold approximately 767,000 tons of sand. The key factors contributing to the increase in revenues for the three months ended June 30, 2022 as compared to the three months ended June 30, 2021 were as follows:

- Sand sales revenue increased from $28.8 million for the three months ended June 30, 2021 to $67.1 million or 133% for the three months ended June 30, 2022 as a result of an increase in total volumes sold of approximately 56% and higher average sale prices of our sand. Higher demand relative to supply for oil and natural gas has led to increased prices in oil and natural gas which we believe has led to increased demand for frac sand resulting in higher sand prices.

- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services, and SmartSystems rentals, was approximately $1.6 million for the three months ended June 30, 2022 compared to $0.8 million for the three months ended June 30, 2021. The increase in logistics revenue was due to a higher utilization of our SmartSystems fleet.

Cost of Goods Sold

Cost of goods sold was $59.7 million and $32.0 million for the three months ended June 30, 2022 and 2021, respectively. The increase was primarily due to higher volumes sold in the current period and the related increase in production costs and freight costs that accompany higher volumes. Additionally, higher labor costs and utilities have also contributed to an increase in cost of goods sold.

Gross Profit

Gross profit was $9.0 million for the three months ended June 30, 2022, compared to $(2.4) million for the three months ended June 30, 2021. The increase in profitability for the three months ended June 30, 2022 as compared to the three months ended June 30, 2021 was primarily due to higher sales volumes and higher average sale prices of our sand relative to the cost to produce and deliver products to our customers.

Operating Expenses

Operating expenses were $7.6 million and $26.3 million for the three months ended June 30, 2022 and 2021, respectively. For the three months ended June 30, 2021, we recorded non-cash bad debt expense of $19.6 million, which is the difference between the $54.6 million accounts receivable balance that was subject to litigation and the $35.0 million cash payment received under the Settlement Agreement and Release, dated as of June 28, 2021 (the “Settlement Agreement”), by and between the Company and U.S. Well Services, LLC (“U.S. Well”). Salaries, benefits and payroll taxes increased to $3.2 million for the three months ended June 30, 2022 as compared to $2.3 million for the three months ended June 30, 2021, due primarily to accrued bonuses as management has reinstated a formal employee bonus plan based on company performance for 2022 and increased staffing to support our IPS business segment. Depreciation and amortization remained constant at $0.6 million for the three months ended June 30, 2022 and 2021. Selling, general and administrative expenses were $3.8 million for the three months ended June 30, 2022 compared to $3.9 million for the three months ended June 30, 2021.

Other Income

In 2021 we qualified for federal government assistance through employee retention credit provisions of the Consolidated Appropriations Act of 2021. During the three months ended June 30, 2021, we recorded $3.4 million in employee retention credits, whereas for the three months ended June 30, 2022, we did not record any employee retention credits.

Interest Expense

We incurred $0.4 million and $0.5 million of net interest expense for the three months ended June 30, 2022 and 2021, respectively.

Income Tax Expense (Benefit)

For the three months ended June 30, 2022 and 2021, our effective tax rate was approximately 108.7% and (6.0)%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate includes modifications from the statutory rate such as income tax credits, tax depletion deduction, carrybacks, and state apportionment changes, among other items.

As of June 30, 2022, we have recorded a liability for uncertain tax positions included in deferred tax liabilities, long-term, net on our balance sheet, related to our depletion deduction methodology. As of June 30, 2022, we determined that it is more likely than not that we will not be able to fully realize the benefits of certain existing deductible temporary differences and have recorded a partial valuation allowance against the gross deferred tax assets, which is included in liabilities, long-term, net on our balance sheet, and a corresponding increase to the income tax expense on our condensed consolidated statement of operations.

