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 March 31, 2021

OR

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

For the Transition Period from ___ to ___

Commission file number 001-37936

smartsand®
Mine to Wellsite Solutions

SMART SAND, INC.

(Exact name of registrant as specified in its charter)

Delaware	**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 April 27, 2021: 43,334,442

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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 (the "ABL Credit Agreement"); and (ii) a Guarantee and Collateral Agreement, dated December 13, 2019, between the Company and Jefferies Finance LLC, as agent (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.
"Former Credit Agreement", "Former Credit Facility"	The $45 million 3-year senior secured revolving credit facility (the "Former Credit Facility") under a revolving credit agreement, dated December 8, 2016, with Jefferies Finance LLC, as administrative and collateral agent (as amended, the "Former Credit Agreement"). The Former Credit Facility was paid in full and terminated with proceeds from the Oakdale Equipment Financing.
"Loan Agreement", "Acquisition Liquidity Support Facility"	In connection with the Company's acquisition of Eagle Oil and Gas Proppants Holdings LLC from Eagle Materials Inc., which acquisition was completed on September 18, 2020, the Company, as borrower, entered into a Loan and Security Agreement, dated September 18, 2020 (the "Loan Agreement"), with Eagle Materials Inc., as lender, secured by certain property rights and assets of the acquired business, whereby the Company may draw loans in an aggregate amount up to $5.0 million during the twelve-month period ending September 19, 2021 (the "Acquisition Liquidity Support Facility").
"Exchange Act"	The Securities Exchange Act of 1934, as amended.
"Securities Act"	The Securities Act of 1933, as amended.
"FCA", "DAT", "DAP"	Free Carrier, Delivered at Terminal, Delivered at Place, respectively, Incoterms 2010.
"FASB", "ASU", "ASC", "GAAP"	Financial Accounting Standards Board, Accounting Standards Update, Accounting Standards Codification, Accounting Principles Generally Accepted in the United States, respectively.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SMART SAND, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2021 (unaudited)	December 31, 2020
	(in thousands, except share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 11,417	$ 11,725
Accounts receivable	66,658	69,720
Unbilled receivables	215	127
Inventories	17,546	19,136
Prepaid expenses and other current assets	10,960	11,378
Total current assets	106,796	112,086
Property, plant and equipment, net	272,197	274,676
Operating lease right-of-use assets	29,697	32,099
Intangible assets, net	8,055	8,253
Other assets	548	563
Total assets	$ 417,293	$ 427,677
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,816	$ 3,268
Accrued expenses and other liabilities	12,326	13,142
Deferred revenue, current	5,563	6,875
Long-term debt, net, current	7,073	6,901
Operating lease liabilities, current	7,480	7,077
Total current liabilities	37,258	37,263
Deferred revenue, net	6,984	3,482
Long-term debt, net	20,651	22,445
Operating lease liabilities, long-term	25,080	27,020
Deferred tax liabilities, long-term, net	25,290	32,981
Asset retirement obligation	15,925	14,996
Contingent consideration	—	180
Other non-current liabilities	503	503
Total liabilities	131,691	138,870
Commitments and contingencies (Note 16)		
Stockholders' equity		
Common stock, $0.001 par value, 350,000,000 shares authorized; 43,385,671 issued and 41,719,329 outstanding at March 31, 2021; 43,193,394 issued and 41,575,129 outstanding at December 31, 2020	42	42
Treasury stock, at cost, 1,666,342 and 1,618,265 shares at March 31, 2021 and December 31, 2020, respectively	(4,274)	(4,134)
Additional paid-in capital	171,931	171,209
Retained earnings	117,355	121,267
Accumulated other comprehensive income	548	423
Total stockholders' equity	285,602	288,807
Total liabilities and stockholders' equity	$ 417,293	$ 427,677

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

SMART SAND, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	Three Months Ended March 31,	
	2021	2020
	(in thousands, except per share amounts)	
Revenues:		
Sand sales revenue	$ 23,147	$ 30,008
Shortfall revenue	1,741	1,307
Logistics revenue	2,562	16,173
Total revenue	27,450	47,488
Cost of goods sold	32,427	41,089
Gross profit	(4,977)	6,399
Operating expenses:		
Salaries, benefits and payroll taxes	2,375	2,902
Depreciation and amortization	561	453
Selling, general and administrative	3,154	3,530
Change in the estimated fair value of contingent consideration	—	(1,020)
Total operating expenses	6,090	5,865
Operating (loss) income	(11,067)	534
Other income (expenses):		
Interest expense, net	(547)	(472)
Other income	198	19
Total other income (expenses), net	(349)	(453)
(Loss) income before income tax (benefit) expense	(11,416)	81
Income tax (benefit) expense	(7,504)	165
Net loss	$ (3,912)	$ (84)
Net loss per common share:		
Basic	$ (0.09)	$ —
Diluted	$ (0.09)	$ —
Weighted-average number of common shares:		
Basic	41,629	40,091
Diluted	41,629	40,091

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

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,	
	2021	**2020**
	(in thousands)	
Net loss	$ (3,912)	$ (84)
Other comprehensive loss:		
Foreign currency translation adjustment	125	(163)
Comprehensive loss	$ (3,787)	$ (247)

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)

Three months ended March 31, 2021

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Outstanding Shares	Par Value	Shares	Amount				
	(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
Restricted stock buy back	(48,077)	—	48,077	(140)	—	—	—	(140)
Shares repurchased	—	—	—	—	—	—	—	—
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

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

Three months ended March 31, 2020

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Outstanding Shares	Par Value	Shares	Amount				
	(in thousands, except share amounts)							
Balance at December 31, 2019	40,234,451	$ 40	740,957	$ (2,979)	$ 165,223	$ 83,313	$ (41)	$ 245,556
Foreign currency translation adjustment	—	—	—	—	—	—	(163)	(163)
Vesting of restricted stock	139,947	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,025	—	—	1,025
Employee stock purchase plan compensation	—	—	—	—	14	—	—	14
Employee stock purchase plan issuance	21,486	—	—	—	46	—	—	46
Restricted stock buy back	(10,468)	—	10,468	(14)	—	—	—	(14)
Shares repurchased	(778,300)	—	778,300	(1,000)	—	—	—	(1,000)
Net loss	—	—	—	—	—	(84)	—	(84)
Balance at March 31, 2020	39,607,116	$ 40	1,529,725	$ (3,993)	$ 166,308	$ 83,229	$ (204)	245,380

