As filed with the Securities and Exchange Commission on July 20, 2023

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
Under
The Securities Act of 1933

DRILLING TOOLS INTERNATIONAL CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	1389	87-2488708
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

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Houston, Texas 77042
Telephone: (832) 742-8500
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

R. Wayne Prejean
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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or re-vised financial accounting standards provided to Section 7(a)(2)(B) of the Securities Act. ☐

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. The Selling Stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

SUBJECT TO COMPLETION, DATED JULY 20, 2023

PRELIMINARY PROSPECTUS

DRILLING TOOLS INTERNATIONAL CORPORATION

Up to 26,990,264 Shares of Common Stock Offered by the Selling Stockholders

This prospectus relates to the offer and sale, from time to time, by the selling stockholders named in this prospectus, or any of their pledgees, donees, assignees and successors-in-interest ("permitted transferees" and, collectively with such selling stockholders, the "Selling Stockholders"), of up to an aggregate of (i) 2,560,396 shares of common stock of Drilling Tools International Corporation, par value $0.0001 per share ("Common Stock"), issued to ROC Energy Holdings, LLC in connection with the PIPE Financing (as defined herein) at a purchase price of $10.10 per share, (ii) 409,901 shares of Common Stock issued to FP SPAC 2, LLC in connection with the FP SPAC Note Conversion (as defined herein) at a purchase price of $10.10 per share, (iii) 2,427,500 Founder Shares (as defined herein), which were issued to ROC Energy Holdings, LLC ("ROC Holdings") at a purchase price of $0.006 per share, (iv) 2,042,181 shares of Common Stock issued to certain Selling Stockholders pursuant to the Exchange Agreements (as defined herein), which were issued to the Exchangors (as defined herein) in lieu of an aggregate of $10,804,618 that would have otherwise been payable to them as consideration under the Merger Agreement (as defined herein) and at a price of $5.29 per share, (v) 875,600 shares of Common Stock issued to ROC Holdings in exchange for ROC Rights (as defined herein) and shares of ROC Common Stock issued to it in connection with a private placement at a purchase price of $10.00 per share, (vi) 1,761,570 shares of Common Stock issuable upon exercise of certain outstanding Options (as defined herein), having an exercise price of $3.72 per share, held by certain of the Selling Stockholders and (vii) 16,913,116 shares of Common Stock issued in connection with the Business Combination at an implied equity consideration value of $10.10 per share.

This prospectus also covers any additional securities that may become issuable by reason of share splits, share dividends or other similar transactions.

We will not receive any proceeds from the sale of shares of Common Stock by the Selling Stockholders pursuant to this prospectus. However, we will pay the expenses, other than underwriting discounts or selling commissions incurred by the Selling Stockholders in disposing of the securities, associated with the sale of securities pursuant to this prospectus.

We are registering the offer and sale of the securities described above to satisfy certain registration rights we have granted. Our registration of the securities covered by this prospectus does not mean that the Selling Stockholders will offer or sell any of the securities. The Selling Stockholders may offer and sell the securities covered by this prospectus in a number of different ways and at varying prices. Additional information on the Selling Stockholders, and the times and manner in which they may offer and sell the securities under this prospectus, is provided under "*Selling Stockholders*" and "*Plan of Distribution*" in this prospectus.

You should read this prospectus and any prospectus supplement or amendment carefully before you invest in our securities.

The Common Stock is listed on the Nasdaq Capital Market under the symbol "DTI". On July 19, 2023, the closing price of the Common Stock was $4.50 per share.

The shares of Common Stock being offered for resale pursuant to this prospectus by the Selling Stockholders represent the large majority (approximately 85.6%) of the shares of Common Stock outstanding as of July 20, 2023 (assuming the issuance of all 1,761,570 shares of Common Stock subject to Options covered by this prospectus). The sale of all such shares, or the perception that these sales could occur, could result in a significant decline in the public trading price of the shares of Common Stock. Even if the current trading price of the Common Stock is at or significantly below $10.00 per share, the price at which the ROC Units (as defined herein) were issued in the ROC IPO (as defined herein), certain of the Selling Stockholders, including holders of Founder Shares, Exchange Shares (as defined herein) and shares of Common Stock issuable upon exercise of certain outstanding Options, may have an incentive to sell because they will still profit on sales due to the lower price at which they purchased their shares compared to the public stockholders. See "*Risk Factors – Risks Related to Ownership of the Common Stock – Sales of substantial amounts of Common Stock in the public markets, or the perception that such sales could occur, could reduce the price that the Common Stock might otherwise attain. The shares being offered for resale in this prospectus represent a substantial percentage of the outstanding Common Stock, and the sales of such shares, or the perception that these sales could occur, could cause the market price of the Common Stock to decline significantly*." Additionally, certain Selling Stockholders, including holders of Founder Shares, Exchange Shares and shares of Common Stock issuable upon exercise of certain outstanding Options, may experience a positive rate of return on the sale of their shares covered by this prospectus even if the market price per share of Common Stock is below $10.00 per share, while the public stockholders may not experience a similar rate of return on the securities they purchased due to differences in the purchase prices and the current trading price. See "*Risk Factors – Risks Related to Ownership of the Common Stock – Certain Selling Stockholders can earn a positive return on their investment, even if other stockholders experience a negative rate of return on their investment in DTIC*."

We are an "emerging growth company," as that term is defined under the federal securities laws and, as such, are subject to certain reduced public company reporting requirements.

Investing in our securities involves risks that are described in the "*Risk Factors*" section beginning on page 7 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2023.

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INTRODUCTORY NOTE

On June 20, 2023 (the "Closing Date"), Drilling Tools International Holdings, Inc., a Delaware corporation ("DTIH"), ROC Energy Acquisition Corp., a Delaware corporation ("ROC"), and ROC Merger Sub, Inc., a Delaware corporation and a directly, wholly owned subsidiary of ROC ("Merger Sub"), consummated the previously announced business combination pursuant to the Agreement and Plan of Merger, dated February 13, 2023, by and among DTIH, ROC and Merger Sub (the "Initial Merger Agreement"), as amended by the First Amendment to the Agreement and Plan of Merger, dated June 5, 2023 (the "Merger Agreement Amendment," and the Initial Merger Agreement as amended thereby, the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into DTIH, with DTIH surviving the merger as a wholly owned subsidiary of ROC (the "Merger," and together with the other transactions contemplated by the Merger Agreement and the other agreements contemplated thereby, the "Business Combination"). In connection with the consummation of the Business Combination (the "Closing"), ROC changed its name to "Drilling Tools International Corporation" ("DTIC").

In connection with the Closing, and pursuant to the terms of the Merger Agreement: (i) each share of common stock of DTIH ("DTIH Common Stock") issued and outstanding immediately prior to the Closing was converted into the right to receive 0.2282 shares of common stock of DTIC ("Common Stock"), (ii) each share of preferred stock of DTIH ("DTIH Preferred Stock") issued and outstanding immediately prior to the Closing was converted into the right to receive (a) $0.54 per share of cash and (b) 0.3299 shares of Common Stock (the "Conversion"), (iii) each share of common stock of Merger Sub issued and outstanding immediately prior to the Closing was converted into one share of DTIH Common Stock, (iv) each share of DTIH Common Stock and DTIH Preferred Stock held in the treasury of DTIH immediately prior to the Closing was cancelled and no payment or distribution was made in respect thereof, (v) each outstanding unexercised option to purchase shares of DTIH Common Stock was converted into an option to acquire shares of Common Stock ("Options"), (vi) each share of common stock of ROC ("ROC Common Stock") issued and outstanding immediately prior to the Closing and not redeemed in connection with the Redemption remained outstanding and is now a share of Common Stock and (vii) each right to receive one-tenth of a share of Common Stock ("ROC Right") was exchanged for one-tenth of one share of Common Stock.

In connection with the Business Combination, ROC entered into a Subscription Agreement with ROC Energy Holdings, LLC ("ROC Holdings") on March 30, 2023 (the "First ROC Holdings Subscription Agreement"), which was amended on the Closing Date (the "Amendment to the First ROC Holdings Subscription Agreement" and, the First ROC Holdings Subscription Agreement as amended thereby, the "Amended First ROC Holdings Subscription Agreement"). On the Closing Date, ROC and ROC Holdings entered into a second Subscription Agreement (the "Second ROC Holdings Subscription Agreement" and, together with the Amended First ROC Holdings Subscription Agreement, the "ROC Holdings Subscription Agreements"). In connection with the Closing and pursuant to the ROC Holdings Subscription Agreements, ROC issued and sold 2,560,396 shares of ROC Common Stock to ROC Holdings at a purchase price of $10.10 per share for an aggregate purchase price of $25,860,000 (the "PIPE Financing").

In connection with the Business Combination, ROC entered into a Subscription Agreement with FP SPAC 2, LLC ("FP SPAC 2"), an affiliate of ROC Holdings, on March 30, 2023 (the "FP SPAC 2 Subscription Agreement"), which was amended on the Closing Date (the "Amendment to the FP SPAC 2 Subscription Agreement" and, the FP SPAC 2 Subscription Agreement as amended thereby, the "Amended FP SPAC 2 Subscription Agreement"). Pursuant to the Amended FP SPAC 2 Subscription Agreement, FP SPAC 2 agreed to convert two promissory notes issued to it by ROC into 409,901 shares of ROC Common Stock (the "FP SPAC Note Conversion"). The aggregate principal amount of the two promissory notes was $4,140,000, with a purchase price of $10.10 per share.

The PIPE Financing and the FP SPAC Note Conversion were conducted in reliance on the exemption provided in Section 4(a)(2) of the Securities Act ("Section 4(a)(2)"). Pursuant to the ROC Holdings Subscription

Agreements and the Amended FP SPAC 2 Subscription Agreement (collectively, the "Subscription Agreements"), ROC agreed that within thirty days after the Closing Date it would file with the SEC a registration statement to register, in accordance with the provisions of the Securities Act, the resale of the shares issued pursuant to the Subscription Agreements. The PIPE Financing and the FP SPAC Note Conversion were consummated substantially concurrently with the Closing. The proceeds from the PIPE Financing and the FP SPAC Note Conversion were used, in part, to pay fees and expenses incurred in connection with the Business Combination; the remainder of the proceeds were received by DTIC.

On the Closing Date, in connection with the Closing, ROC, ROC Holdings, Merger Sub, DTIH and certain holders of DTIH Preferred Stock (the "Exchangors") entered into separate Exchange Agreements (the "Exchange Agreements"). Pursuant to the Exchange Agreements, DTIC issued to the Exchangors 2,042,181 shares of Common Stock (the "Exchange Shares"), in lieu of an aggregate of $10,804,618 that would have otherwise been payable to the Exchangors as consideration under the Merger Agreement. In support of the transactions contemplated by the Exchange Agreements, ROC Holdings forfeited 972,416 shares of ROC Common Stock without any consideration at the Closing. On the Closing Date, the Exchange Shares were issued to the Exchangors in reliance on the exemption provided in Section 4(a)(2).

As of the effective time of the Merger, each then-outstanding unexercised option to purchase shares of DTIH Common Stock ("DTIH Option") was assumed by DTIC and was converted into an Option in accordance with the Merger Agreement. Each such Option as so assumed and converted was for that number of shares of Common Stock determined by multiplying the number of shares of the Common Stock subject to such DTIH Option immediately prior to the effective time of the Merger by 0.2282 and rounded down to the nearest whole number of shares, at a per share exercise price determined by dividing the per share exercise price of such DTIH Option immediately prior to the effective time of the Merger by 0.2282 and rounded up to the nearest whole cent. Each such Option is subject to the 2023 Plan (as defined herein) and to the same terms and conditions, including, without limitation, vesting conditions, as had applied to the corresponding DTIH Option, except for such terms rendered inoperative by reason of the Business Combination.