Net Loss

Net loss was $(0.1) million for the three months ended June 30, 2022 as compared to net loss of $(27.3) million for the three months ended June 30, 2021. The decrease in net loss is attributable to an increase in total volumes sold and higher average sale prices of our sand. Additionally, the difference was also due to non-cash bad debt expense recorded against the residual balance of accounts receivable that were previously the subject of litigation for the three months ended June 30, 2021.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

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

	Six Months Ended June 30,		Change	
	2022	2021	Dollars	Percentage
	(in thousands)			
Revenues:				
Sand sales revenue	$ 105,400	$ 51,948	53,452	103 %
Shortfall revenue	1,915	1,741	174	10 %
Logistics revenue	3,004	3,400	(396)	(12)%
Total revenue	110,319	57,089	53,230	93 %
Cost of goods sold	103,329	64,426	38,903	60 %
Gross profit	6,990	(7,337)	14,327	(195)%
Operating expenses:				
Salaries, benefits and payroll taxes	6,617	4,660	1,957	42 %
Depreciation and amortization	1,090	1,138	(48)	(4)%
Selling, general and administrative	7,843	7,009	834	12 %
Bad debt expense	1	19,592	(19,591)	(100)%
Total operating expenses	15,551	32,399	(16,848)	(52)%
Operating income (loss)	(8,561)	(39,736)	31,175	(78)%
Other income (expenses):				
Interest expense, net	(833)	(1,060)	227	(21)%
Other income	268	3,665	(3,397)	(93)%
Total other income (expenses), net	(565)	2,605	(3,170)	(122)%
Loss before income tax benefit	(9,126)	(37,131)	28,005	(75)%
Income tax benefit	(3,113)	(5,952)	2,839	(48)%
Net loss	$ (6,013)	$ (31,179)	$ 25,166	(81)%

Revenues

Revenues were $110.3 million for the six months ended June 30, 2022, during which time we sold approximately 2,048,000 tons of sand. Revenues for the six months ended June 30, 2021 were $57.1 million, during which time we sold approximately 1,527,000 tons of sand. The key factors contributing to the increase in revenues for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021 were as follows:

- Sand sales revenue increased from $51.9 million for the six months ended June 30, 2021 to $105.4 million for the six months ended June 30, 2022 as a result of an increase in total volumes sold of approximately 34%. In addition to an increase in our volume, the 103% increase in our revenue is also attributable to higher average sale prices of our sand. Sand prices have increased due to a shift in supply and demand, which we believe is driven by increased prices in oil and natural gas.
- We had $1.9 million contractual shortfall revenue for the six months ended June 30, 2022 compared to $1.7 million of contractual shortfall revenue for the six months ended June 30, 2021. Our customer contracts dictate whether shortfall is earned quarterly or at the end of their respective contract year. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract.
- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services, and SmartSystems rentals, was approximately $3.0 million for the six months ended June 30, 2022 compared to $3.4

million for the six months ended June 30, 2021. The decrease in logistics revenue was due to the shift from mine gate sales to in-basin sales, which include transportation and any other handling services, partially offset by higher utilization of our SmartSystems fleet.

Cost of Goods Sold

Cost of goods sold was $103.3 million and $64.4 million for the six months ended June 30, 2022 and June 30, 2021, respectively. The increase was primarily due to higher volumes sold in the current period and the related increase in production costs and freight costs that accompany higher volumes. Additionally higher labor costs and utilities have also contributed to an increase in cost of goods sold.

Gross Profit

Gross profit was $7.0 million and $(7.3) million for the six months ended June 30, 2022 and June 30, 2021, respectively. The improvement in the gross profit for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021 was primarily due to higher sales volumes and higher average sale prices of our sand relative to the cost to produce and deliver products to our customers.