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

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Operating activities:		
Net loss	$ (3,912)	$ (84)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion and accretion of asset retirement obligation	6,375	5,363
Amortization of intangible assets	198	199
Loss on disposal of assets	2	—
Amortization of deferred financing cost	26	26
Accretion of debt discount	47	45
Deferred income taxes	(7,691)	1,264
Stock-based compensation, net	678	1,025
Employee stock purchase plan compensation	7	13
Change in contingent consideration fair value	—	(1,020)
Changes in assets and liabilities:		
Accounts receivable	3,062	1,095
Unbilled receivables	(88)	4,536
Inventories	1,590	3,642
Prepaid expenses and other assets	1,140	(1,933)
Deferred revenue	2,191	(2,575)
Accounts payable	1,332	2,048
Accrued and other expenses	(1,043)	(1,471)
Income taxes payable	—	(112)
Net cash provided by operating activities	3,914	12,061
Investing activities:		
Purchases of property, plant and equipment	(2,213)	(4,185)
Proceeds from disposal of assets	(2)	—
Net cash used in investing activities	(2,215)	(4,185)
Financing activities:		
Repayments of notes payable	(1,672)	(1,192)
Payments under equipment financing obligations	(31)	(32)
Payment of deferred financing and debt issuance costs	—	(20)
Proceeds from revolving credit facility	—	6,000
Repayment of revolving credit facility	—	(2,500)
Payment of contingent consideration	(180)	(280)
Proceeds from equity issuance	17	46
Purchase of treasury stock	(141)	(1,014)
Net cash (used in) provided by financing activities	(2,007)	1,008
Net increase in cash and cash equivalents	(308)	8,884
Cash and cash equivalents at beginning of year	11,725	2,639
Cash and cash equivalents at end of period	$ 11,417	$ 11,523
Supplemental disclosure of cash flow information		
Non-cash investing activities:		
Asset retirement obligation	$ 737	$ —
Non-cash financing activities:		
Capitalized expenditures in accounts payable and accrued expenses	$ 1,097	$ 1,269
Issuance of acquisition common stock	$ 20	$ —

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 is a fully integrated frac sand supply and services company, offering complete mine to wellsite proppant logistics and storage solutions. The Company is engaged in the excavation, processing and sale of sand, or proppant, for use in hydraulic fracturing operations for the oil and natural gas industry and offers proppant logistics and wellsite storage solutions through its SmartSystems™ products and services.

The Company completed construction of the first phase of its frac sand mine and related processing facility in Oakdale, Wisconsin and commenced operations in July 2012. Through multiple expansions at Oakdale and the recent acquisition in September 2020 of the Utica, Illinois mine and processing facilities, the Company has current annual processing capacity of approximately 7.1 million tons.

The Company provides complete logistics solutions through its frac sand facilities with access to three Class I rail lines and its in-basin unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin. These logistics solutions enable the Company to cost-effectively deliver products to its customers anywhere in the United States.

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 Company has developed a new transload technology, the self-contained SmartPath transloader, to complement its existing solutions. The SmartPath 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.

NOTE 2 — Summary of Significant Accounting Policies

The information presented below supplements the complete description of our significant accounting policies disclosed in our 2020 Form 10-K, filed with the SEC on March 3, 2021.

Basis of Presentation and Consolidation

The accompanying unaudited quarterly condensed consolidated financial statements (“interim statements”) of the Company are presented in accordance with the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and therefore do not include all the information and notes required by GAAP. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. All adjustments are of a normal recurring nature. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. The consolidated balance sheet as of December 31, 2020 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2020. These interim statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2020.

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; the sand reserves and their impact on calculating the depletion expense under the units-of-production method; the depreciation and amortization associated with property, plant and equipment and definite-lived intangible assets, impairment considerations of assets (including impairment of identified intangible assets, goodwill and other long-lived assets); estimated cost of future asset retirement obligations; fair value of acquired assets and assume liabilities; stock-based compensation; recoverability of deferred tax assets; inventory reserve; 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 decreased demand related to the coronavirus ("COVID-19") pandemic has caused a dramatic decline in oil prices within the last twelve months 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.

Recent Accounting Pronouncements

In October 2020, the FASB issued ASU 2020-10, Codification Improvements, which updates various codification topics by clarifying or improving disclosure requirements to align with the SEC's regulations. The Company adopted ASU 2020-10 as of the reporting period beginning January 1, 2021. The adoption of this update did not have a material effect on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes, which intends to simplify the guidance by removing certain exceptions to the general principles and clarifying or amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this update did not have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), which modifies how companies recognize expected credit losses on financial instruments and other commitments to extend credit held by an entity at each reporting date. Existing GAAP requires an "incurred loss" methodology whereby companies are prohibited from recording an expected loss until it is probable that the loss has been incurred. ASU 2016-13 requires companies to use a methodology that reflects current expected credit losses ("CECL") and requires consideration of a broad range of reasonable and supportable information to record and report credit loss estimates, even when the CECL is remote. Companies will be required to record the allowance for credit losses and deduct that amount from the basis of the asset and a related expense will be recognized in selling, general and administrative expenses on the income statement, similar to bad debt expense under existing GAAP. There is much latitude given to entities in determining the methodology for calculating the CECL. The guidance is effective for the Company for financial statement periods beginning after December 15, 2022, although early adoption is permitted. While the Company is still in the process of evaluating the effects of ASU 2016-13 and its related updates on the consolidated financial statements, at the time of adoption, it believes the primary effect will be any applicable allowance recorded against its accounts and unbilled receivables on its balance sheet and related expense on its income statement at that time. The Company cannot determine the financial impact on its consolidated financial statements upon adoption as its accounts and unbilled receivables balances are affected by ongoing transactions with customers.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 — Business Combination

Eagle Proppants Holdings

On September 18, 2020, the Company entered into an Equity Purchase and Sale Agreement (the “Purchase Agreement”) with Eagle Materials Inc., a Delaware corporation (“Eagle”), pursuant to which the Company acquired all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, a Delaware limited liability company and wholly-owned subsidiary of Eagle (“Eagle Proppants Holdings”), from Eagle for aggregate non-cash consideration of approximately $2,080. In satisfaction of the purchase price, the Company issued to Eagle 1,504 shares of its common stock; the Company issued an additional 14 shares of its common stock in January 2021 as settlement of the net working capital adjustment. The number of shares issued was determined by the weighted average trading price of the Company’s common stock over the twenty days preceding the date of the Purchase Agreement.

In connection with the acquisition of Eagle Proppants Holdings, the Company, as borrower, also entered into a Loan Agreement with Eagle, as lender. See Note 7 - Debt, for additional information.