FREQUENTLY USED TERMS

Unless the context otherwise requires, as used in this prospectus:

- “2023 Plan” means the 2023 Omnibus Incentive Plan;
- “Amended First ROC Holdings Subscription Agreement” has the meaning ascribed to it in “*Introductory Note*;”
- “Amended FP SPAC 2 Subscription Agreement” has the meaning ascribed to it in “*Introductory Note*;”
- “Amendment to the First ROC Holdings Subscription Agreement” has the meaning ascribed to it in “*Introductory Note*;”
- “ASC” means Accounting Standards Codification,
- “Board” means the board of directors of DTIC;
- “Business Combination” has the meaning ascribed to it in “*Introductory Note*;”
- “Bylaws” means the Amended and Restated Bylaws of DTIC;
- “Certificate of Incorporation” is the Second Amended and Restated Certificate of Incorporation of DTIC;
- “Closing” has the meaning ascribed to it in “*Introductory Note*;”
- “Closing Date” has the meaning ascribed to it in “*Introductory Note*;”
- “Code” means Internal Revenue Code of 1986, as amended;
- “Common Stock” has the meaning ascribed to it in “*Introductory Note*;”
- “COMPASS” means DTI’s Customer Order Management Portal and Support System;
- “Conversion” has the meaning ascribed to it in “*Introductory Note*;”
- “Credit Facility Agreement” means the Amended and Restated Revolving Credit, Security and Guaranty Agreement among Drilling Tools International, Inc., certain of its subsidiaries, DTIC and PNC Bank, National Association, dated as of the Closing Date;
- “DGCL” means the General Corporation Law of the State of Delaware;
- “DTI” means DTIC and its consolidated subsidiaries;
- “DTIC” has the meaning ascribed to it in “*Introductory Note*;”
- “DTIH” has the meaning ascribed to it in “*Introductory Note*;”
- “DTIH Common Stock” has the meaning ascribed to it in “*Introductory Note*;”
- “DTIH Preferred Stock” has the meaning ascribed to it in “*Introductory Note*;”
- “DTR” means DTI’s Directional Tools Rentals Division;
- “E&P” means exploration and production;
- “Exchange Act” means the Securities Exchange Act of 1934, as amended;
- “Exchange Agreements” has the meaning ascribed to it in “*Introductory Note*;”
- “Exchange Shares” has the meaning ascribed to it in “*Introductory Note*;”
- “Exchangors” has the meaning ascribed to it in “*Introductory Note*;”
- “First ROC Holdings Subscription Agreement” has the meaning ascribed to it in “*Introductory Note*;”

- “Founder Shares” means the 5,175,000 shares of ROC Common Stock issued to ROC’s officers, directors or sponsor prior to the ROC IPO;
- “FP SPAC 2” has the meaning ascribed to it in “*Introductory Note*;”
- “FP SPAC 2 Subscription Agreement” has the meaning ascribed to it in “*Introductory Note*;”
- “FP SPAC Note Conversion” has the meaning ascribed to it in “*Introductory Note*;”
- “GOM” means U.S. Gulf of Mexico;
- “HHEP” means HHEP-Directional, L.P.;
- “HM” means Hicks, Muse, Tate, and Furst, Inc.;
- “Initial Merger Agreement” has the meaning ascribed to it in “*Introductory Note*;”
- “IRS” means the Internal Revenue Service;
- “IT” means information technology;
- “JOBS Act” means the Jumpstart Our Business Startups Act of 2012;
- “Legacy DTI” means DTIH and its consolidated subsidiaries prior to the Closing;
- “Lock-Up Agreements” means the lock-up agreement between DTIC and Michael W. Domino, Jr. dated as of the Closing Date, the lock-up agreement between DTIC and HHEP dated as of the Closing Date and the lock-up agreement between DTIC and RobJon dated as of the Closing Date;
- “Merger Agreement” has the meaning ascribed to it in “*Introductory Note*;”
- “Merger Agreement Amendment” has the meaning ascribed to it in “*Introductory Note*;”
- “Merger Sub” has the meaning ascribed to it in “*Introductory Note*;”
- “Monitoring and Oversight Agreement” means the Monitoring and Oversight Agreement between DTIH and Hicks Holdings Operating LLC, dated January 27, 2012;
- “MSAs” means master service agreements;
- “Nasdaq” means the Nasdaq Capital Market;
- “OFS” means oilfield services;
- “Options” has the meaning ascribed to it in “*Introductory Note*;”
- “OSC” means OFS companies;
- “PIPE Financing” has the meaning ascribed to it in “*Introductory Note*;”
- “PTD” means DTI’s Premium Tools division;
- “Registration Rights Agreement” means the Amended and Restated Registration Rights Agreement among ROC, ROC Holdings, EarlyBird Capital, Inc., HHEP, RobJon and Michael W. Domino, Jr. dated February 13, 2023.
- “Registration Statement” means the registration statement on Form S-1 of which this prospectus is a part;
- “RobJon” means RobJon Holdings, L.P.;
- “ROC” has the meaning ascribed to it in “*Introductory Note*;”
- “ROC Common Stock” has the meaning ascribed to it in “*Introductory Note*;”
- “ROC Holdings” has the meaning ascribed to it in “*Introductory Note*;”

- "ROC Holdings Subscription Agreements" has the meaning ascribed to it in "*Introductory Note*;"
- "ROC Right" has the meaning ascribed to it in "*Introductory Note*;"
- "SDPI" means Superior Drilling Products, Inc.;
- "SEC" means the U.S. Securities and Exchange Commission;
- "Second ROC Holdings Subscription Agreement" has the meaning ascribed to it in "*Introductory Note*;"
- "Section 4(a)(2)" has the meaning ascribed to it in "*Introductory Note*;"
- "Securities Act" means the Securities Act of 1933, as amended;
- "Selling Stockholders" means Aldo Rodriguez, Ashley Lane, CFH Ventures, Ltd., Charles E. Crass, Curtis L. Crofford, David R. Johnson, HHEP, FP SPAC 2, Hicks Holdings Operating LLC, John D. "Jack" Furst, MHH Ventures, Ltd., Michael W. Domino, Jr., MV Partners I LP, Oak Stream Investors II, Ltd., R. Wayne Prejean, RBH Ventures, Ltd., RobJon Holdings, L.P., ROC Holdings, Thomas O. Hicks, TOH, Jr. Ventures, Ltd. and WCH Ventures, Ltd., and their respective permitted transferees;
- "Stock Plan" means the Directional Rentals Holdings, Inc. 2012 Nonqualified Stock Option Plan, as amended;
- "Stockholder" means a holder of Common Stock;
- "Subscription Agreements" has the meaning ascribed to it in "*Introductory Note*;"
- "Transaction Services Agreement" means the transaction services agreement between DTIH and Hicks Holdings Operating LLC, dated January 27, 2012; and
- "WOT" means DTI's Wellbore Optimization Tools division.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-1 that we filed with the SEC using a “shelf” registration process. Under this shelf registration process, the Selling Stockholders may, from time to time offer and sell the securities described in this prospectus. The Selling Stockholders may use this prospectus to offer and sell, from time to time, up to an aggregate of (i) 2,560,396 shares of Common Stock issued to ROC Holdings in connection with the PIPE Financing at a purchase price of $10.10 per share, (ii) 409,901 shares of Common Stock issued to FP SPAC in connection with the FP SPAC Note Conversion at a purchase price of $10.10 per share, (iii) 2,427,500 Founder Shares, which were issued to ROC Holdings at a purchase price of $0.006 per share, (iv) 2,042,181 shares of Common Stock issued to certain Selling Stockholders pursuant to the Exchange Agreements, which were issued to the Exchangors in lieu of an aggregate of $10,804,618 that would have otherwise been payable to them as consideration under the Merger Agreement and at a price of $5.29 per share, (v) 875,600 shares of Common Stock issued to ROC Holdings in exchange for ROC Rights and shares of ROC Common Stock issued to it in connection with a private placement at a purchase price of $10.00 per share, (vi) 1,761,570 shares of Common Stock issuable upon exercise of certain outstanding Options, having an exercise price of $3.72 per share, held by certain of the Selling Stockholders and (vii) 16,913,116 shares of Common Stock issued in connection with the Business Combination at an implied equity consideration value of $10.10 per share. More specific terms of any securities that the Selling Stockholders offer and sell may be provided in a prospectus supplement or post-effective amendment that describes, among other things, the specific amounts and prices of the Common Stock being offered and the terms of the offering.

A prospectus supplement or post-effective amendment may add, update or change information included in this prospectus. Any statement contained in this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in such prospectus supplement or post-effective amendment modifies or supersedes such statement. Any statement so modified will be deemed to constitute a part of this prospectus only as so modified, and any statement so superseded will be deemed not to constitute a part of this prospectus. You should rely only on the information contained in this prospectus, any applicable prospectus supplement, post-effective amendment or any related free writing prospectus. See “*Where You Can Find More Information.*”

Neither we nor the Selling Stockholders have authorized anyone to provide any information or to make any representations other than those contained in this prospectus, any accompanying prospectus supplement or any free writing prospectus we have prepared. We and the Selling Stockholders take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the securities offered hereby and only under circumstances and in jurisdictions where it is lawful to do so. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus, any applicable prospectus supplement or any related free writing prospectus. This prospectus is not an offer to sell securities, and it is not soliciting an offer to buy securities, in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any prospectus supplement is accurate only as of the date on the front of those documents, regardless of the time of delivery of this prospectus or any applicable prospectus supplement, or any sale of a security. Our business, financial condition, results of operations and prospects may have changed since those dates.

For investors outside the United States: neither we nor the Selling Stockholders have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of our securities and the distribution of this prospectus outside the United States.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under "*Where You Can Find More Information*."

This prospectus contains references to trademarks, trade names and service marks belonging to other entities. Solely for convenience, trademarks, trade names and service marks referred to in this prospectus may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that the applicable licensor will not assert, to the fullest extent under applicable law, its rights to these trademarks and trade names. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus and any accompanying prospectus supplement may constitute "forward-looking statements" for purposes of the federal securities laws. These forward-looking statements include, but are not limited to, statements regarding our and our management team's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intends," "may," "might," "plan," "possible," "potential," "predict," "project," "should," "will," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements in this prospectus may include, for example, statements about:

- the demand for our products and services, which is influenced by the general level activity in the oil and gas industry;
- our ability to retain our customers, particularly those that contribute to a large portion of our revenue;
- our ability to remain the sole North American distributor of the Drill-N-Ream;
- our ability to employ and retain a sufficient number of skilled and qualified workers, including our key personnel;
- the impact of our status as an emerging growth company and smaller reporting company;
- our ability to source tools at reasonable cost;
- our customers' ability to obtain required permits or authorizations from applicable governmental agencies and other third parties;
- our ability to market our services in a competitive industry;
- our ability to execute, integrate and realize the benefits of acquisitions, and manage the resulting growth of our business;
- our ability to obtain new technology that may become prevalent in the OFS industry;
- potential liability for claims arising from damage or harm caused by the operation of our tools, or otherwise arising from the dangerous activities that are inherent in the oil and gas industry;
- the impact of the COVID-19 pandemic;
- application of oilfield anti-indemnity limitations enacted by certain states;
- our ability to obtain additional capital;
- the impact of restrictive covenants in the Credit Facility Agreement;
- the impact of indebtedness incurred to execute our long-term growth strategy;
- potential political, regulatory, economic and social disruptions in the countries in which we conduct business, including changes in tax laws or tax rates;
- our dependence on our IT systems, in particular COMPASS, for the efficient operation of our business;
- the impact of a change in relevant accounting principles, enforcement of existing or new regulations, and changes in policies, rules, regulations, and interpretations of accounting and financial reporting requirements;
- the impact of adverse and unusual weather conditions on our operations;
- our ability to comply with applicable laws, regulations and rules, including those related to the environment, greenhouse gases and climate change;

- our ability to protect our intellectual property rights or trade secrets;
- our ability to maintain an effective system of disclosure controls and internal control over financial reporting;
- the potential for volatility in the market price of the Common Stock;
- the fact that the price per share of Common Stock paid by certain Selling Stockholders is less than the price of such shares as of the date of this prospectus;
- the impact of increased legal, accounting, administrative and other costs incurred as a public company, including the impact of possible shareholder litigation;
- the potential for issuance of additional shares of Common Stock or other equity securities, including sales of shares of Common Stock that can be offered and sold pursuant to this prospectus;
- our ability to maintain the listing of the Common Stock on Nasdaq;
- the impact of industry or securities analysts changing their recommendation, or failing to cover, the Common Stock;
- the impact of our status as a "controlled company;" and
- other risks and uncertainties described in this prospectus, including those under the section entitled "*Risk Factors*."

The forward-looking statements contained in this prospectus are based on our current expectations and beliefs concerning future developments and their potential effects on our business. There can be no assurance that future developments affecting our business will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described in the section entitled "*Risk Factors*." Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the effect of all such risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of the assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements.