Operating expenses were $15.6 million and $32.4 million for the six months ended June 30, 2022 and June 30, 2021, respectively. For the six months ended June 30, 2021, we recorded non-cash bad debt expense of $19.6 million, which is the difference between the $54.6 million accounts receivable balance that was subject to litigation and the $35.0 million cash payment received under the Settlement Agreement. Salaries, benefits and payroll taxes increased to $6.6 million for the six months ended June 30, 2022 as compared to $4.7 million for the six months ended June 30, 2021, due primarily to accrued bonuses as management has reinstated a formal employee bonus plan based on company performance for 2022 and increased staffing to support our IPS business segment. Depreciation and amortization remained constant at $1.1 million for the six months ended June 30, 2022 and June 30, 2021. Selling, general and administrative expenses increased to $7.8 million for the six months ended June 30, 2022 compared to $7.0 million for the six months ended June 30, 2021, primarily driven by higher travel costs post-COVID-19, increased royalty expense due to higher total volumes sold and development costs related to our Waynesburg terminal.

Interest Expense

We incurred $0.8 million and $1.1 million of net interest expense for the six months ended June 30, 2022 and June 30, 2021, respectively. We continue to reduce debt levels and decrease interest expense through scheduled amortizing payments.

Income Tax Benefit

For the six months ended June 30, 2022 and June 30, 2021, our effective tax rate was approximately 34.1% and 16.0%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate includes modifications from the statutory rate such as income tax credits, tax depletion deduction, carrybacks, and state apportionment changes, among other items.

As of June 30, 2022, we have recorded a liability for uncertain tax positions included on our balance sheet, related to our depletion deduction methodology. As of June 30, 2022, we determined that it is more likely than not that we will not be able to fully realize the benefits of certain existing deductible temporary differences and have recorded a partial valuation allowance against the gross deferred tax assets, which is included in liabilities, long-term, net on our balance sheet, and a corresponding increase to the income tax expense on our condensed consolidated statement of operations.

Net Loss

Net loss was $(6.0) million for the six months ended June 30, 2022 as compared to net loss of $(31.2) million for the six months ended June 30, 2021. The decrease in net loss is attributable to an increase in total volumes sold and higher average sale prices of our sand in addition to non-cash bad debt expense recorded against the residual balance of accounts receivable that were previously the subject of litigation in June 30, 2021.

Non-GAAP Financial Measures

Contribution margin, EBITDA, Adjusted EBITDA and free cash flow 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. Gross profit is the GAAP measure most directly comparable to contribution margin, net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA and net cash provided by operating activities is the GAAP measure most directly comparable to free cash flow. 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 contribution margin, EBITDA, Adjusted EBITDA or free cash flow in isolation or as substitutes for an analysis of our results as reported under GAAP. Because contribution margin, EBITDA, Adjusted EBITDA and free cash flow 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.

Contribution Margin

We use contribution margin, which we define as total revenues less cost 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. Since 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands, except per ton amounts)			
Revenue	$ 68,714	$ 29,639	$ 110,319	$ 57,089
Cost of goods sold	59,743	31,999	103,329	64,426
Gross profit	8,971	(2,360)	6,990	(7,337)
Depreciation, depletion, and accretion of asset retirement obligations	6,283	5,851	12,514	11,864
Contribution margin	$ 15,254	$ 3,491	$ 19,504	$ 4,527
Contribution margin per ton	$ 12.75	$ 4.55	$ 9.52	$ 2.96
Total tons sold	1,196	767	2,048	1,527

Contribution margin was $15.3 million and $3.5 million, or $12.75 and $4.55 per ton sold, for the three months ended June 30, 2022 and 2021, respectively. For the six months ended contribution margin was $19.5 million and $4.5 million, or $9.52 and $2.96 per ton sold, for the six months ended June 30, 2022 and 2021, respectively. The increase in overall contribution margin and contribution margin per ton was due primarily higher sales volumes and higher average sale prices relative to the cost to produce and deliver products to our customers.