The primary assets of Eagle Proppants Holdings and its subsidiaries include frac sand mine and related processing and transloading facilities in Utica and Peru, Illinois. The Utica facility has approximately 1.6 million tons of annual processing capacity which has access to the BNSF rail line through the Peru, Illinois transload facility.

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

Base price consideration	$	2,000
20-day volume weighted average price of Smart Sand stock	$	1.33
Shares issued		1,504
Closing share price on September 18, 2020	$	1.37
Total equity issued	$	2,060
Net working capital adjustment	$	20
Total purchase consideration	$	2,080

(IN THOUSANDS, EXCEPT PER SHARE DATA)

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

	Fair Value
Assets Acquired	
Cash	$ 309
Accounts receivable	75
Inventory	2,459
Prepaid expenses and other current assets	124
Property, plant and equipment	60,310
Right-of-use assets	9,603
Total assets acquired	72,880
Liabilities Assumed	
Accounts payable	16
Accrued expenses and other liabilities	2,008
Asset retirement obligations	8,424
Operating lease liabilities	9,603
Deferred income taxes	11,149
Total liabilities assumed	31,200
Estimated fair value of net assets acquired	$ 41,680

The estimated aggregate fair value of the net assets acquired was $41,680, which exceeded the total consideration and results in a bargain purchase gain of $39,600 on the acquisition date, which is included in net income for the year ended December 31, 2020. The Company believes that the seller wanted to exit the business relatively quickly and that there were a limited number of potential buyers due to the downturn in the market, which resulted in the bargain purchase gain.

The Company determined the fair values of the acquired assets and assumed liabilities based on the highest and best use of such assets as required by GAAP. Cash, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other liabilities were based on underlying assets and liabilities whose carrying value approximates fair value. The Company acquired $2,050 of contractual receivables; however, it does not expect to collect on $1,975 of such contractual receivables as these customers are in bankruptcy proceedings. The fair value of inventory was determined using market prices the Company expected to receive for the inventory when it is sold. Operating leases were considered to be at market rates and the fair values of the associated operating lease liabilities and right-of-use assets were determined using the Company's lease accounting policies. The fair value of the asset retirement obligations was calculated consistently with the Company's other asset retirement obligations and includes assumptions about inflation and discount rates over time to represent the estimated future cost of dismantling, restoring and reclaiming the plant and mines in accordance with legal obligations. Deferred income taxes represent the temporary differences between future expenses for GAAP purposes and income tax purposes at the Company's applicable enacted tax rate. The Company determined the fair values of the property, plant and equipment with the assistance of external valuation specialists. The fair value was based on the highest and best use, as required by GAAP, which was determined to be the orderly liquidation value rather than the value imputed by other valuation methods. Total acquisition costs incurred in the year ended December 31, 2020 were $891. Company's allocation of the purchase price was complete as of December 31, 2020.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 4 — Inventory

Inventory consisted of the following:

	March 31, 2021	December 31, 2020
Raw material	$ 463	$ 428
Work in progress	7,549	10,465
Finished goods	5,703	4,400
Spare parts	3,831	3,843
Total sand inventory	$ 17,546	$ 19,136

NOTE 5 — Property, Plant and Equipment, net

Net property, plant and equipment consisted of:

	March 31, 2021	December 31, 2020
Machinery, equipment and tooling	$ 29,089	$ 29,002
SmartSystems	24,067	22,352
Vehicles	2,899	2,893
Furniture and fixtures	1,325	1,302
Plant and building	199,923	199,867
Real estate properties	6,462	6,458
Railroad and sidings	27,703	27,703
Land and land improvements	33,155	33,040
Asset retirement obligation	20,730	19,993
Mineral properties	7,442	7,442
Deferred mining costs	2,425	2,123
Construction in progress	8,301	7,489
	363,521	359,664
Less: accumulated depreciation and depletion	91,324	84,988
Total property, plant and equipment, net	$ 272,197	$ 274,676

Depreciation expense was $6,177 and $5,276 for the three months ended March 31, 2021 and 2020, respectively.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 6 — Accrued and Other Expenses

Accrued and other expenses were comprised of the following:

	March 31, 2021	December 31, 2020
Employee related expenses	$ 1,203	$ 1,048
Accrued equipment	—	55
Accrued professional fees	698	1,129
Accrued royalties	2,564	2,624
Accrued freight and delivery charges	2,249	2,901
Accrued real estate tax	1,808	1,637
Accrued utilities	835	748
Sales tax liability	1,027	1,386
Other accrued liabilities	1,942	1,614
Total accrued liabilities	$ 12,326	$ 13,142

NOTE 7 — Debt

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

	March 31, 2021	December 31, 2020
Oakdale Equipment Financing	$ 3,653	$ 3,600
Finance leases	126	123
Notes Payable	3,294	3,178
Long-term debt, net, current	$ 7,073	$ 6,901

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

	March 31, 2021	December 31, 2020
ABL Credit Facility	$ —	$ —
Oakdale Equipment Financing, net	14,350	15,236
Finance Leases	319	351
Notes Payable	5,982	6,858
Long-term debt, net	$ 20,651	$ 22,445

(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 2021	$ —	$ 3,479	$ 2,788	$ 114	$ 6,381
2022	—	4,638	3,599	138	8,375
2023	—	4,638	2,396	245	7,279
2024	—	6,888	807	—	7,695
2025	—	1,724	187	—	1,911
2026 and thereafter	—	—	355	—	355
Total minimum payments	—	21,367	10,132	497	31,996
Amount representing interest	—	(2,678)	(856)	(52)	(3,586)
Amount representing unamortized lender fees	—	(686)	—	—	(686)
Present value of payments				445	
Less: current portion	—	(3,653)	(3,294)	(126)	(7,073)
Total long-term debt, net	$ —	$ 14,350	$ 5,982	$ 319	$ 20,651

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 March 31, 2021 was $11,573 and is based on the Company's eligible accounts receivable and inventory, as described in the ABL Credit Agreement. As of March 31, 2021, there were no amounts outstanding under the ABL Credit Facility, $1,232 letters of credit and $10,341 was available to be drawn. We use this facility primarily as a source for working capital needs. 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") as well as unused commitment fees. The applicable margin is 2.00% for LIBOR loans and 1.00% for ABR loans. Substantially all of the U.S. assets of the Company are pledged as collateral under the ABL Credit Facility. The ABL Credit Facility contains various reporting requirements, negative covenants and restrictive provisions and requires maintenance of financial covenants, under certain conditions, including a fixed charge coverage ratio, as defined in the ABL Credit Agreement. There were no borrowings during the three months ended March 31, 2021. As of March 31, 2021 and December 31, 2020, 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. The Oakdale Equipment Financing is legally comprised of an MLA and five lease schedules. The Oakdale Equipment Financing is considered a lease under article 2A of the Uniform Commercial Code but is considered a financing arrangement for accounting and financial reporting purposes. 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%. The Company used the net proceeds to repay in full and terminate the Former Credit Facility, pay transaction costs, and the remainder was used for working capital purposes. The Oakdale Equipment Financing matures on December 13, 2024. As a result of financial relief obtained during the COVID-19 pandemic in 2020, a portion of the Oakdale Equipment Financing matures on March 31, 2025. The Company has the right to prepay the financing and reacquire the underlying equipment on a lease schedule-by-lease schedule basis during the period commencing on the seventh month of the term and continuing until the 54th month of the term at a percentage of the purchase price of the relevant equipment, and at the end of the term at the fair market value of the equipment. The Oakdale Equipment Financing contains affirmative and restrictive covenants customary for transactions of this type.