The forward-looking statements made by us in this prospectus and any accompanying prospectus supplement speak only as of the date of this prospectus and the accompanying prospectus supplement. Except to the extent required under the federal securities laws and rules and regulations of the SEC, we disclaim any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, there is no assurance that the events or results suggested by the forward-looking statements will in fact occur, and you should not place undue reliance on these forward-looking statements.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the matters discussed under the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and the consolidated financial statements and related notes included elsewhere in this prospectus before making an investment decision.

Our Business

We are a leading OSC, based on the percentage of active rigs to which we supply tools in the geographies in which we are active, that rents downhole drilling tools used in horizontal and directional drilling of oil and natural gas. We operate from 18 locations in North America and four locations in Europe and the Middle East, and maintain a large fleet of rental equipment consisting of drill collars, stabilizers, crossover subs, wellbore conditioning tools, drill pipe, hevi-wate drill pipe and tubing. We also rent surface control equipment such as blowout preventers and handling tools, and provide downhole products for producing wells.

Drilling and producing oil and gas is a complex endeavor that requires tools of various shapes and sizes. Many of our customers rent these tools, as opposed to owning them, because of the many factors that affect which tools are needed for a specific task. Such factors include different formations, drilling methodologies, drilling engineer preferences, drilling depth and hole size. We believe that we are successful because we meet our customers' wide demands by operating from multiple locations with over 65,000 tools in our fleet.

We are led by an accomplished management team that has significant experience in the oil and gas industry and has worked together for much of the last decade. Since 2012, we have grown the business and strengthened our standing in the industry. Specifically, we have:

- Grown our revenue by 271%, from $35 million in 2012 to $130 million in 2022;
- Increased substantially our market share within North American land drilling, in which we are the market leader, based on the percentage of active projects to which we supply tools, and regularly have active tool rentals on more than 50% of working locations;
- Expanded our footprint from three facilities to 18 locations in North America, allowing us to serve all major oil and gas producing basins in North America land and offshore;
- Established four additional locations with international partners in Europe and the Middle East;
- Secured distribution rights for Drill-N-Ream, a patented specialty reaming tool that saves our customers time and money;
- Become the market leader in GOM deepwater drilling operation tool rentals, based on the percentage of active projects to which we supply tools, growing from serving only a single GOM project in 2012;
- Upgraded our customer base from one comprised primarily of independent directional service providers to one comprised of major diversified OSCs and global E&P operators;
- Built a large sales and marketing organization focused on team selling; and
- Secured distribution rights for emerging technologies that fulfill the growing demand for longer horizontal lateral drilling.

Risk Factor Summary

Our business is subject to numerous risks and uncertainties, including those described in the section entitled "*Risk Factors*," that represent challenges that we face in connection with the successful implementation of our strategy and growth of our business. The occurrence of one or more of the events or circumstances described in the section entitled "*Risk Factors*," alone or in combination with other events or circumstances, may adversely affect our ability to realize the anticipated benefits of the Business Combination and may harm our business. Such risks include, but are not limited to, the following:

Risks Related to Our Business

- Demand for our products and services depends on oil and gas industry activity and customer expenditure levels, which are directly affected by trends in the demand for, and price of, crude oil and natural gas as well as the availability of capital.
- Growth in U.S. drilling activity, and our ability to benefit from such growth, could be adversely affected by any significant constraints in equipment, labor or takeaway capacity in the regions in which we operate.
- We depend on a relatively small number of customers in a single industry. The loss of an important customer could adversely affect our business, results of operations and financial condition.
- Termination of, or failure to comply with, the terms of our non-exclusive distribution agreement with SDPI could have a material adverse effect on our business.
- We may be unable to employ a sufficient number of skilled and qualified workers to sustain or expand our current operations.
- Our business depends on the continuing services of certain of our key managers and employees.
- We are an emerging growth company and smaller reporting company and as such are subject to various risks unique only to emerging growth companies and smaller reporting companies.
- The lack of availability of the tools we purchase to rent to our customers and inflation may increase our cost of operations beyond what we can recover through price increases.
- Delays in obtaining, or inability to obtain or renew, permits or authorizations by our customers for their operations could impair our business.
- Competition within the oil and gas drilling tool rental industry.
- We may fail to fully execute, integrate, or realize the benefits expected from acquisitions, which may require significant management attention, disrupt our business and adversely affect our results of operations.
- New technology may cause us to become less competitive.
- The equipment we rent may subject us to liability, including claims for personal injury, property damage and environmental contamination, or reputational harm if it fails to perform to specifications.
- Our operations, and those of our customers, are subject to hazards inherent in the oil and gas industry, which could expose us, and our customers, to substantial liability and cause us to lose substantial revenue.
- Restrictive covenants in the Credit Facility Agreement could, among other things, limit our growth and our ability to finance our operations, fund our capital needs and respond to changing conditions.
- Political, regulatory, economic and social disruptions in the countries in which we conduct business.
- A failure of our information technology infrastructure and cyberattacks could adversely impact us.
- Our results of operations and financial condition could be negatively impacted by changes in accounting principles.

Risks Related to Legal and Regulatory Matters

- Our operations require us to comply with various domestic and international regulations, including environmental laws.
- Changes in tax laws or tax rates, adverse positions taken by taxing authorities and tax audits could impact our operating results.
- We may not be able to fully protect our intellectual property rights or trade secrets.

Risks Related to Ownership of the Common Stock

- If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.
- The market price of the Common Stock may be volatile.
- Certain Selling Stockholders purchased the shares covered by this prospectus at prices significantly below the current trading price of the shares, and may therefore make substantial profits upon resales even if the current trading price of the Common Stock is at or significantly below the price at which the ROC Units (as defined below) were issued in the ROC IPO.
- Certain Selling Stockholders can earn a positive return on their investment, even if other stockholders experience a negative rate of return on their investment in DTIC.
- We may require additional capital to support our operations or the growth of our business.
- As a public company, we will incur significant increased expenses and administrative burdens which could have an adverse effect on our business, financial condition and operating results.
- Our Certificate of Incorporation designates specific courts as the exclusive forum for substantially all stockholder litigation matters.
- Shareholder litigation and regulatory inquiries and investigations are expensive and could harm our business, financial condition and operating results and could divert management attention.
- HHEP owns a significant equity interest in us and may take actions that conflict with your interests.
- Sales of substantial amounts of Common Stock in the public markets, including shares offered and sold pursuant to this prospectus, or the perception that such sales could occur, could reduce the price that the Common Stock might otherwise attain.
- Because there are no current plans to pay cash dividends on the Common Stock for the foreseeable future, you may not receive any return on investment unless you sell the Common Stock at a price greater than what you paid for it.
- The unaudited pro forma condensed combined financial information included in this prospectus may not be indicative of what our actual financial position or results of operations would have been.
- DTIC's sole material asset is its direct equity interest in DTIH.
- Nasdaq may delist the Common Stock from trading.

Selling Stockholders' Effective Purchase Price and Potential Profit

This prospectus relates to the offer and sale, from time to time, by the Selling Stockholders of up to an aggregate of (i) 2,560,396 shares of Common Stock issued to ROC Holdings in connection with the PIPE

Financing at a purchase price of $10.10 per share, (ii) 409,901 shares of Common Stock issued to FP SPAC 2 in connection with the FP SPAC Note Conversion at a purchase price of $10.10 per share, (iii) up to 2,427,500 Founder Shares, which were issued to ROC Holdings at a purchase price of $0.006 per share, (iv) 2,042,181 shares of Common Stock issued to certain Selling Stockholders pursuant to the Exchange Agreements, which were issued to the Exchangors in lieu of an aggregate of $10,804,618 that would have otherwise been payable to them as consideration under the Merger Agreement and at a price of $5.29 per share, (v) 875,600 shares of Common Stock issued to ROC Holdings in exchange for ROC Rights and shares of ROC Common Stock issued to it in connection with a private placement at a purchase price of $10.00 per share, (vi) 1,761,570 shares of Common Stock issuable upon exercise of certain outstanding Options, having an exercise price of $3.72 per share, held by certain of the Selling Stockholders and (vii) 16,913,116 shares of Common Stock issued in connection with the Business Combination at an implied equity consideration value of $10.10 per share. Shares of Common Stock may be offered and sold through any means described in the section entitled "*Plan of Distribution*."

The sale of all of the shares registered pursuant to the Registration Statement, or the perception that these sales could occur, could result in a significant decline in the public trading price of the Common Stock. Even if the current trading price of the Common Stock is at or significantly below the price at which the units were issued in the ROC IPO (the "ROC Units"), certain of the Selling Stockholders, including holders of the Founder Shares, Exchange Shares and shares of Common Stock issuable upon exercise of certain outstanding Options, may have an incentive to sell because they will still profit on sales due to the lower price at which they purchased their shares of Common Stock compared to the public stockholders. The public stockholders may not experience a similar rate of return on the securities they purchased due to differences in the purchase prices and the current trading price. Based on the closing price of the Common Stock of $4.50 on July 19, 2023 and the effective purchase prices set forth in the paragraph above, (i) holders of the shares issued in the PIPE Financing may experience a potential loss of $5.60 per share of Common Stock (or $(14,338,218) in the aggregate); (ii) holders of the shares issued in connection with the FP SPAC Note Conversion may experience a potential loss of $5.60 per share of Common Stock (or $(2,295,446) in the aggregate); (iii) holders of Founder Shares may experience a potential gain of $4.49 per share of Common Stock (or $10,909,185 in the aggregate); (iv) holders of Exchange Shares may experience a potential loss of $0.79 per share of Common Stock (or $(1,613,323) in the aggregate); (v) ROC Holdings may, in connection with the shares of Common Stock issued to it in exchange for ROC Rights and shares of ROC Common Stock held by it, may experience a potential loss of $5.50 per share of Common Stock (or $(4,815,800) in the aggregate); (vi) holders of the shares issuable upon exercise of certain outstanding Options may experience a potential gain of $0.78 per share of Common Stock (or $1,374,025 in the aggregate); and (vii) holders of the shares of Common Stock issued in connection with the Business Combination may experience a potential loss of $5.60 per share of Common Stock (or $(94,713,450) in the aggregate). See "*Risk Factors – Risks Related to Ownership of the Common Stock – Sales of substantial amounts of Common Stock in the public markets, or the perception that such sales could occur, could reduce the price that the Common Stock might otherwise attain. The shares being offered for resale in this prospectus represent a substantial percentage of the outstanding Common Stock, and the sales of such shares, or the perception that these sales could occur, could cause the market price of the Common Stock to decline significantly*."

Corporate and Other Information

Our principal executive office is located at 3701 Briarpark Drive, Suite 150, Houston, Texas 77042. Our telephone number is (832) 742-8500. Our website is www.drillingtools.com. Information contained on, or that can be accessed through, our website is not incorporated by reference into this prospectus, and you should not consider information on our website to be part of this prospectus.

See "*Business – Corporate Information*."

Implications of Being an Emerging Growth Company and a Smaller Reporting Company

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"); reduced obligations with respect to financial data, including presenting only two years of audited financial statements in addition to any required unaudited interim financial statements, with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure; reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements; exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved; and an exemption from compliance with the requirement of the Public Company Accounting Oversight Board (United States) ("PCAOB") regarding the communication of critical audit matters in the auditor's report on the financial statements.

In addition, pursuant to the JOBS Act, as an emerging growth company we have elected to take advantage of an extended transition period for complying with new or revised accounting standards. This effectively permits us to delay adoption of certain accounting standards until those standards would otherwise apply to private companies. As a result, our consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of the public company effective dates.

We may take advantage of these provisions until the last day of our fiscal year following the fifth anniversary of the consummation of ROC's initial public offering of units, which closed on December 6, 2021 (the "ROC IPO"). We will cease to be an emerging growth company prior to the end of such five-year period if certain earlier events occur, including (i) if we become a large accelerated filer under applicable SEC rules; (ii) our annual gross revenue exceeds $1.235 billion; or (iii) we issue more than $1.0 billion of non-convertible debt in any three-year period.

Additionally, we are a "smaller reporting company" as defined in the rules promulgated under the Securities Act. Smaller reporting companies may take advantage of certain reduced disclosure obligations, including, among other things, providing only two years of audited financial statements. We will remain a smaller reporting company only so long as (i) the market value of the Common Stock held by non-affiliates is less than $250 million, calculated as of the end of the most recently completed second financial quarter or (ii) our annual revenue is less than $100 million in our previous financial year and during such completed financial year and the market value of the Common Stock held by non-affiliates is less than $700 million.