EBITDA and Adjusted EBITDA

We define EBITDA as net income, plus: (i) depreciation, depletion and amortization expense; (ii) income tax expense (benefit); (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 ABL 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 loss for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands)			
Net loss	$ (90)	$ (27,267)	$ (6,013)	$ (31,179)
Depreciation, depletion and amortization	6,658	6,317	13,225	12,777
Income tax expense (benefit)	1,127	1,552	(3,113)	(5,952)
Interest expense	417	515	851	1,070
Franchise taxes	131	97	191	195
EBITDA	$ 8,243	$ (18,786)	$ 5,141	$ (23,089)
Gain on sale of fixed assets	(16)	(60)	(16)	(58)
Equity compensation	636	581	1,311	1,266
Acquisition and development costs	—	(5)	337	18
Accretion of asset retirement obligations	190	111	379	225
Adjusted EBITDA	$ 9,159	$ (21,511)	$ 7,258	$ (24,990)

Adjusted EBITDA was $9.2 million for the three months ended June 30, 2022 compared to $(21.5) million for the three months ended June 30, 2021. Adjusted EBITDA was $7.3 million for the six months ended June 30, 2022 compared to $(25.0) million for the six months ended June 30, 2021. The increase in Adjusted EBITDA was primarily due to higher sales volumes, and higher average sale prices of our sand relative to the cost to produce and deliver products to our customers.

Free Cash Flow

Free cash flow, which we define as net cash provided by operating activities less purchases of property, plant and equipment, is used as a supplemental financial measure by our management and by external users of our financial statements, such as investors and commercial banks, to measure the liquidity of our business.

Net cash provided by operating activities is the GAAP measure most directly comparable to free cash flows. Free cash flows should not be considered an alternative to net cash provided by operating activities presented in accordance with GAAP. Because free cash flows may be defined differently by other companies in our industry, our definition of free cash flows may not be comparable to similarly titled measures of other companies, thereby diminishing its utility. The following table presents a reconciliation of free cash flows to net cash provided by operating activities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands, except per ton amounts)			
Net cash (used in) provided by operating activities	$ (2,287)	$ 32,566	$ (10,949)	$ 36,480
Acquisition of Blair facility	—	—	(6,547)	—
Purchases of property, plant and equipment	(1,369)	(2,830)	(5,137)	(5,043)
Free cash flow	$ (3,656)	$ 29,736	$ (22,633)	$ 31,437

Free cash flow was $(3.7) million for the three months ended June 30, 2022 compared to $29.7 million for the three months ended June 30, 2021.

Free cash flow was $(22.6) million for the six months ended June 30, 2022 compared to $31.4 million for the six months ended June 30, 2021. The decrease in free cash flow was primarily attributable to purchase of Blair for $6.5 million, increase in accounts receivable, repayment of tax refund IRS mistakenly provided in prior period of $2.3 million, and increase in unbilled receivables in the six months ended June 30, 2022 compared to the six months ended June 30, 2021. We expect that the investments made in the current period will be cash-generating assets in the future.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flow generated from operations and availability under our ABL Credit Facility and other equipment financing sources. As of June 30, 2022, cash on hand was $2.1 million and we had $16.0 million in undrawn availability on our ABL Credit Facility.

Based on our balance sheet, cash flows, current market conditions, and information available to us at this time, we believe that we have sufficient liquidity and other available capital resources, to meet our cash needs for the next twelve months.

Material Cash Requirements

Capital Requirements

We expect full year 2022 capital expenditures to be between $20.0 million and $25.0 million, which we anticipate will primarily support efficiency projects at Oakdale and Utica, capital related to the Waynesburg terminal. We expect to fund these capital expenditures with cash from operations, equipment financing options available to us or borrowings under the ABL Credit Facility or other financing sources, such as equipment finance providers. For the six months ended June 30, 2022, we spent approximately $5.1 million on capital expenditures.

Indebtedness

We have several debt facilities, including the Oakdale Equipment Financing, various notes payable and our ABL Credit Facility. Our Oakdale Equipment Financing is secured by substantially all of the assets at our Oakdale facility. The balance on this facility as of June 30, 2022 was $13.6 million. Minimum cash payments on this facility for the remainder of 2022 are anticipated to be $2.3 million. Our various notes payable are primarily secured by our manufactured SmartSystems equipment. Total debt under these notes payable as of June 30, 2022 was $4.7 million. Minimum cash payments on these notes payable for the remainder of 2022 are anticipated to be $1.6 million. There was $3.0 million outstanding on our ABL Credit Facility as of June 30, 2022.