Notes Payable

(IN THOUSANDS, EXCEPT PER SHARE DATA)

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. In June 2020, the Company executed a note payable to defer certain near-term minimum royalty payments. All notes payable bear interest at rates between 4.00% and 7.49%.

Acquisition Liquidity Support Facility

In connection with the Company's acquisition of Eagle Proppants Holdings, the Company, as borrower, also entered into a Loan Agreement with Eagle, as lender, secured by certain property rights and assets of the acquired business, whereby the Company may draw loans in an aggregate amount up to $5,000 during the twelve month period ending September 18, 2021. Beginning with the calendar quarter ending December 31, 2021, any amounts borrowed will amortize over the following three years. The facility bears interest at a fixed rate of 6.00% until September 18, 2021 and will bear interest at a fixed rate of 8.00% thereafter until all outstanding borrowings have been paid in full. There were no borrowings outstanding under this facility as of March 31, 2021.

NOTE 8 — Leases

Lessee

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

	Balance Sheet Location	March 31, 2021	December 31, 2020
Right-of-use assets			
Operating	Operating right-of-use assets	$ 29,697	$ 32,099
Financing	Property, plant and equipment, net	333	373
Total right-of use assets		$ 30,030	$ 32,472
Lease liabilities			
Operating	Operating lease liabilities, current and long-term portions	$ 32,560	$ 34,097
Financing	Long-term debt, current and long-term portions	445	474
Total lease liabilities		$ 33,005	$ 34,571

Operating lease costs are recorded as a single expense on the income statement and allocated to the right-of-use assets and the related lease liabilities as depreciation expense and interest expense, respectively. Lease cost recognized in the consolidated income statement for the three months ended March 31, 2021 and 2020 was as follows:

	Three Months Ended March 31,	
	2021	2020
Finance lease cost		
Amortization of right-of-use assets	$ 35	$ 34
Interest on lease liabilities	8	10
Operating lease cost	2,887	3,990
Short-term lease cost	—	170
Total lease cost	$ 2,930	$ 4,204

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Other information related to the Company's leasing activity for the three months ended March 31, 2021 and 2020 is as follows:

	Three months ended March 31, 2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows used for finance leases	$ 8	$ 10
Operating cash flows used for operating leases	$ 2,078	$ 4,086
Financing cash flows used for finance leases	$ 30	$ 28
Right-of-use assets obtained in exchange for new finance lease liabilities	$ —	$ —
Right-of-use assets obtained in exchange for new operating lease liabilities	$ —	$ 614
Weighted average remaining lease term - finance leases	2.4 years	3.4 years
Weighted average discount rate - finance leases	6.60 %	6.60 %
Weighted average remaining lease term - operating leases	3.7 years	2.4 years
Weighted average discount rate - operating leases	5.78 %	5.51 %

Maturities of the Company's lease liabilities as of March 31, 2021 are as follows:

	Operating Leases	Finance Leases	Total
Remainder of 2021	$ 6,816	$ 114	$ 6,930
2022	8,753	138	8,891
2023	7,858	245	8,103
2024	6,499	—	6,499
2025	3,173	—	3,173
Thereafter	4,000	—	4,000
Total cash lease payments	37,099	497	37,596
Less: amounts representing interest	(4,539)	(52)	(4,591)
Total lease liabilities	$ 32,560	$ 445	$ 33,005

NOTE 9 — Asset Retirement Obligation

The Company had a post-closure reclamation and site restoration obligation of $15,925 as of March 31, 2021. The following is a reconciliation of the total reclamation liability for asset retirement obligations.

Balance at December 31, 2020	$ 14,996
Additions	737
Accretion expense	192
Balance at March 31, 2021	$ 15,925

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 10 — Contingent Consideration

The Company recorded contingent consideration of $9,200 at June 1, 2018, related to its acquisition of its SmartSystems business. The Company has no intentions to produce silos or related equipment for the remainder of the earnout period, which ends in June 2021. All contingent consideration amounts due are fully paid.

NOTE 11 — Revenue

Disaggregation of Revenue

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

	Three Months Ended March 31,			
	2021		2020	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
Sand sales revenue	$ 23,147	84 %	$ 30,008	63 %
Shortfall revenue	1,741	6 %	1,307	3 %
Logistics revenue	2,562	9 %	16,173	34 %
Total revenues	$ 27,450	100 %	$ 47,488	100 %

The Company recorded $10,357 of deferred revenue on the balance sheet on December 31, 2020, of which $4,187 has been recognized in the three months ended March 31, 2021. Of the remaining amount, the Company expects to recognize $2,688 through December 31, 2021 and the remainder through 2023.

NOTE 12 — Earnings Per Share

Basic net loss per share of common stock is computed by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of restricted stock. Diluted net loss per share of common stock is computed by dividing the net loss attributable to common stockholders by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of restricted stock outstanding during the period calculated in accordance with the treasury stock method, although restricted stock is excluded if their effect is anti-dilutive. Because the impact of these items is anti-dilutive during periods of net loss, there was no difference between basic and diluted net loss per share of common stock for the three months ended March 31, 2021 and 2020.

NOTE 13 — 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 Board 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. The awards can be issued in the form of incentive stock options, non-qualified stock options or restricted stock.