THE OFFERING

Issuer	Drilling Tools International Corporation
Securities that may be offered and sold from time to time by the Selling Stockholders	Up to an aggregate of 26,990,264 shares of Common Stock held by the Selling Stockholders.
Shares of Common Stock Outstanding	29,768,568 shares of Common Stock as of July 20, 2023.
Use of proceeds	All of the shares of Common Stock offered by the Selling Stockholders pursuant to this prospectus will be sold by the Selling Stockholders for their respective accounts. We will not receive any of the proceeds from these sales. See "*Use of Proceeds*."
Lock-Up Restrictions	Certain shares of Common Stock are subject to lock-up restrictions. See "*Certain Relationships and Related Party Transactions – Lock-Up Agreements*."
Market for the Common Stock	The Common Stock is listed on Nasdaq under the symbol "DTI".
Risk Factors	Any investment in the Common Stock offered hereby is speculative and involves a high degree of risk. You should carefully consider the information set forth under "*Risk Factors*" elsewhere in this prospectus.

Unless we specifically state otherwise or the context otherwise requires, the number of shares of Common Stock outstanding does not include:

- 2,361,730 shares of shares of Common Stock issuable upon the exercise of stock options outstanding as of July 20, 2023; and
- 2,976,854 shares of Common Stock reserved for issuance with respect to future grants under the 2023 Plan.

RISK FACTORS

Risks Related to Our Business

Demand for our products and services depends on oil and gas industry activity and customer expenditure levels, which are directly affected by trends in the demand for, and price of, crude oil and natural gas as well as the availability of capital.

Demand for our products and services depends primarily upon the general level of activity in the oil and gas industry, including the number of drilling rigs in operation, the number of oil and gas wells being drilled, the depth and drilling conditions of these wells, the volume of production, the number of well completions and the cumulative feet drilled, the level of well remediation activity, and the corresponding capital spending by oil and gas companies. Oil and gas activity is in turn heavily influenced by, among other factors, current and anticipated oil and natural gas prices locally and worldwide. Historically, such prices have been volatile, and declines, whether actual or anticipated, thereof could negatively affect the level of oil and gas activity and related capital spending. Decreases in oil and gas activity and related capital spending could, in turn, adversely affect demand for our products and services and, in certain instances, result in the cancellation, modification or curtailing of demand for our services and the ability of our customers to pay us for our products and services. These factors could have an adverse effect on our business, results of operations, financial condition and cash flows.

Factors affecting the prices of oil and natural gas include, but are not limited to, the following:

- demand for hydrocarbons, which is affected by worldwide population growth, economic growth rates and general economic and business conditions;
- available excess production capacity within the Organization of Petroleum Exporting Countries ("OPEC") and the level of oil and gas production by non-OPEC countries;
- oil and gas inventory levels, production capacity and investment levels;
- the continued development of shale plays which may influence worldwide supply;
- transportation differentials associated with reduced capacity in and out of the storage hub in Cushing, Oklahoma;
- costs of exploring for, producing and delivering oil and natural gas;
- political and economic uncertainty and geopolitical unrest;
- oil refining activity and shifts in end-customer preferences toward fuel efficiency and increased transition to electric vehicles;
- conservation measures and technological advances affecting energy consumption;
- government initiatives to address greenhouse gas emissions and climate change, including incentives to promote alternative energy sources;
- potential acceleration of the commercial development of alternative energy sources and adjacent products, such as wind, solar, geothermal, tidal, fuel cells and biofuels;
- access to capital and credit markets and investors' focus on shareholder returns, which may affect our customers' activity levels and spending for our products and services;
- changes in laws and regulations related to hydraulic fracturing activities, saltwater disposal or oil and gas drilling, particularly on public properties;
- changes in environmental laws and regulations, including those relating to the use of coal in power plants, as such laws and regulations can impact the demand for natural gas;
- adverse weather conditions, changes in weather patterns and natural disasters, including those related to climate change;

- supply disruptions in key oil producing regions;
- terrorist attacks and armed conflicts, including the current conflict between Russia and Ukraine, which could cause temporary price increases, thereby dampening demand; and
- global pandemics.

The oil and gas industry is cyclical and has historically experienced periodic downturns. These downturns have been characterized by diminished demand for our products and services and downward pressure on the prices we charge. These downturns generally cause many E&P companies to reduce their capital budgets and drilling activity. Any future downturn or expected downturn could result in a significant decline in demand for OFS and adversely affect our business, results of operations and cash flows.

Customer expenditure levels could also drop if our customers face difficulty in accessing capital. If commodity prices drop, our customers may face liquidity constraints and the deterioration of their respective credit worthiness. Moreover, our customers may have limited viable financing alternatives in light of unfavorable lending and investment policies held by financial institutions associated with concerns about environmental impacts of the oil and gas industry or its products. Similarly, certain institutional investors have divested themselves of investments in this industry. If any of our customers experience any of these challenges, they may reduce spending, which could adversely affect our business, results of operations and cash flows.

Growth in U.S. drilling activity, and our ability to benefit from such growth, could be adversely affected by any significant constraints in equipment, labor or takeaway capacity in the regions in which we operate.

Growth in U.S. drilling activity may be impacted by, among other things, the availability and cost of drilling equipment, pipeline capacity, and material and labor shortages. Significant growth in drilling activity could strain availability of the equipment, materials and labor required to drill and complete a well, together with the ability to move the produced oil and natural gas to market. Should significant constraints develop that materially impact the efficiency and economics of oil and gas producers, growth in U.S. drilling activity could be adversely affected. This would have an adverse impact on the demand for the products we sell and rent, which could have a material adverse effect on our business, results of operations and cash flows.

We depend on a relatively small number of customers in a single industry. The loss of an important customer could adversely affect our business, results of operations and financial condition.

Our customers are primarily diversified OFS companies and E&P operators. Historically, we have been dependent on a relatively small number of customers for our revenues. During the years ended December 31, 2022 and 2021, 28% and 18%, respectively, of our total revenue was earned from our two largest customers. During the three months ended March 31, 2022, and March 31, 2023, our two largest customers accounted for approximately 29.1% and 31.0% of our revenue, respectively. Our business, results of operations and financial condition could be materially adversely affected if an important customer ceases to engage us for our services on favorable terms, or at all, or fails to pay or delays paying us significant amounts of our outstanding receivables.

We have operated under a first call supply agreement with our largest customer since 2013. We and this customer have agreed to multiple extensions of this agreement, the most recent of which extends the agreement until December 28, 2023. However, if we are unable to successfully negotiate extensions in the future, then our ability to do business with this customer may be greatly reduced. Moreover, the supply agreements that we have entered into with our other customers are also of limited duration and require periodic extensions. Similarly, a failure to agree to such extensions may hinder our ability to do business with these customers.

Additionally, the E&P industry is characterized by frequent consolidation activity. Changes in ownership of our customers may result in the loss of, or reduction in, business from those customers. Moreover, customers may use their size and purchasing power to seek economies of scale and pricing concessions. Consolidation may also result in reduced capital spending by some of our customers, which may lead to a decreased demand for our services and equipment. We cannot assure you that we will be able to maintain our level of sales to a customer that has consolidated or replace that revenue with increased business activity with other customers. As a result, the acquisition of one or more of our primary customers may have a significant negative impact on our business, results of operations, financial condition or cash flows. We are unable to predict what effect consolidations in the industry may have on price, capital spending by our customers, our market share and selling strategies, our competitive position, our ability to retain customers or our ability to negotiate favorable agreements with our customers.

Termination of, or failure to comply with, the terms of our non-exclusive distribution agreement with SDPI could have a material adverse effect on our business.

In 2016, we entered into an exclusive distribution agreement with SDPI with respect to the Drill-N-Ream™. In 2017, SDPI determined that we did not meet defined market share goals, and as a result our distribution rights with respect to the Drill-N-Ream™ are no longer contractually exclusive. Accordingly, SDPI could choose to distribute the Drill-N-Ream™ through other companies who will then compete with us in this space. These risks could be exacerbated if SDPI were to enter into an exclusive distribution agreement with, or sell the intellectual property rights to the Drill-N-Ream™ to, one of our competitors, or if one of our competitors were to acquire SDPI. While we remain the Drill-N-Ream™'s sole North American distributor, we cannot guarantee that this will remain the case. Our inability to remain the sole North American distributor of the Drill-N-Ream™ could have a material adverse effect on our business, results of operations and cash flows.

We may be unable to employ a sufficient number of skilled and qualified workers to sustain or expand our current operations.

The delivery of our products and services requires personnel with specialized skills and experience. Our ability to be productive and profitable will depend upon our ability to attract and retain skilled workers. In addition, our ability to expand our operations depends in part on our ability to increase the size of our skilled labor force. The demand for skilled workers is high, and the cost to attract and retain qualified personnel has increased. During industry downturns, skilled workers may leave the industry, reducing the availability of qualified workers when conditions improve. In addition, a significant increase in the wages paid by competing employers both within and outside of our industry could result in increases in the wage rates that we must pay. Throughout 2021 and 2022, our expenses related to salaries and wages increased materially, especially those expenses related to certain key oil and gas producing regions, as we sought to meet increasing customer demand. During the three months ended March 31, 2023, we experienced similar increases, although the rate of such increases slowed compared to that in 2021 and 2022. If we are not able to employ and retain skilled workers, our ability to respond quickly to customer demands or strong market conditions may inhibit our growth, which could have a material adverse effect on our business, results of operations and cash flows.

Our business depends on the continuing services of certain of our key managers and employees.

We depend on key personnel. The loss of key personnel could adversely impact our business if we are unable to implement our strategy and successfully manage our business in their absence. The loss of qualified employees or an inability to retain and motivate additional highly-skilled employees required for the operation and expansion of our business could hinder our ability to successfully maintain and expand our market share.

Equity interests in us are a substantial portion of the net worth of our executive officers and several of our other senior managers. As a result, those executive officers and senior managers may have less incentive to remain employed by us if they were to sell their equity interests. After terminating their employment with us, some of them may become employed by our competitors.

Our only executives who are subject to lock-up agreements are Michael W. Domino, Jr. and R. Wayne Prejean. Following the expiration of the lock-up period set forth in the lock-up agreement between DTIC and Michael W. Domino, Jr. dated as of the Closing Date and the lock-up agreement between DTIC and RobJon dated as of the Closing Date, the shares of Common Stock held by Messrs. Domino and Prejean, respectively, will be more liquid than they are now.

We are an emerging growth company and smaller reporting company and as such are subject to various risks unique only to emerging growth companies and smaller reporting companies, including but not limited to, no requirement to provide an assessment of the effectiveness of internal controls over financial reporting.

We are an "emerging growth company" as defined in the JOBS Act. We will remain an emerging growth company until the earlier of (i) December 31, 2026, the last day of the fiscal year following the fifth anniversary of the date of the ROC IPO; (ii) the last day of the fiscal year in which we have total annual gross revenues of $1.235 billion or more; (iii) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under applicable SEC rules.

We expect that we will remain an emerging growth company for the foreseeable future but cannot retain our emerging growth company status indefinitely and will no longer qualify as an emerging growth company on or before December 31, 2026. References herein to "emerging growth company" have the meaning associated with it in the JOBS Act.

For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from specified disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure;
- not being required to comply with the requirement of auditor attestation of our internal controls over financial reporting;
- not being required to comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- not being required to hold a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Additionally, as an emerging growth company and smaller reporting company our status as such carries various unique risks such as the risk that our financial statements may not be comparable to those of other public companies, and the risk that we will not be required to provide an assessment of the effectiveness of our internal controls over financial reporting until our second annual report following our initial public offering.

For as long as we continue to be an emerging growth company, we expect that we will take advantage of the reduced disclosure obligations available to us as a result of that classification. We have taken advantage of certain of those reduced reporting burdens in this prospectus. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock.

An emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this extended transition period and, as a result, we will not be required to adopt new or revised accounting standards on the dates on which adoption of such standards is required for other public reporting companies.

We are also a “smaller reporting company” as defined in Rule 12b-2 of the Exchange Act, and have elected to take advantage of certain of the scaled disclosure available for smaller reporting companies.

The lack of availability of the tools we purchase to rent to our customers and inflation may increase our cost of operations beyond what we can recover through price increases.