Operating Leases

We use leases primarily to procure certain office space, railcars and heavy equipment as part of its operations. The majority of our lease payments are fixed and determinable. Our operating lease liabilities as of June 30, 2022 were $33.2 million. Minimum cash payments on operating leases for the remainder of 2022 are anticipated to be $5.9 million.

*Mineral Rights Propert*y

The Company is obligated under certain contracts for minimum payments for the right to use land for extractive activities. The annual minimum payments under these contracts are approximately $2.5 million per year in the aggregate for the next 15 years.

Off-Balance Sheet Arrangements

We had outstanding performance bonds of $17.7 million and $8.6 million at June 30, 2022 and December 31, 2021, respectively. The increase in performance bonds is due primarily to the acquisition of the Blair facility and the assumption of performance bonds related to its potential future reclamation obligations.

Contractual Obligations

As of June 30, 2022, we had contractual obligations for the ABL Credit Facility, Oakdale Equipment Financing, notes payable, operating and finance leases, minimum payments for the rights to mine land, capital expenditures, asset retirement obligations, and other commitments to municipalities for maintenance.

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.

Seasonality

Our business is affected to some extent by seasonal fluctuations in weather that impact the production levels for a portion of our wet sand processing capacity. 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. These higher cash operating costs were capitalized into inventory and expensed when these tons are sold, which can lead to us having higher overall cost of production in the first and fourth quarters of each calendar year as we expense inventory costs that were previously capitalized. We have indoor wet processing facilities at each of our plant locations, which allow 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 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 six months ended June 30, 2022, revenue from EQT Production Corporation, Halliburton Energy Services, and Encino Energy accounted for 28.3%, 18.7%, and 10.1%, respectively, of total revenue. For the six months ended June 30, 2021, revenue from Rice Energy (a predecessor of EQT Production Corporation), Halliburton Energy Services, and Enerplus accounted for 30.9%, 21.8%, and 13.0%, respectively, of total revenue.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and procedures during the six months ended June 30, 2022.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these financial statements include, but are not limited to: impairment considerations of assets, including intangible assets, fixed assets, and inventory; estimated cost of future asset retirement obligations; fair values of acquired assets and assumed liabilities; recoverability of deferred tax assets; inventory reserve; and the collectability of receivables; and certain liabilities.

Actual results could differ from management’s best estimates as additional information or actual results become available in the future, and those differences could be material. The decreases in demand related to COVID-19 pandemic in 2020 and 2021 and the ongoing conflict in Ukraine have caused dramatic swings in oil and natural gas prices and significant volatility in the oilfield service sector since. We continue to actively monitor the global impact of current events, but we are currently unable to estimate the impact of these events on our future financial position and results of operations or give any assurances that these events will not have a material adverse effect on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The majority of our debt is financed under fixed interest rates. Borrowings under the ABL Credit Facility bear interest at a rate per annum equal to an applicable margin, plus, at our option, either a LIBOR rate or an alternate base rate ("ABR"). The applicable margin is 2.00% for LIBOR loans and 1.00% for ABR loans. The balance on our ABL Credit Facility as of June 30, 2022 was $3.0 million. We do not believe this represents a material interest rate risk.

We have considered other changes in our exposure to market risks during the six months ended June 30, 2022 and have determined that there have been no additional 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, 2021, filed with the SEC on March 8, 2022.

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 June 30, 2022 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 15 - Commitments and Contingencies - Litigation of the notes to the condensed consolidated financial statements in this Form 10-Q for the three and six months ended June 30, 2022.

ITEM 1A. RISK FACTORS

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, 2021.

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

During the quarter ended June 30, 2022, no shares were sold by the Company without registration under the Securities Act of 1933, as amended.

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, 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.