During the three months ended March 31, 2021 and 2020, 14 and 0 shares of restricted stock were issued under the Plans, respectively. The grant date fair value per share of all the outstanding restricted stock was $2.44 - $8.91. 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 income statements, $678 and $1,025 of compensation expense for the restricted stock during the three months ended March 31, 2021 and 2020, respectively. There is no impact to the cash flows of the Company related to stock-based compensation expense. At March 31, 2021, the Company had unrecognized compensation expense of $3,039 related to granted but unvested stock awards, which is to be recognized as follows:

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Remainder of 2021	$	1,640
2022		868
2023		518
2024		11
2025		2
Total	$	3,039

The following table summarizes restricted stock activity under the Plans from December 31, 2020 through March 31, 2021:

	Number of Shares		Weighted Average
Unvested, December 31, 2020	1,886	$	5.14
Granted	14	$	3.07
Vested	(158)	$	9.73
Forfeited	(112)	$	6.58
Unvested, March 31, 2021	1,630	$	3.73

Employee Stock Purchase Plan

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

NOTE 14 — Income Taxes

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

For the three months ended March 31, 2021 and 2020, the effective tax rate was approximately 65.7% and 203.7%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. For the three months ended March 31, 2021 and 2020, 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.

NOTE 15 — Concentrations

As of March 31, 2021 and December 31, 2020, 82% and 78%, respectively, of the Company’s total accounts receivable balance was subject to litigation.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

During the three months ended March 31, 2021, 74% of the Company's revenues were earned from three customers. During the three months ended March 31, 2020, 79% of the Company's revenues were earned from four customers.

As of March 31, 2021, one vendor accounted for 27% of the Company's accounts payable. As of December 31, 2020, three vendors accounted for 42% of the Company's accounts payable.

During the three months ended March 31, 2021, two suppliers accounted for 49% of the Company's cost of goods sold. During the three months ended March 31, 2020, two suppliers accounted for 64% of the Company's cost of goods sold.

The Company's primary product is Northern White frac 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 this geographic area.

NOTE 16 — Commitments and Contingencies

Future Minimum Commitments

The Company is obligated under certain contracts for minimum payments for the right to use land for extractive activities, which is not within the scope of leases under ASC 842. Future minimum annual commitments under such contracts at March 31, 2021 are as follows:

Remainder of 2021	$	1,746
2022		2,467
2023		2,573
2024		2,469
2025		2,462
Thereafter		26,886
Total	$	38,603

Litigation

In addition to the matters described below, we may be subject to various legal proceedings, claims and governmental inspections, audits or investigations arising out of 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.

U.S. Well Services, LLC

On January 14, 2019, Smart Sand, Inc. (plaintiff) filed suit against U.S. Well Services, LLC (defendant) in the Superior Court of the State of Delaware in and for New Castle County (C.A. No. N19C-01-144-PRW [CCLD]). In the suit, plaintiff alleges that defendant is in breach of contract for failure to pay amounts due and payable under a long-term take-or-pay Master Product Purchase Agreement and coterminous Railcar Usage Agreement and is seeking unspecified monetary damages and other appropriate relief. Defendant filed an Answer, Affirmative Defenses and Amended Counterclaim but is no longer pursuing any counterclaims. Discovery was completed in the fall of 2020 and the trial took place in December 2020. The post-trial briefing has been completed and the parties are awaiting the Court's decision. At this time, the Company is unable to express an opinion as to the likely outcome of the matter.

The Company recorded $0 and $2,378 of revenue for the three months ended March 31, 2021 and 2020, respectively, related to U.S. Well. As of March 31, 2021 and December 31, 2020, $54,592 of accounts receivables is attributable to U.S. Well. Amounts recorded as accounts receivable do not represent the full amounts sought in this lawsuit.

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 March 31, 2021 was $9,478.

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, 2020 contained in our Annual Report on Form 10-K. We use EBITDA, Adjusted EBITDA, contribution margin and free cash flow herein as non-GAAP measures of our financial performance. For further discussion of EBITDA, Adjusted EBITDA, contribution margin and free cash flow, see the section entitled "Non-GAAP Financial Measures." We define various terms to simplify the presentation of information in this Report. All share amounts are presented in thousands.

Forward-Looking Statements

This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors, including those discussed herein and in the section entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2020. Our estimates and forward-looking statements are primarily based on our current expectations and estimates of future events and trends, which affect or may affect our business and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Important factors, in addition to the factors described in this quarterly report, may adversely affect our results as indicated in forward-looking statements. You should read this quarterly report and the documents that we have filed as exhibits hereto completely and with the understanding that our actual future results may be materially different from what we expect. The words "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential," "might," "would," "continue" or the negative of these terms or other comparable terminology and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update, to revise or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this quarterly report might not occur and our future results, level of activity, performance or achievements may differ materially from those expressed in these forward-looking statements due to, including, but not limited to, the factors mentioned above, and the differences may be material and adverse. Because of these uncertainties, you should not place undue reliance on these forward-looking statements.

Overview

The Company

We are a fully integrated frac sand supply and services company, offering complete mine to wellsite proppant supply and logistics solutions to our customers. We produce low-cost, high quality Northern White frac sand, which is a premium proppant used to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells. We also offer proppant logistics solutions to our customers through our in-basin transloading terminal and our SmartSystems™ wellsite proppant storage capabilities. We market our products and services, as one operating segment, primarily to oil and natural gas exploration and production companies and oilfield service companies. We sell our sand under a combination of contract and spot sales in the open market, and 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 proppant storage silos, SmartPath™ transloader, and the industry experience of our senior management team make us as a highly attractive provider of frac sand and proppant logistics services from the mine to the wellsite.

We incorporated in Delaware in July 2011 and began operations with 1.1 million tons of annual nameplate processing capacity in July 2012. After several expansions and an acquisition, our current operational annual processing capacity is approximately 7.1 million tons of frac sand. Our mine and related processing facility near Oakdale, Wisconsin, at which we have approximately 315 million tons of proven recoverable sand reserves as of December 31, 2020, has approximately 5.5 million tons of annual processing capacity. This integrated facility, with on-site rail infrastructure and wet and dry sand processing facilities, has onsite access to the Canadian Pacific Class I rail line and access to the Union Pacific Class I rail line through the Byron, Wisconsin transload facility located nearby. Our mine and processing facility in Utica, Illinois, which was recently acquired in our acquisition of Eagle Oil and Gas Proppants Holdings LLC (“Eagle Proppants Holdings”), has approximately 130 million tons of proven and probable sand reserves as of December 31, 2020, and has approximately 1.6 million tons of annual processing capacity. This facility has access to the BNSF Class I rail line through the Peru, Illinois transload facility located nearby. We began operating the Utica, Illinois mine and Peru, Illinois transload facility in October 2020.

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. We provide Northern White sand in-basin at this terminal, which allows us to offer more efficient delivery options to customers operating in the Bakken Formation in the Williston Basin.