Our ability to source tools, such as drill collars, stabilizers, crossover subs, wellbore conditioning tools, drill pipe, hevi-wate drill pipe and tubing, at reasonable cost is critical to our ability to successfully compete. Due to a shortage of steel caused primarily by production disruptions during the COVID-19 pandemic and increased demand as economies rebounded, steel and assembled component prices have been and continue to be elevated. Our business and results of operations may be adversely affected by our inability to manage rising costs and the availability of the tools that we rent to our customers. Additionally, freight costs, specifically ocean freight costs, have risen significantly due to a number of factors including, but not limited to, a scarcity of shipping containers, congested seaports, a shortage of commercial drivers, capacity constraints on vessels or lockdowns in certain markets. We cannot assure you that we will be able to continue to purchase and move these tools on a timely basis or at commercially viable prices, nor can we be certain of the impact of changes to tariffs and future legislation that may impact trade with China or other countries. Should our current suppliers be unable to provide the necessary tools or otherwise fail to deliver such tools timely and in the quantities required, resulting delays in the provision of rentals to our customers could have a material adverse effect on our business, results of operations and cash flows.

The United States has recently experienced the highest inflation in decades primarily due to supply-chain issues, a shortage of labor and a build-up of demand for goods and services. The most noticeable adverse impact to our business has been increased freight, materials and vehicle-related costs as well as higher salaries and wages. To date, we do not believe that inflation has had a material impact on our financial condition or results of operations because we have been able to increase the prices we receive from our customers. We cannot be sure how long elevated inflation rates will continue. We cannot be confident that all costs will return to the lower levels experienced in prior years even as the rate of inflation abates. Our business and results of operations may be adversely affected by these rising costs to the extent we are unable to recoup them from our customers.

Delays in obtaining, or inability to obtain or renew, permits or authorizations by our customers for their operations could impair our business.

Our customers are required to obtain permits or authorizations from one or more governmental agencies or other third parties to perform drilling and completion activities, including hydraulic fracturing. Such permits or approvals are typically required by state agencies but can also be required by federal and local governmental agencies or other third parties. The requirements for such permits or authorizations vary depending on the location where such drilling and completion activities will be conducted. As with most permitting and authorization processes, there is a degree of uncertainty as to whether a permit will be granted, the time it will take for a permit or approval to be issued and the conditions which may be imposed in connection with the granting of the permit. In some jurisdictions, certain regulatory authorities have delayed or suspended the issuance of permits or authorizations while the potential environmental impacts associated with issuing such permits can be studied and appropriate mitigation measures evaluated.

In Texas, rural water districts have begun to impose restrictions on water use and may require permits for water used in drilling and completion activities. In addition, in January 2021, President Biden indefinitely suspended new oil and natural gas leases on public lands or in offshore waters pending completion of a comprehensive review and reconsideration of federal oil and gas permitting and leasing practices. Although the moratorium was enjoined nationwide in June 2021, and again in August 2022 after the U.S. Court of Appeals for the Fifth Circuit vacated the June 2021 injunction, the Biden Administration may take further actions to limit new oil and natural gas leases.

In November 2021, the Department of the Interior completed its review and issued a report on the federal oil and gas leasing program. The Department of the Interior's report recommends several changes to federal leasing practices, including changes to royalty payments, bidding and bonding requirements. The effects of this report or other initiatives to reform the federal leasing process could result in additional restrictions or limitations on the issuance of federal leases and permits for drilling on public lands. Permitting, authorization or renewal delays, the inability to obtain new permits or the revocation of current permits could impact our customers' operations and cause a loss of revenue and potentially have a materially adverse effect on our business, results of operations and cash flows.

Competition within the oil and gas drilling tool rental industry may adversely affect our ability to market our services.

The oil and gas drilling tool rental tool industry is highly competitive and fragmented. The number of rental tool companies active in a given market may exceed the corresponding demand therefor, which could result in active price competition. Some oil and gas drilling companies prioritize rental prices when choosing to contract with a rental tool company, which may further increase competition based primarily on price. In addition, adverse market conditions lower demand for drilling equipment, which results in excess equipment and lower utilization rates. If market conditions in our operating areas deteriorate from current levels or if adverse market conditions persist, the prices we are able to charge and utilization rates may decline. Moreover, our customers may choose to purchase some or all of the tools that they typically rent from us, thereby reducing the volume of business that we conduct with such customers. Any significant future increase in overall market capacity for the rental equipment or services that we offer could adversely affect our business, results of operations and cash flows.

We may fail to fully execute, integrate, or realize the benefits expected from acquisitions, which may require significant management attention, disrupt our business and adversely affect our results of operations.

As part of our business strategy and to remain competitive, we continually evaluate acquiring or making investments in complementary companies, products or technologies. We may not be able to find suitable acquisition candidates or complete such acquisitions on favorable terms. We may incur significant expenses, divert employee and management time and attention from other business-related tasks and our organic strategy and incur other unanticipated complications while engaging with potential target companies where no transaction is eventually completed.

If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals or expected growth, and any acquisitions we complete could be viewed negatively by our customers, or we could experience unexpected competition from market participants. Any integration process may require significant time and resources. We may not be able to manage the process successfully and may experience a decline in our profitability as we incur expenses prior to fully realizing the benefits of the acquisition. We could also expend significant cash and incur acquisition related costs and other unanticipated liabilities associated with the acquisition, the product or the technology, such as contractual obligations, potential security vulnerabilities of the acquired company and its products and services and potential intellectual property infringement. In addition, any acquired technology or product may not comply with legal or regulatory requirements and may expose us to regulatory risk and require us to make additional investments to make them compliant.

We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges and tax liabilities. We could become subject to legal claims following an acquisition or fail to accurately forecast the potential impact of any claims. Any of these issues could have a material adverse impact on our business and results of operations.

New technology may cause us to become less competitive.

New technology that enhances the functionality, performance reliability and design of downhole drilling tools currently on the market may become prevalent in the OFS industry. We may face difficulty obtaining these new tools for the purpose of renting them to our customers. Although we believe our fleet of rental equipment currently gives us a competitive advantage, if competitors develop fleets that are more technically advanced than ours, we may lose market share or be placed at a competitive disadvantage. Further, we may face competitive pressure to acquire certain new tools at a substantial cost. Some of our competitors have greater financial, technical and personnel resources that may allow them to enjoy various competitive advantages in the acquisition of new tools. We cannot be certain that we will be able to continue to acquire new tools or convert our existing tools to meet new performance requirements. Such an inability may have a material adverse effect on our business, results of operations and cash flows, including a reduction in the value of assets, and the rates that may be charged for their rental.

We rent tools used in the drilling of oil and gas wells. This equipment may subject us to liability, including claims for personal injury, property damage and environmental contamination, or reputational harm if it fails to perform to specifications.

We rent tools used in oil and gas exploration, development and production. Some of these tools are designed to operate in high-temperature and/or high-pressure environments, and some tools are designed for use in hydraulic fracturing operations. Because of applications to which our tools are exposed, particularly those involving high pressure environments, a failure of such tools, or a failure of our customers to maintain or operate the tools properly, could cause damage to the tools, damage to the property of customers and others, personal injury and environmental contamination and could lead to a variety of claims against us or reputational harm that could have an adverse effect on our business, results of operations and cash flows.

We indemnify our customers against certain claims and liabilities resulting or arising from our provision of goods or services to them. In addition, we rely on customer indemnifications, generally, and third-party insurance as part of our risk mitigation strategy. However, our insurance may not be adequate to cover our liabilities. In addition, our customers may be unable to satisfy indemnification claims against them. Further, insurance companies may refuse to honor their policies, or insurance may not generally be available in the future, or if available, premiums may not be commercially justifiable. We could incur substantial liabilities and damages that are either not covered by insurance or that are in excess of policy limits, or incur liability at a time when we are not able to obtain liability insurance. Such potential liabilities could have a material adverse effect on our business, results of operations and cash flows.

Our operations, and those of our customers, are subject to hazards inherent in the oil and gas industry, which could expose us, and our customers, to substantial liability and cause us to lose substantial revenue.

Risks inherent in our industry include the risks of equipment defects, installation errors, the presence of multiple contractors at the wellsite over which we have no control, vehicle accidents, fires, explosions, blowouts, surface cratering, uncontrollable flows of gas or well fluids, pipe or pipeline failures, abnormally pressured formations and various environmental hazards such as oil spills and releases of, and exposure to, hazardous substances. For example, our operations are subject to risks associated with hydraulic fracturing, including any mishandling, surface spillage or potential underground migration of fracturing fluids, including chemical additives. Both we and our customers are subject to these risks.

The occurrence of any of these events could result in substantial losses to us or to our customers due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigations and penalties, suspension of operations and repairs required to resume operations. The cost of managing such risks may be significant. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

Should these risks materialize for us, our customers may elect not to rent our tools or utilize our services if they view our environmental or safety record as unacceptable, which could cause us to lose customers and substantial revenues. Should these risks materialize for our customers, they may also suffer similar negative consequences with respect to their own customers and clients. If this were to happen, our customers may no longer be in a position to do business with us, thereby adversely affecting our business, results of operations and cash flows.

Our insurance may not be adequate to cover all losses or liabilities we may suffer. Also, insurance may no longer be available to us, or its availability may be at premium levels that do not justify its purchase. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by us or a claim at a time when we are not able to obtain liability insurance could have a material adverse effect on our ability to conduct normal business operations and on our business, results of operations, financial condition and cash flows. In addition, we may not be able to secure additional insurance or bonding that might be required by new governmental regulations. This may cause us to restrict our operations, which might severely impact our business, results of operations and cash flows.

The global outbreak of COVID-19 and associated responses had an adverse impact on our business and operations.

The COVID-19 pandemic negatively affected our revenues and operations. We experienced slowdowns or temporary idling of certain of our facilities due to a number of factors, including implementing additional safety measures, testing of our team members, team member absenteeism and governmental orders. A prolonged closure could have a material adverse impact on our ability to operate our business and on our results of operations. We have also experienced disruption and volatility in our supply chain, which has resulted, and may continue to result, in increased costs for certain goods. In addition, we have experienced significant delays in shipments of raw materials and finished goods from various vendors. To date, these delays have not caused us to fail to be able to meet the demands of our customers, though it has encouraged us to diversify our supply chain. We do not expect that supply chain disruptions related to the COVID-19 pandemic will have a materially adverse impact on our business or operations going forward. The spread of COVID-19 also disrupted and may continue to disrupt logistics necessary to import, export and deliver products to us and our customers. Further, we might experience temporary shortages of labor, making it difficult to provide in-house inspection and machining services to our DTR, Premium Tools and DNR divisions. The continued adverse impact of the COVID-19 pandemic on our business is unknown and impossible to predict with certainty. Despite the availability of applicable vaccines and boosters, the extent of future impacts of COVID-19 and any new variants thereof on general economic conditions and on our business, operations and results of operations remains uncertain.

Oilfield anti-indemnity provisions enacted by many states may restrict or prohibit a party's indemnification of us.

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

Restrictive covenants in the Credit Facility Agreement could limit our growth and our ability to finance our operations, fund our capital needs, respond to changing conditions and engage in other business activities that may be in our best interests.

The Credit Facility Agreement imposes operating and financial restrictions. These restrictions limit our ability to, among other things, subject to permitted exceptions:

- incur additional indebtedness;
- make investments or loans;
- create liens;
- consummate mergers and similar fundamental changes;
- declare and pay dividends and distributions; and
- enter into certain transactions with affiliates.

The restrictions contained in the Credit Facility Agreement could:

- limit the ability to plan for, or react to, market conditions, to meet capital needs or otherwise to restrict our activities or business plan; and
- adversely affect the ability to finance our operations or to engage in other business activities that would be in our interest.

The Credit Facility Agreement requires compliance with a specified financial ratio. The ability to comply with this ratio may be affected by events beyond our control and, as a result, this ratio may not be met in circumstances when it is tested. This financial ratio restriction could limit the ability to obtain future financings, make needed capital expenditures, withstand a continued downturn in our business or a downturn in the economy in general or otherwise conduct necessary corporate activities. Declines in oil and natural gas prices, and therefore a reduction in our customers' activity, could result in failure to meet one or more of the covenants under the Credit Facility Agreement which could require refinancing or amendment of such obligations resulting in the payment of consent fees or higher interest rates, or require a capital raise at an inopportune time or on terms not favorable.

A breach of any of these covenants or the inability to comply with the required financial ratios or financial condition tests could result in a default under the Credit Facility Agreement. A default under the Credit Facility Agreement, if not cured or waived, could result in acceleration of all indebtedness outstanding thereunder.

We may incur indebtedness to execute our long-term growth strategy, which may reduce our profitability.