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*	Amendment No. 1 to Smart Sand, Inc. Amended and Restated 2016 Omnibus Incentive Plan
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	Extracted XBRL Instance Document - the instance document does not appear in the Interactive Data File as XBRL tags are embedded in the Inline XBRL 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
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed Herewith.

† This certification is deemed not filed for purposes of section 18 of 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.

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.

August 9, 2022	By:	/s/ Charles E. Young
		Charles E. Young, Chief Executive Officer (Principal Executive Officer)

Smart Sand, Inc.

August 9, 2022	By:	/s/ Lee E. Beckelman
		Lee E. Beckelman, Chief Financial Officer (Principal Financial Officer)

AMENDMENT NO. 1 TO

SMART SAND, INC. AMENDED AND RESTATED

2016 OMNIBUS INCENTIVE PLAN

This Amendment No. 1 (the "Amendment") to the Smart Sand, Inc. Amended and Restated 2016 Omnibus Incentive Plan (the "Plan") is effective as of June 7, 2022, the date it was approved by the Company's stockholders. Capitalized terms used but not defined herein have the same meanings as in the Plan.

WHEREAS, the Company currently awards incentive compensation to Eligible Recipients under the Plan, which was approved by the Board on April 3, 2020 and by the Company's stockholders on June 2, 2020.

WHEREAS, the Company desires to amend the Plan to increase the number of shares of Common Stock reserved for issuance under the Plan by 3,900,000 shares.

WHEREAS, this Amendment requires the approval of the Company's stockholders.

WHEREAS, the Board, upon the recommendation of the Compensation Committee, which has been designated as the Committee by the Board under Section 2.12 and Section 3.1 of the Plan, approved this Amendment on April 21, 2022, subject to the approval of the Company's stockholders at the Company's 2022 Annual Meeting of Stockholders, to increase the number of shares of Common Stock reserved for issuance under the Plan by 3,900,000 shares, from 5,999,513 shares to 9,899,513 shares, and to amend the Plan as set forth in this Amendment.

NOW, THEREFORE, the Plan shall be amended as follows:

1. Section 4.1(a) of the Plan is hereby amended and restated in its entirety to read:

   "9,899,513 shares; and"

2. Section 4.2 of the Plan is hereby amended and restated in its entirety to read:

   "**Restrictions on Incentive Stock Options**. Notwithstanding any other provisions of this Plan to the contrary and subject to adjustment as provided in Section 4.5 of this Plan, the maximum number of shares of Common Stock that will be available for issuance pursuant to Incentive Stock Options under this Plan will be 9,889,513 shares."

3. Except as modified herein, all other terms and conditions of the Plan shall remain in full force and effect, and in the event of a conflict between this Amendment and the Plan, this Amendment shall control.

Exhibit 31.1

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: August 9, 2022

/s/ Charles E. Young

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

Exhibit 31.2

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: August 9, 2022

/s/ Lee E. Beckelman

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

Exhibit 32.1

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 June 30, 2022 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: August 9, 2022

/s/ Charles E. Young

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

Exhibit 32.2

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 June 30, 2022 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: August 9, 2022

/s/ Lee E. Beckelman

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

Exhibit 95.1

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 June 30, 2022:

Mine (1)	**Oakdale, WI 4703625**	**Barron, WI 4703646**	**Barron, WI 4703740**	**Taylor, WI 4703759**	**Ottawa, IL 1103253**
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)	$133	$—	$—	$—	$133
Mining-related fatalities (#)	—	—	—	—	—
Section 104(e) notice	—	—	—	—	—
Notice of the potential for a pattern of violations under Section 104(e)	—	—	—	—	—
Legal actions before the FMSHRC initiated (#)	1	—	—	—	—
Legal actions before the FMSHRC resolved (#)	—	—	—	—	—
Legal actions pending before the FMSHRC, end of period:	1	—	—	—	—
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 (#)	1	—	—	—	—
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 (#)	1	—	—	—	—

(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 June 30, 2022, for all citations / orders assessed, not just those disclosed in the rows preceding such dollar value.