We also offer to our customers portable wellsite proppant 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.

Business Combination

On September 18, 2020, we acquired from Eagle Materials Inc., a Delaware corporation (“Eagle”), all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, a Delaware limited liability company and wholly-owned subsidiary of Eagle (“Eagle Proppants Holdings”), for aggregate consideration of approximately $2.1 million.The estimated aggregate fair value of the net assets acquired was $41.7 million, which exceeded the total consideration and resulted in a bargain purchase gain of $39.6 million on the acquisition date.

The Utica, Illinois mining and processing assets were idle at the date of acquisition; we started mining and selling sand out of this location in the fourth quarter of 2020.

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.

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

During most of 2020, demand for frac sand declined significantly as a result of decreased demand for oil 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 the first quarter of 2021 as the global distribution of the COVID-19 vaccine ramped up and travel restrictions lessened. Until there is a full reopening of the global economy, oil and natural gas prices could continue to be volatile, and we cannot predict when prices will stabilize.

Our customers have trended toward purchasing their frac sand supply in the spot market at market prices rather than through long-term contracts as a result of the increased supply of sand and their continued focus on maintaining positive free cash flow.

Northern White frac 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 frac sand. In particular, we believe that Northern White frac sand has logistical advantages in the Marcellus, Bakken, and western basins of Colorado and Wyoming. 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 the development of North America’s unconventional oil and natural gas reservoirs, as well as the length of drilling laterals, will continue to grow and increased proppant usage per well trends will continue, particularly with respect to finer 100 mesh and 40/70 mesh sizes. Finally, we believe that the adoption of our SmartSystems in the marketplace, which has a smaller footprint on customer sites than other solutions, will allow us to sell more sand when packaged with our last mile solutions.

GAAP Results of Operations

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

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

	Three Months Ended March 31,		Change	
	2021	2020	Dollars	Percentage
	(in thousands)			
Revenues:				
Sand sales revenue	23,147	30,008	(6,861)	(23)%
Shortfall revenue	1,741	1,307	434	33 %
Logistics revenue	2,562	16,173	(13,611)	(84)%
Total revenue	27,450	47,488	(20,038)	(42)%
Cost of goods sold	32,427	41,089	(8,662)	(21)%
Gross profit	(4,977)	6,399	(11,376)	(178)%
Operating expenses:				
Salaries, benefits and payroll taxes	2,375	2,902	(527)	(18)%
Depreciation and amortization	561	453	108	24 %
Selling, general and administrative	3,154	3,530	(376)	(11)%
Change in the estimated fair value of contingent consideration	—	(1,020)	1,020	(100)%
Total operating expenses	6,090	5,865	225	4 %
Operating income	(11,067)	534	(11,601)	(2,172)%
Other income (expenses):				
Interest expense, net	(547)	(472)	(75)	16 %
Other income	198	19	179	942 %
Total other expenses, net	(349)	(453)	104	(23)%
(Loss) income before income tax (benefit) expense	(11,416)	81	(11,497)	(14,194)%
Income tax (benefit) expense	(7,504)	165	(7,669)	(4,648)%
Net loss	$ (3,912)	$ (84)	$ (3,828)	4,557 %

Revenues

Revenues were $27.5 million for the three months ended March 31, 2021, during which time we sold approximately 760,000 tons of sand. Revenues for the three months ended March 31, 2020 were $47.5 million, during which time we sold approximately 757,000 tons of sand. The key factors contributing to the decrease in revenues for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 were as follows:

- Sand sales revenue decreased from $30.0 million for the three months ended March 31, 2020 to $23.1 million for the three months ended March 31, 2021 as a result of a lower average sales price of our sand.

- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services, and SmartSystems rentals, was approximately $2.6 million for the three months ended March 31, 2021 compared to $16.2 million for the three months ended March 31, 2020. The decrease in logistics revenue was due to the shift of sales to more in-basin shipments, which includes transportation and any other handling services, rather than mine gate shipments.

- We had $1.7 million of contractual shortfall revenue for the three months ended March 31, 2021 compared to $1.3 million of contractual shortfall revenue for the three months ended March 31, 2020. 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.

Cost of Goods Sold

Cost of goods sold was $32.4 million and $41.1 million for the three months ended March 31, 2021 and March 31, 2020, respectively. Railcar rental expense decreased by $1.3 million for the three months ended March 31, 2021 compared to March 31, 2020 as a result of contract renegotiations. Freight expense decreased by $7.9 million for the three months ended March 31, 2021 compared to March 31, 2020 as a result of pricing improvements and shifts to in-basin deliveries.

Gross Profit

Gross profit was $(5.0) million and $6.4 million for the three months ended March 31, 2021 and March 31, 2020, respectively. The decrease in gross profit for the three months ended March 31, 2021 was primarily due to lower average sales price of our sand recognized on similar tons sold and lower logistics revenues as our sales shifted to more in-basin shipments.

Operating Expenses

Operating expenses were $6.1 million and $5.9 million for the three months ended March 31, 2021 and March 31, 2020, respectively. Salaries, benefits and payroll taxes were reduced to $2.4 million for the three months ended March 31, 2021 as compared to $2.9 million for the three months ended March 31, 2020. Depreciation and amortization increased from $0.5 million for the three months ended March 31, 2020 to $0.6 million for the three months ended March 31, 2021. Selling, general and administrative expenses were $3.2 million for the three months ended March 31, 2021 compared to $3.5 million for the three months ended March 31, 2020. The three months ended March 31, 2020 included $1.0 million gain on contingent consideration as well as $0.3 million additional legal costs related to ongoing litigation.

Interest Expense

We incurred $0.5 million of net interest expense for each of the three months ended March 31, 2021 and March 31, 2020.

Income Tax (Benefit) Expense

For the three months ended March 31, 2021 and March 31, 2020, our effective tax rate was approximately 65.7% and 203.7%, 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.

Net Loss

Net loss was $(3.9) million and $(0.1) million for the three months ended March 31, 2021 and 2020, respectively. The increase in net loss for the three months ended March 31, 2021 as compared to net loss for the same period in the prior year was primarily due to lower average sale prices of our sand recognized on similar tons sold and lower logistics revenues as our sales shifted to more in-basin shipments.

Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA, contribution margin 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. Net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA, gross profit is the GAAP measure most directly comparable to contribution margin 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 EBITDA, Adjusted EBITDA, contribution margin or free cash flow in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA, Adjusted EBITDA, contribution margin 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 also use contribution margin, which we define as total revenues less costs of goods sold excluding depreciation, depletion and accretion of asset retirement obligations, to measure our financial and operating performance. Contribution margin excludes other operating expenses and income, including costs not directly associated with the operations of our business such as accounting, human resources, information technology, legal, sales and other administrative activities.