Maintaining a relevant rental fleet requires significant capital. We may require additional capital in the future to maintain and refresh our fleet. For the years ended December 31, 2022, and 2021, we spent $23.8 million, and $11.4 million, respectively, to purchase property, plant and equipment. For the three months ended March 31, 2022, and March 31, 2023, we spent $3.6 million and $10.8 million, respectively, to purchase property, plant and equipment. Historically, we have financed these investments through cash flows from operations and external borrowings. These sources of capital may not be available to us in the future. If we are unable to fund capital expenditures for any reason, we may not be able to capture available growth opportunities or effectively maintain our existing assets and any such failure could have a material adverse effect on our business, results of operations and financial condition. If we incur additional indebtedness, our profitability may be reduced.

Political, regulatory, economic and social disruptions in the countries in which we conduct business could adversely affect our business or results of operations.

In addition to our facilities in the United States, we operate stocking points in Scotland and Germany and facilities in Canada and the United Arab Emirates. Additionally, we rent downhole drilling tools in Ukraine to Ukraine-based directional drilling companies and drilling contractors through Denimex, which acts as our representative in Ukraine. Instability and unforeseen changes in any of the markets in which we conduct business could have an adverse effect on the demand for, or supply of, the products that we rent and the services that we provide, which in turn could have an adverse effect on our business, results of operations and cash flows. These factors include, but are not limited to:

- nationalization and expropriation;
- potentially burdensome taxation;
- inflationary and recessionary markets, including capital and equity markets;
- civil unrest, labor issues, political instability, natural disasters, terrorist attacks, cyber-terrorism, military activity and wars;
- outbreaks of pandemic or contagious diseases;
- supply disruptions in key oil producing countries;
- tariffs, trade restrictions, trade protection measures or price controls;
- foreign ownership restrictions;
- import or export licensing requirements;
- restrictions on operations, trade practices, trade partners and investment decisions resulting from domestic and foreign laws and regulations;
- changes in, and the administration of, laws and regulations;
- inability to repatriate income or capital;
- reductions in the availability of qualified personnel;
- development and implementation of new technologies;
- foreign currency fluctuations or currency restrictions; and
- fluctuations in the interest rate component of forward foreign currency rates.

We may not be able to manage our growth successfully.

The growth of our operations will depend upon our ability to expand our customer base in our existing markets and to enter new markets in a timely manner at reasonable costs, organically or through acquisitions. In order for us to recover expenses incurred in entering new markets and obtaining new customers, we must attract and retain customers on economic terms and for extended periods. Customer growth depends on several factors outside of our control, including economic and demographic conditions, such as population changes, job and income growth, housing starts, new business formation and the overall level of economic activity. We may experience difficulty managing our growth, integrating new customers and employees, and complying with applicable regulations. Expanding our operations also may require continued development of our operating and financial controls and may place additional stress on our management and operational resources. We may be unable to manage our growth and development successfully.

A failure of our information technology infrastructure and cyberattacks could adversely impact us.

We depend on our IT systems, in particular COMPASS, for the efficient operation of our business. Accordingly, we rely upon the capacity, reliability and security of our IT hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. Despite our implementation of security measures, our systems are vulnerable to damage from computer viruses, natural disasters, incursions by intruders or hackers, failures in hardware or software, power fluctuations, cyber terrorists and other similar disruptions. Moreover, we cannot guarantee that COMPASS, or features thereof, are not the protected intellectual property of third parties. If this is the case, these third parties may seek to protect their respective intellectual property rights, thereby hindering, or completely eliminating, our ability to use COMPASS and leverage its benefits.

Additionally, we rely on third parties to support the operation of our IT hardware and software infrastructure, and in certain instances, utilize web-based applications. We also provide proprietary and client data to certain third parties, and such third parties may be the subject of IT failures or cyberattacks. The failure of our IT systems or those of our vendors or third parties to whom we disclose certain information to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous adverse consequences, including reduced effectiveness and efficiency of operations, inappropriate disclosure of confidential and proprietary information, reputational harm, increased overhead costs and loss of important information, which could have a material adverse effect on our business and results of operations. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Our results of operations and financial condition could be negatively impacted by changes in accounting principles.

The accounting for our business is subject to change based on the evolution of our business model, interpretations of relevant accounting principles, enforcement of existing or new regulations, and changes in policies, rules, regulations, and interpretations of accounting and financial reporting requirements of the SEC or other regulatory agencies. Adoption of a change in accounting principles or interpretations could have a significant effect on our reported results of operations and could affect the reporting of transactions completed before the adoption of such change. It is difficult to predict the impact of future changes to accounting principles and accounting policies over financial reporting, any of which could adversely affect our results of operations and financial condition and could require significant investment in systems and personnel.

Adverse and unusual weather conditions may affect our operations.

Our operations may be materially affected by severe weather conditions in areas where we operate. Severe weather, such as hurricanes, high winds and seas, blizzards and extreme temperatures may cause evacuation of personnel, curtailment of services and suspension of operations, inability to deliver tools to customers in accordance with contract schedules and loss of or damage to our tools and facilities. In addition, variations from normal weather patterns can have a significant impact on demand for oil and natural gas, thereby reducing demand for our tools and services.

Risks Related to Legal and Regulatory Matters

Our operations require us to comply with various domestic and international regulations, violations of which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are exposed to a variety of federal, state, local and international laws and regulations relating to matters such as environmental, workplace, health and safety, labor and employment, customs and tariffs, export and re-export controls, economic sanctions, currency exchange, bribery and corruption and taxation. These laws and regulations are complex, frequently change and have tended to become more stringent over time. They may be adopted, enacted, amended, enforced or interpreted in such a manner that the incremental cost of compliance could adversely impact our business, results of operations and cash flows.

In addition to our U.S. operations, we operate stocking points in Scotland and Germany and facilities in Canada and the United Arab Emirates. Additionally, we rent downhole drilling tools in Ukraine to Ukraine-based directional drilling companies and drilling contractors through Denimex, which acts as our representative in Ukraine. Our operations outside of the United States require us to comply with numerous anti-bribery and anti-corruption regulations. The U.S. Foreign Corrupt Practices Act, among others, applies to us and our operations. Our policies, procedures and programs may not always protect us from reckless or criminal acts committed by our employees or agents, and severe criminal or civil sanctions may be imposed as a result of violations of these laws. We are also subject to the risks that our employees and agents outside of the United States may fail to comply with applicable laws.

In addition, we purchase tools for use in the United States, Canada, the United Kingdom, Germany, the United Arab Emirates and Ukraine for use in such countries. Most movement of these tools involves imports and exports. As a result, compliance with multiple trade sanctions, embargoes and import/export laws and regulations pose a constant challenge and risk to us since a portion of our business is conducted outside of the United States through our subsidiaries. Our failure to comply with these laws and regulations could materially affect our business, results of operations and cash flows.

Compliance with environmental laws and regulations may adversely affect our business and results of operations.

Environmental laws and regulations in the United States and foreign countries affect the services we provide and the equipment we rent and service, as well as the facilities we operate. Such laws and regulations also impact the oil and gas industry more broadly, thereby impacting demand for our products and equipment. For example, we may be affected by such laws as the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, the Clean Air Act and the Occupational Safety and Health Act of 1970. Further, our customers may be subject to a range of laws and regulations governing hydraulic fracturing, drilling and greenhouse gas emissions.

We are required to invest financial and managerial resources to comply with environmental laws and regulations and believe that we will continue to be required to do so in the future. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial and mitigation obligations, and the issuance of orders enjoining operations. These laws and regulations, as well as the finalizing of other new laws and regulations affecting our operations or the exploration and production and transportation of crude oil and natural gas by our customers, could adversely affect our business and operating results by increasing our costs of compliance, increasing the costs of compliance and costs of doing business for our customers, limiting the demand for our products and services, or restricting our operations. Increased regulation or a move away from the use of fossil fuels caused by additional regulation could also reduce demand for our products and services.

Existing or future laws and regulations related to greenhouse gases and climate change and related public and governmental initiatives and additional compliance obligations could have a material adverse effect on our business, results of operations, prospects, and financial condition.

Changes in environmental requirements related to greenhouse gas emissions may negatively impact demand for our products and services. For example, oil and natural gas E&P may decline as a result of environmental requirements or laws, regulations and policies promoting the use of alternative forms of energy, including land use policies and other actions to restrict oil and gas leasing and permitting in response to environmental and climate change concerns. In January 2021, the Acting Secretary of the Department of the Interior issued an order suspending new leasing and drilling permits for fossil fuel production on federal lands and waters for 60 days. President Biden then issued an executive order indefinitely suspending new oil and natural gas leases on public lands or in offshore waters pending completion of a comprehensive review and reconsideration of federal oil and gas permitting and leasing practices. Several states filed lawsuits challenging the suspension and in June 2021, a judge in the U.S. District Court for the Western District of Louisiana issued a nationwide temporary injunction blocking the suspension. The Department of the Interior successfully appealed the U.S. District Court's ruling in

August 2022, but the moratorium was again enjoined that month. However, the Biden Administration may take further actions to limit new oil and natural gas leases. Further, to the extent that the Department of Interior's report or other initiatives to reform federal leasing practices result in the development of additional restrictions on drilling, limitations on the availability of leases, or restrictions on the ability to obtain required permits, it could impact our customers' opportunities and reduce demand for our products and services in the aforementioned areas.

Federal, state and local agencies continue to evaluate climate-related legislation and other regulatory initiatives that would restrict emissions of greenhouse gases in areas in which we conduct business. Because our business depends on the level of activity in the oil and gas industry, existing or future laws and regulations related to greenhouse gases could have a negative impact on our business if such laws or regulations reduce demand for oil and natural gas. Likewise, such laws or regulations may result in additional compliance obligations with respect to the release, capture, sequestration and use of greenhouse gases. These additional obligations could increase our costs and have a material adverse effect on our business, results of operations, prospects and financial condition. Additional compliance obligations could also increase costs of compliance and costs of doing business for our customers, thereby reducing demand for our products and services. Finally, increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that could have significant physical effects, such as increased frequency and severity of storms, droughts, floods and other climatic events; if such effects were to occur, they could have an adverse impact on our operations.

Many of our customers utilize hydraulic fracturing in their operations. Environmental concerns have been raised regarding the potential impact of hydraulic fracturing on underground water supplies and seismic activity. These concerns have led to several regulatory and governmental initiatives in the United States to restrict the hydraulic fracturing process, which could have an adverse impact on our customers' production activities. Although we do not conduct hydraulic fracturing, increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition to oil and gas production activities using hydraulic fracturing techniques. In December 2021, the Texas Railroad Commission, which regulates the state's oil and gas industry, suspended the use of deep wastewater disposal wells in four oil-producing counties in West Texas. The suspension is intended to mitigate earthquakes thought to be caused by the injection of waste fluids, including saltwater, that are a byproduct of hydraulic fracturing into disposal wells. The ban will require oil and gas production companies to find other options to handle the wastewater, which may include piping or trucking it longer distances to other locations not under the ban. The finalization of new laws or regulations at the federal, state, local or foreign level imposing reporting obligations on, or otherwise limiting, delaying or banning, the hydraulic fracturing process or other processes on which hydraulic fracturing and subsequent hydrocarbon production relies, such as water disposal, could make it more difficult to complete oil and natural gas wells. Further, it could increase our customers' costs of compliance and doing business, and otherwise adversely affect the hydraulic fracturing services they perform, which could negatively impact demand for our products.

Increasing attention by the public and government agencies to climate change and Environmental, Social and Governance ("ESG") matters could also negatively impact demand for our products and services and the products of our oil and gas producing customers. In recent years, increasing attention has been given to corporate activities related to ESG in public discourse and the investment community. A number of advocacy groups, both domestically and internationally, have campaigned for governmental and private action to promote change at public companies related to ESG matters, including through the investment and voting practices of investment advisers, public pension funds, universities and other members of the investing community. These activities include increasing attention and demands for action related to climate change and energy rebalancing matters, such as promoting the use of substitutes to fossil fuel products and encouraging the divestment of fossil fuel equities, as well as pressuring lenders and other financial services companies to limit or curtail activities with fossil fuel companies. If this were to continue, it could have a material adverse effect on the valuation of the Common Stock and our ability to access equity capital markets.

In addition, our business could be impacted by initiatives to address greenhouse gases and climate change and incentives to conserve energy or use alternative energy sources. For example, the Inflation Reduction Act of

2022, signed into law by President Biden in August 2022, includes financial and other incentives to increase wind and solar electric generation and encourage consumers to use these alternative energy sources. Additional similar state or federal initiatives to incentivize a shift away from fossil fuels could reduce demand for hydrocarbons, thereby reducing demand for our products and services and negatively impacting our business.

Changes in tax laws or tax rates, adverse positions taken by taxing authorities and tax audits could impact our operating results.

We are subject to the jurisdiction of numerous domestic and foreign taxing authorities. Changes in tax laws or tax rates, the resolution of tax assessments or audits by various tax authorities could impact our operating results. In addition, we may periodically restructure our legal entity organization. If taxing authorities were to disagree with our tax positions in connection with any such restructurings, our effective income tax rate could be impacted. The final determination of our income tax liabilities involves the interpretation of local tax laws, tax treaties and related authorities in each taxing jurisdiction, as well as the significant use of estimates and assumptions regarding future operations and results and the timing of income and expenses. We may be audited and receive tax assessments from taxing authorities that may result in assessment of additional taxes that are ultimately resolved with the authorities or through the courts. We believe these assessments may occasionally be based on erroneous and even arbitrary interpretations of local tax law. Resolution of any tax matter involves uncertainties and there are no assurances that the outcomes will be favorable. If U.S. or foreign tax authorities change applicable tax laws, our overall taxes could increase, and our business, financial condition or results of operating may be adversely impacted.

If we are unable to fully protect our intellectual property rights or trade secrets, we may suffer a loss in revenue or any competitive advantage or market share we hold, or we may incur costs in litigation defending intellectual property rights.

While we have some patents and others pending, we do not have patents relating to many of our key processes and technology. If we are not able to maintain the confidentiality of our trade secrets, or if our competitors are able to replicate our technology or services, our competitive advantage would be diminished. We also cannot provide any assurance that any patents we may obtain in the future would provide us with any significant commercial benefit or would allow us to prevent our competitors from employing comparable technologies or processes. We may initiate litigation from time to time to protect and enforce our intellectual property rights. In any such litigation, a defendant may assert that our intellectual property rights are invalid or unenforceable. Third parties from time to time may also initiate litigation against us by asserting that our businesses infringe, impair, misappropriate, dilute or otherwise violate another party’s intellectual property rights. We may not prevail in any such litigation, and our intellectual property rights may be found invalid or unenforceable or our products and services may be found to infringe, impair, misappropriate, dilute or otherwise violate the intellectual property rights of others. The results or costs of any such litigation may have an adverse effect on our business, results of operations and financial condition. Any litigation concerning intellectual property could be protracted and costly, is inherently unpredictable and could have an adverse effect on our business, regardless of its outcome.

Moreover, third parties on whom we rely for certain tools may be subject to litigation to defend their intellectual property rights. If such litigation ends adversely for the third party with whom we deal, our ability to obtain such tools could be significantly limited or restricted. This could have a material adverse effect on our business.

As a result of plans to expand our business operations, including to jurisdictions in which tax laws may not be favorable, our obligations may change or fluctuate, become significantly more complex or become subject to greater risk of examination by taxing authorities, any of which could adversely affect our after-tax profitability and financial results.

Our effective tax rates may fluctuate widely in the future, particularly if our business expands domestically or internationally. Future effective tax rates could be affected by operating losses in jurisdictions where no tax benefit can be recorded under U.S. generally accepted accounting principles (“GAAP”), changes in deferred tax assets and liabilities, or changes in tax laws. Factors that could materially affect our future effective tax rates include, but are not limited to: (a) changes in tax laws or the regulatory environment, (b) changes in accounting and tax standards or practices, (c) changes in the composition of operating income by tax jurisdiction and (d) pre-tax operating results of our business.

Additionally, we are subject to significant income, withholding, and other tax obligations in the United States and may become subject to taxation in numerous additional U.S. state and local and non-U.S. jurisdictions with respect to income, operations and subsidiaries related to those jurisdictions. Our after-tax profitability and financial results could be subject to volatility or be affected by numerous factors, including (a) the availability of tax deductions, credits, exemptions, refunds and other benefits to reduce tax liabilities, (b) changes in the valuation of deferred tax assets and liabilities, if any, (c) the expected timing and amount of the release of any tax valuation allowances, (d) the tax treatment of stock-based compensation, (e) changes in the relative amount of earnings subject to tax in the various jurisdictions, (f) the potential business expansion into, or otherwise becoming subject to tax in, additional jurisdictions, (g) changes to existing intercompany structure (and any costs related thereto) and business operations, (h) the extent of intercompany transactions and the extent to which taxing authorities in relevant jurisdictions respect those intercompany transactions, and (i) the ability to structure business operations in an efficient and competitive manner. Outcomes from audits or examinations by taxing authorities could have an adverse effect on our after-tax profitability and financial condition. Additionally, the Internal Revenue Service (“IRS”) and several foreign tax authorities have increasingly focused attention on intercompany transfer pricing with respect to sales of products and services and the use of intangibles. Tax authorities could disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. If we do not prevail in any such disagreements, our profitability may be affected.

Our after-tax profitability and financial results may also be adversely affected by changes in relevant tax laws and tax rates, treaties, regulations, administrative practices and principles, judicial decisions and interpretations thereof, in each case, possibly with retroactive effect.

Risks Related to Ownership of the Common Stock

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired, which may adversely affect investor confidence in us and, as a result, the market price of the Common Stock.

As a public company, we are required to comply with the Sarbanes-Oxley Act, which requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We continue to refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in filings with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers.

We will continue to refine our internal control over financial reporting. We will be required to make a formal assessment of the effectiveness of our internal control over financial reporting and once we cease to be an emerging growth company, we will be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with these requirements within the prescribed time period, we have been engaging, and will continue to engage, in a process to document and evaluate our internal control over financial reporting. This process is both costly and challenging, and requires us to dedicate significant internal resources. We may also engage outside consultants and hire new employees with the requisite skillset and experience. We are developing a plan to assess and document the adequacy of our internal control over financial reporting, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. There is a risk that we will not be able to conclude, within the prescribed time period or at all, that our internal control over financial reporting is effective as required by Section 404 of the Sarbanes-Oxley Act. Moreover, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal additional deficiencies in our internal control over financial reporting that are deemed to be material weaknesses.

Any failure to implement and maintain effective disclosure controls and procedures and internal control over financial reporting, including the identification of one or more material weaknesses, could cause investors to lose confidence in the accuracy and completeness of our financial statements and reports, which would likely adversely affect the market price of the Common Stock. In addition, we could be subject to sanctions or investigations by Nasdaq, the SEC and other regulatory authorities.

The market price of the Common Stock may be volatile, which could cause the value of your investment to decline.

The market price of the Common Stock has been and may continue to be volatile and subject to wide fluctuations depending on a number of factors, including those described in this "*Risk Factors*" section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in the Common Stock. Factors affecting the trading price of the Common Stock may include:

- market conditions in our industry or the broader stock market;
- actual or anticipated fluctuations in our financial and operating results;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- changes in financial estimates prepared by and recommendations provided by securities analysts concerning us or the market in general;
- the perceived success of the Business Combination;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- announced or completed acquisitions of businesses, commercial relationships, products, services or technologies by us or our competitors;
- changes in laws and regulations affecting our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- commencement of, or involvement in, litigation involving us;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- sales, or anticipated sales, of large blocks of the Common Stock;

- any major change in the composition of the Board or our management;
- general economic and political conditions such as recessions, interest rates, fuel prices, trade wars, pandemics (such as COVID-19), currency fluctuations and acts of war or terrorism; and
- other risk factors listed under this "*Risk Factors*" section.

Broad market and industry factors may materially harm the market price of the Common Stock, regardless of our actual operating performance. The stock markets have, from time to time, experienced significant price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner often unrelated to the operating performance of those companies. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing recently. Volatility in the market price of the Common Stock or other reasons may in the future cause us to become the target of securities litigation or shareholder activism. Shareholder activism or securities litigation could give rise to perceived uncertainties regarding the future of our business and it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect relationships with suppliers and other parties.

Further, although the Common Stock is currently listed on Nasdaq, an active trading market for the Common Stock may not be sustained. Accordingly, if an active trading market for these securities is not maintained, the liquidity of the Common Stock, your ability to sell your shares of the Common Stock when desired and the prices that you may obtain for your shares will be adversely affected.

The Selling Stockholders purchased the shares covered by this prospectus at different prices, some significantly below the current trading price of the shares, and may therefore make substantial profits upon resales even if the current trading price of the Common Stock is at or significantly below the price at which the ROC Units were issued in the ROC IPO.

The Selling Stockholders, or their permitted transferees, may sell under this prospectus up to an aggregate of (i) 2,560,396 shares of Common Stock issued to ROC Holdings in connection with the PIPE Financing at a purchase price of $10.10 per share, (ii) 409,901 shares of Common Stock issued to FP SPAC in connection with the FP SPAC Note Conversion at a purchase price of $10.10 per share, (iii) 2,427,500 Founder Shares, which were issued to ROC Holdings at a purchase price of $0.006 per share, (iv) 2,042,181 shares of Common Stock issued to certain Selling Stockholders pursuant to the Exchange Agreements, which were issued to the Exchangors in lieu of an aggregate of $10,804,618 that would have otherwise been payable to them as consideration under the Merger Agreement and at a price of approximately $5.29 per share, (v) 875,600 shares of Common Stock issued to ROC Holdings in exchange for ROC Rights and shares of ROC Common Stock issued to it in connection with a private placement at a purchase price of $10.00 per share, (vi) 1,761,570 shares of Common Stock issuable upon exercise of certain outstanding Options, having an exercise price of $3.72 per share, held by certain of the Selling Stockholders and (vii) 16,913,116 shares of Common Stock issued in connection with the Business Combination at an implied equity consideration value of $10.10 per share.

Based on the closing price of the Common Stock of $4.50 on July 19, 2023 and the effective purchase prices set forth in the paragraph above, (i) holders of the shares issued in the PIPE Financing may experience a potential loss of $5.60 per share of Common Stock (or $(14,338,218) in the aggregate); (ii) holders of the shares issued in connection with the FP SPAC Note Conversion may experience a potential loss of $5.60 per share of Common Stock (or $2,295,446) in the aggregate); (iii) holders of Founder Shares may experience a potential gain of $4.49 per share of Common Stock (or $10,909,185 in the aggregate); (iv) holders of Exchange Shares may experience a potential loss of $0.79 per share of Common Stock (or $(1,613,323) in the aggregate); (v) ROC Holdings may, in connection with the shares of Common Stock issued to it in exchange for ROC Rights and shares of ROC Common Stock held by it, may experience a potential loss of $5.50 per share of Common Stock (or $(4,815,800) in the aggregate); (vi) holders of the shares issuable upon exercise of certain outstanding Options may experience a potential gain of $0.78 per share of Common Stock (or $1,374,025 in the aggregate); and (vii) holders of the shares of Common Stock issued in connection with the Business Combination may experience a potential loss of $5.60 per share of Common Stock (or $(94,713,450) in the aggregate).

In comparison, a public stockholder who holds shares of Common Stock originally purchased as part of a ROC Unit for $10.00 per unit may experience a loss of $5.50 per share of Common Stock based on the closing price of the Common Stock of $4.50 on July 19, 2023.

Therefore, even if the current trading price of the Common Stock is at or significantly below the price at which the ROC Units were issued in the ROC IPO, certain of the Selling Stockholders, including holders of the Founder Shares, Exchange Shares and shares of Common Stock issuable upon exercise of certain outstanding Options, may have an incentive to sell because they will still profit on sales due to the lower price at which they purchased their shares compared to the public stockholders, which could result in a significant decline in the public trading price of the shares of Common Stock.

See " – *Sales of substantial amounts of Common Stock in the public markets, or the perception that such sales could occur, could reduce the price that the Common Stock might otherwise attain. The shares being offered for resale in this prospectus represent a substantial percentage of the outstanding Common Stock, and the sales of such shares, or the perception that these sales could occur, could cause the market price of the Common Stock to decline significantly*."

Certain Selling Stockholders can earn a positive return on their investment, even if other stockholders experience a negative rate of return on their investment in DTIC.