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

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

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Revenue	$ 27,450	$ 47,488
Cost of goods sold	32,427	41,089
Gross profit	(4,977)	6,399
Depreciation, depletion, and accretion of asset retirement obligations	6,013	5,109
Contribution margin	$ 1,036	$ 11,508
Contribution margin per ton	$ 1.36	$ 15.20
Total tons sold	760	757

Contribution margin was $1.0 million and $11.5 million, or $1.36 and $15.20 per ton sold, for the three months ended March 31, 2021 and 2020, respectively. The decrease in overall contribution margin and contribution margin per ton was due primarily to lower average sale prices of our sand recognized in the current period on similar volume levels and lower logistics revenues as our sales shifted to more in-basin shipments.

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 income for each of the periods indicated.

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Net loss	$ (3,912)	$ (84)
Depreciation, depletion and amortization	6,460	5,487
Income tax (benefit) expense	(7,504)	165
Interest expense	555	480
Franchise taxes	98	56
EBITDA	$ (4,303)	$ 6,104
Loss on sale of fixed assets	2	—
Equity compensation (1)	685	926
Acquisition and development costs (2)	23	(822)
Cash charges related to restructuring and retention of employees	—	82
Accretion of asset retirement obligations	114	75
Adjusted EBITDA	$ (3,479)	$ 6,365

(1) Represents the non-cash expenses for stock-based awards issued to our employees and employee stock purchase plan compensation expense.
(2) The three months ended March 31, 2021 includes acquisition and development costs of $23. The three month ended March 31, 2020 includes $1,020 fair value adjustment of contingent consideration.

Adjusted EBITDA was $(3.5) million for the three months ended March 31, 2021 compared to $6.4 million for the three months ended March 31, 2020. The decrease in Adjusted EBITDA for the three months ended March 31, 2021, as compared to the corresponding period in the prior year, was primarily due to lower average sale prices of our sand recognized in the current period on similar volume levels and lower logistics revenues as our sales shifted to more in-basin shipments.

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, thereby diminishing its utility. The following table presents a reconciliation of contribution margin to gross profit.

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Net cash provided by operating activities	$ 3,914	$ 12,061
Purchases of property, plant and equipment	(2,213)	(4,185)
Free cash flow	$ 1,701	$ 7,876

Free cash flow was $1.7 million for the three months ended March 31, 2021 compared to $7.9 million for the three months ended March 31, 2020. The decrease in free cash flow was attributable to lower average sale prices of our sand recognized in the three months ended March 31, 2021 compared to the three months ended March 31, 2020. This decrease was offset by our reduced capital budget for 2021 compared to our initial 2020 capital expenditure budget to align with our focus of maintaining positive free cash flow.

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 March 31, 2021, cash on hand was $11.4 million and we had $10.3 million in undrawn availability on our ABL Credit Facility and $5.0 million in undrawn availability on the Acquisition Liquidity Support Facility.

Based on our balance sheet, cash flows, current market conditions, including the COVID-19 pandemic, 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, including continued investment in our SmartSystems wellsite proppant storage solutions and other capital projects.

Working Capital

Working capital is a measure of our ability to pay our liabilities as they become due. The following table presents the components of our working capital as of March 31, 2021 compared to December 31, 2020.

	March 31, 2021	December 31, 2020
	(in thousands)	
Total current assets	$ 106,796	$ 112,086
Total current liabilities	37,258	37,263
Working capital	$ 69,538	$ 74,823

Our working capital was $69.5 million at March 31, 2021 compared to $74.8 million at December 31, 2020. The decrease in working capital was primarily due to reduced cash collections from the lower average selling prices and reduced inventory levels related to the increased sales volume activity in the quarter. As of March 31, 2021 and December 31, 2020, $54.6 million of accounts receivable is attributable to a customer with which we have pending litigation.

Summary Cash Flows for the Three Months Ended March 31, 2021 and March 31, 2020:

	Three Months Ended March 31, 2021	2020
	(in thousands)	
Net cash provided by operating activities	$ 3,914	$ 12,061
Net cash used in investing activities	$ (2,215)	$ (4,185)
Net cash (used in) provided by financing activities	$ (2,007)	$ 1,008

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $3.9 million for the three months ended March 31, 2021, which included net loss of $(3.9) million, net non-cash items of $(0.4) million, and a decrease of $8.2 million in operating assets and liabilities.

Net cash provided by operating activities was $12.1 million for the three months ended March 31, 2020, which included net loss of $(0.1) million, non-cash expenses of $6.9 million, and $5.2 million in changes in operating assets and liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities was $2.2 million for the three months ended March 31, 2021, which was primarily for manufacturing of our SmartSystems equipment.

Net cash used in investing activities was $4.2 million for the three months ended March 31, 2020, which was primarily for manufacturing of our SmartSystems equipment.

Net Cash (Used in) Provided By Financing Activities

Net cash used in financing activities was $2.0 million for the three months ended March 31, 2021, which consisted primarily of $1.7 million of net repayment for notes payable and finance leases, $0.1 million of share repurchases, and $0.2 million of payments of contingent consideration related to the manufacture of our SmartSystems equipment.

Net cash provided by financing activities was $1.0 million for the three months ended March 31, 2020, which consisted primarily of $3.5 million of net borrowings on our ABL Credit Facility, partially offset by $0.3 million of payments of contingent consideration related to the manufacture of our SmartSystems equipment, $1.2 million of repayments on notes payable and $1.0 million of share repurchases.

Indebtedness

The follow summarizes the maturity of our debt:

	ABL Credit Facility	Oakdale Equipment Financing	Notes Payable	Finance Leases	Total
			(in thousands)		
Remainder of 2021	$ —	$ 3,479	$ 2,788	$ 114	$ 6,381
2022	—	4,638	3,599	138	$ 8,375
2023	—	4,638	2,396	245	$ 7,279
2024	—	6,888	807	—	$ 7,695
2025	—	1,724	187	—	$ 1,911
2026 and thereafter	—	—	355	—	355
Total minimum payments	—	21,367	10,132	497	31,996

ABL Credit Facility

On December 13, 2019, we entered into a $20.0 million five-year senior secured asset-based credit facility with Jefferies Finance LLC. The available borrowing amount under the ABL Credit Facility is based upon our eligible accounts receivable and inventory. The ABL Credit Facility contains various reporting requirements, negative covenants and restrictive provisions and requires maintenance of specified financial covenants under certain conditions, including a fixed charge coverage ratio, as defined in the ABL Credit Agreement. As of March 31, 2021, the Company was in compliance with all covenants under the ABL Credit Facility. The available borrowing amount under the ABL Credit Facility as of March 31, 2021 was $11.6 million and is based on our eligible accounts receivable and inventory. As of March 31, 2021, there were no amounts outstanding under the ABL Credit Facility, $1.2 million letters of credit and $10.3 million was available to be drawn. We use this facility primarily as a source for working capital needs. There were no borrowings during the three months ended March 31, 2021.

Oakdale Equipment Financing

On December 13, 2019, we entered into an equipment financing arrangement with Nexseer, secured by substantially all of the assets at our Oakdale facility. We received $23.0 million of net proceeds, of which we used $19.3 million to repay in full and terminate our Former Credit Facility, $3.0 million for general working capital purposes and $0.7 million to pay transaction fees associated with the debt refinancing. The Oakdale Equipment Financing amortizes over 5 years and bears interest at 5.79%. A majority of the Oakdale Equipment Financing will mature on December 13, 2024 and the remaining portion will mature on March 31, 2025 due to financial relief provided as a result of the COVID-19 pandemic in 2020.

Notes Payable

We have entered into various financing arrangements secured primarily by our manufactured SmartSystems equipment. Title to the equipment is held by the financial institutions as collateral, though the equipment is included in the Company’s property plant and equipment. In June 2020, we executed a note payable to defer certain near-term minimum royalty payments. All notes payable bear interest at rates between 4.00% and 7.49%.

Acquisition Liquidity Support Facility

In connection our acquisition of Eagle Proppants Holdings, the Company, as borrower, also entered into a Loan Agreement with Eagle, as lender, secured by certain property rights and assets of the acquired business, whereby the Company may draw loans in an aggregate amount up to $5.0 million during the twelve month period ending September 18, 2021. Beginning with the calendar quarter ending December 31, 2021, any amounts outstanding will amortize over the following three years. The facility bears interest at 6.00% during the draw period and 8.00% during the repayment period. There were no borrowings outstanding on this facility as of March 31, 2021.

Capital Requirements

We expect full year 2021 capital expenditures to be between $10 million and $15 million, which we anticipate will primarily support incremental growth in our SmartSystems products and services and maintenance and efficiency improvements at our mining facilities. These expenditures exclude any potential acquisitions. 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 Acquisition Liquidity Support Facility. For the three months ended March 31, 2021, we spent approximately $2.2 million on capital expenditures.

Off-Balance Sheet Arrangements

We had outstanding performance bonds of $9.5 million and $10.0 million at March 31, 2021 and December 31, 2020, respectively.

Contractual Obligations

As of March 31, 2021, we had contractual obligations for the ABL Credit Facility, Oakdale Equipment Financing, notes payable, Acquisition Liquidity Support Facility, 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 three months ended March 31, 2021, revenue from Rice Energy (a subsidiary of EQT Corporation), Halliburton Energy Services, and Calfrac accounted for 35.1%, 25.5%, and 13.7%, respectively, of total revenue. For the three months ended March 31, 2020, sales to Liberty, Rice Energy (a subsidiary of EQT Corporation), Calfrac, and Schlumberger accounted for 25.4%, 22.1%, 18.2%, and 12.9%, respectively, of total revenue.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and procedures during the three months ended March 31, 2021.

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; existing sand reserves and their impact on calculating the depletion expense under the units-of-production method; depreciation and amortization associated with property, plant and equipment and definite-lived intangible assets, impairment considerations of assets (including impairment of identified intangible assets and other long-lived assets); estimated cost of future asset retirement obligations; fair values of acquired assets and assumed liabilities; stock-based compensation; recoverability of deferred tax assets; inventory reserve; 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 COVID-19 pandemic has caused a significant amount of volatility in the oilfield services sector during the last year. We continue to actively monitor the global impact of the COVID-19 vaccine rollout and the lessening of travel and other restrictions, but given the changing nature of these events, we are currently unable to estimate the impact of these events on our future financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have considered changes in our exposure to market risks during the three months ended March 31, 2021 and have determined that there have been no material changes to our exposure to market risks from those described in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on March 3, 2021.

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 March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be involved in litigation relating to claims arising out of our operations in the normal course of business. The disclosure called for by Part II, Item 1 regarding our legal proceedings is incorporated by reference herein from Part I, Item 1. Note 16 - Commitments and Contingencies - Litigation of the notes to the condensed consolidated financial statements in this Form 10-Q for the three months ended March 31, 2021.

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, 2020.

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

During the three months ended March 31, 2021, 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 ("OSHA") which has promulgated rules for workplace exposure to respirable silica for several other industries. Respirable silica is a known health hazard for workers exposed over long periods. MSHA is expected to adopt similar rules as part of its "Long Term Items" for rulemaking. Airborne respirable silica is associated with work areas at our site and is monitored closely through routine testing and MSHA inspection. If the workplace exposure limit is lowered significantly, we may be required to incur certain capital expenditures for equipment to reduce this exposure. We also adhere to NISA's respiratory protection program, and ensures that workers are provided with fitted respirators and ongoing radiological monitoring.

Our operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment, and other matters. Our failure to comply with such standards, or changes in such standards or the interpretation or enforcement thereof, could have a material adverse effect on our business and financial condition or otherwise impose significant restrictions on our ability to conduct mineral extraction and processing operations. Following passage of The Mine Improvement and New Emergency Response Act of 2006, MSHA significantly increased the numbers of citations and orders charged against mining operations. The dollar penalties assessed for citations issued has also increased in recent years. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Report.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1	Second Amended and Restated Certificate of Incorporation of Smart Sand, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016)
3.2	Second Amended and Restated Bylaws of Smart Sand, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016)
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 Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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.

May 4, 2021	By:	/s/ Charles E. Young
		Charles E. Young, Chief Executive Officer
		(Principal Executive Officer)

Smart Sand, Inc.

May 4, 2021	By:	/s/ Lee E. Beckelman
		Lee E. Beckelman, Chief Financial Officer
		(Principal Financial Officer)

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: May 4, 2021

/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: May 4, 2021

/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 March 31, 2021 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: May 4, 2021

/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 March 31, 2021 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: May 4, 2021

/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 March 31, 2021:

Mine (1)	**Oakdale, WI 4703625**	**Barron, WI 4703646**	**Barron, WI 4703740**	**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)	$125	$—	$—	$—
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 (#)	—	—	—	—
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 March 31, 2021, for all citations / orders assessed, not just those disclosed in the rows preceding such dollar value.