The Selling Stockholders acquired the shares of Common Stock covered by this prospectus at prices ranging from $0.006 per share to $10.10 per share of Common Stock. By comparison, the offering price to public stockholders in the ROC IPO was $10.00 per unit, which consisted of one share of ROC Common Stock and one ROC Right. Consequently, certain Selling Stockholders, including holders of Founder Shares, Exchange Shares and shares of Common Stock issuable upon exercise of certain outstanding Options, may realize a positive rate of return on the sale of their shares covered by this prospectus even if the market price per share of Common Stock is below $10.00 per share, in which case the public stockholders may experience a negative rate of return on their investment. For example, a Selling Stockholder who sells 1,000,000 Founder Shares (originally acquired for $0.006 per share) at a price per share of $4.50 per share (the closing price of the Common Stock on July 19, 2023) will earn a realized profit of $4,494,000, while a public stockholder who sells the same number of shares of Common Stock (which it originally acquired for $10.00 per share in the ROC IPO) will experience a realized loss of $5,500,000. Therefore, public stockholders may not experience a similar rate of return on the securities they purchased due to differences in the purchase prices and the current trading price.

In addition, because the current market price of the Common Stock, which was $4.50 per share on July 19, 2023, is higher than the effective purchase price certain of the Selling Stockholders, including holders of the Founder Shares, Exchange Shares and shares of Common Stock issuable upon exercise of certain outstanding Options, paid for their shares of Common Stock (ranging from $0.006 per share to $5.29 per share), there is greater likelihood that these Selling Stockholders will sell their shares of Common Stock after the Registration Statement is declared effective (subject, in the case of certain Selling Stockholders, to compliance with contractual lock-up restrictions). Such sales, or the prospect of such sales, may have a material negative impact on the market price of the Common Stock. After the effectiveness of the Registration Statement, the 26,990,264 shares of Common Stock being offered for resale pursuant to this prospectus, which represent approximately 85.6% of the total outstanding shares of Common Stock as of July 20, 2023 (assuming the issuance of all 1,761,570 shares of Common Stock subject to Options covered by this prospectus), will be able to be sold pursuant to the Registration Statement once the contractual lock-up restrictions that apply to such Selling Stockholders expire.

We may require additional capital to support our operations or the growth of our business, and we cannot be certain that this capital will be available on reasonable terms when required, or at all.

We expect our expenditures to continue to be significant in the foreseeable future as we expand our business, and that our level of expenditures will be significantly affected by the performance of the oil and gas industry. Our future capital requirements may be uncertain and actual capital requirements may be different from those currently anticipated, as we look to expand the size of our business, both in terms of fleet size and geographic scope. We may need to seek equity or debt financing to finance a portion of our capital expenditures. Such financing might not be available to us in a timely manner or on terms that are acceptable, or at all.

Our ability to obtain the necessary financing to carry out our business plan is subject to a number of factors, including general market conditions and investor acceptance of our business model. These factors may make the timing, amount, terms and conditions of such financing unattractive or unavailable to us. If we are unable to raise sufficient funds, we may have to significantly reduce our spending, delay or cancel our planned activities or substantially change our corporate structure. We might not be able to obtain any funding, and we might not have sufficient resources to conduct our business as planned, both of which could mean that we would be forced to curtail or discontinue our operations.

In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain additional borrowing capacity under a credit facility. The sale of additional equity or equity-linked securities could dilute our Stockholders. Moreover, the net proceeds received by us from an offering of equity securities could be reduced if the price of the Common Stock is negatively impacted by a sale of a large number of the shares of Common Stock registered by the Registration Statement. See " – *Sales of substantial amounts of Common Stock in the public markets, or the perception that such sales could occur, could reduce the price that the Common Stock might otherwise attain. The shares being offered for resale in this prospectus represent a substantial percentage of the outstanding Common Stock, and the sales of such shares, or the perception that these sales could occur, could cause the market price of the Common Stock to decline significantly*." The incurrence of indebtedness would result in increased debt service obligations and could subject us to operating and financing covenants that would restrict our operations or our ability to pay dividends to our Stockholders. If we cannot raise additional funds when we need or want them, our business, financial condition, and results of operations could be negatively impacted.

As a public company, we will incur significant increased expenses and administrative burdens which could have an adverse effect on our business, financial condition and operating results.

As a public company, we face increased legal, accounting, administrative and other costs and expenses that we did not incur as a private company. These expenses may increase even more after we are no longer an "emerging growth company." The Sarbanes-Oxley Act, including the requirements of Section 404, and rules and regulations subsequently implemented by the SEC, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations promulgated and to be promulgated thereunder, the PCAOB and Nasdaq, impose additional reporting and other obligations on public companies. Compliance with public company requirements will continue to lead to increased costs and make certain activities more time consuming. A number of those requirements require us to carry out activities we have not done previously. For example, we have created new board committees, have entered into new insurance policies and adopted new internal controls and disclosure controls and procedures. In addition, we have incurred, and will continue to incur, expenses associated with SEC reporting requirements. We may be required to expand our staff to ensure that our workforce has the requisite experience to implement these changes.

Furthermore, if any issues in complying with those requirements are identified (for example, if management or our independent registered public accounting firm identifies a material weakness in the internal control over financial reporting), we could incur additional costs rectifying those issues, the existence of those issues could adversely affect our reputation or investor perceptions of it and it may be more expensive to obtain director and officer liability insurance. Risks associated with our status as a public company may make it more difficult to attract and retain qualified persons to serve on the Board or as executive officers.

As a result of disclosure of information in this prospectus and in filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be materially adversely affected. Even if the claims do not result in litigation or are resolved in our favor, these claims and the time and resources necessary to resolve them could divert the resources of our management and adversely affect our business and results of operations. The additional reporting and other obligations imposed by these rules and regulations will increase legal and financial compliance costs and the costs of related legal, accounting and administrative activities. These increased costs will require us to divert a significant amount of money that could otherwise be used to expand the business and achieve strategic objectives. Advocacy efforts by Stockholders and third parties may also prompt additional changes in governance and reporting requirements, which could further increase costs.

Our Certificate of Incorporation designates specific courts as the exclusive forum for substantially all stockholder litigation matters, which could limit the ability of our Stockholders to obtain a favorable forum for disputes with us or our directors, officers or employees.

Our Certificate of Incorporation requires, to the fullest extent permitted by law, that derivative actions brought in our name, actions against current or former directors, officers or other employees for breach of fiduciary duty, any action asserting a claim arising pursuant to any provision of the DGCL, our Certificate of Incorporation or Bylaws, any action asserting a claim governed by the internal affairs doctrine of the State of Delaware or any other action asserting an “internal corporate claim” (as defined in Section 115 of the DGCL), confer jurisdiction to the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware does not have jurisdiction, the federal district court for the District of Delaware or other state courts of the State of Delaware), unless we consent in writing to the selection of an alternative forum. This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. Our Certificate of Incorporation also provides that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. This provision may limit a Stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us and our directors, officers or other employees and may have the effect of discouraging lawsuits against our directors, officers and other employees. Furthermore, Stockholders may be subject to increased costs to bring these claims, and the exclusive forum provision could have the effect of discouraging claims or limiting investors’ ability to bring claims in a judicial forum that they find favorable.

In addition, the enforceability of similar exclusive forum provisions in other companies’ certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with one or more actions or proceedings described above, a court could rule that this provision in our Certificate of Incorporation is inapplicable or unenforceable. In March 2020, the Delaware Supreme Court issued a decision in *Salzberg, et al. v. Sciabacucchi* which found that an exclusive forum provision providing for claims under the Securities Act to be brought in federal court is facially valid under Delaware law. We intend to enforce this provision, but we do not know whether courts in other jurisdictions will agree with this decision or enforce it. If a court were to find the exclusive forum provision contained in our Certificate of Incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, prospects, financial condition and operating results.

Shareholder litigation and regulatory inquiries and investigations are expensive and could harm our business, financial condition and operating results and could divert management attention.

In the past, securities class action litigation and/or shareholder derivative litigation and inquiries or investigations by regulatory authorities have often followed certain significant business transactions, such as the sale of a company or announcement of any other strategic transaction, such as the Business Combination. Any shareholder litigation and/or regulatory investigations against us, whether or not resolved in our favor, could result in substantial costs and divert our management’s attention from other business concerns, which could adversely affect our business and cash resources and the ultimate value of our securities.

While we have not received demand letters, we may in the future receive demand letters or complaints, from purported holders of the Common Stock regarding certain actions taken in connection with the Business Combination, the adequacy of the registration statement filed therewith or this Registration Statement. These demand letters or complaints may lead to litigation against our directors and officers in connection with the Business Combination. Defending against any lawsuits could require us to incur significant costs and draw the attention of our management away from the day-to-day operations of our business.

Past performance by our management team may not be indicative of future performance of an investment in us.

Information regarding performance by, or businesses associated with, our management team, directors, advisors and their respective affiliates is presented for informational purposes only. Past performance by our management team, directors, advisors and such affiliates is not a guarantee of the future success of our business and operations. You should not rely on the historical performance of our management team, directors and advisors or that of their respective affiliates as indicative of our future performance, of an investment in us, or the returns the Common Stock will, or is likely to, generate going forward.

HHEP owns a significant equity interest in us and may take actions that conflict with your interests.

The interests of HHEP may not align with our interests and those of our Stockholders. HHEP is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. HHEP (and its affiliates, partners, and associate entities), may also pursue business opportunities that may be complementary to our business and, as a result, those business opportunities may not be available to us. Our Certificate of Incorporation provides that we renounce any interest or expectancy in, or being offered an opportunity to participate in, business opportunities that may be presented to any Stockholder, director, officer or any other person or entity (including, with respect to any of the foregoing that are entities, any affiliates and their respective directors, officers, partners, members and associated entities) in each case who is not a full-time employee of DTIC or any of its subsidiaries (each, an “Exempted Person”). Our Certificate of Incorporation further provides that no Exempted Person has a duty to communicate the receipt of knowledge of any potential circumstances, transaction, agreement, arrangement or other matter that may be Corporate Opportunity (as defined therein).

Sales of substantial amounts of Common Stock in the public markets, or the perception that such sales could occur, could reduce the price that the Common Stock might otherwise attain. The shares being offered for resale in this prospectus represent a substantial percentage of the outstanding Common Stock, and the sales of such shares, or the perception that these sales could occur, could cause the market price of the Common Stock to decline significantly.

Sales of a substantial number of shares of the Common Stock in the public market, or the perception that such sales could occur, could adversely affect the market price of the Common Stock and may make it more difficult for investors to sell their shares of the Common Stock at a time and price that investors deem appropriate.

A significant portion of our total outstanding shares are restricted from immediate resale but may be sold into the market in the near future. Approximately 17.5 million shares of Common Stock are subject to transfer restrictions set forth in the Lock-Up Agreements. On the Closing Date, in connection with the Closing, DTIC entered into Lock-Up Agreements with each of HHEP, RobJon and Michael W. Domino, Jr. (the “Stockholder Parties”). Under the terms of the Lock-Up Agreements, the Stockholder Parties agreed, subject to certain customary exceptions, that during the period that is the earlier of (i) the date that is 180 days following the Closing Date and (ii) the date specified in a written waiver of the provisions of the Lock-Up Agreements duly executed by ROC Holdings and DTIC, not to dispose of, directly or indirectly, any shares of the Common Stock subject to their respective Lock-Up Agreement, or take other related actions with respect to such shares. The shares of the Common Stock subject to the Lock-Up Agreements include all shares held by the Stockholder Parties, except for shares of the Common Stock issued pursuant to the Exchange Agreements.

Other than R. Wayne Prejean, who is the President, Manager and sole owner of RobJon's general partner, and Mr. Domino, no directors, officers or employees of DTIC are party to any lock-up agreement with respect to the Common Stock.

We intend to file registration statements on Form S-8 under the Securities Act to register shares of the Common Stock that may be issued under the 2023 Plan from time to time, as well as any shares of the Common Stock underlying outstanding equity awards that have been granted to our directors, executive officers and other employees, all of which have vested. Shares registered under these registration statements will be available for sale in the public market upon issuance subject to the exercise of options, as well as Rule 144 in the case of our affiliates.

Once the Registration Statement becomes effective and during such time as it remains effective, the Selling Stockholders will be permitted, subject to the lock-up restrictions described above, to sell the shares registered hereby. Sales of our shares as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the trading price of the Common Stock to fall and make it more difficult for you to sell shares of the Common Stock. We expect that, because of the significant number of shares offered hereby, the Selling Stockholders will continue to offer shares covered by this prospectus for a significant period of time, the precise duration of which cannot be predicted. Accordingly, the adverse market and price pressures resulting from an offering pursuant to this prospectus may continue for an extended period of time.

In addition, this prospectus relates to the offer and sale, from time to time, by the Selling Stockholders of up to an aggregate of (i) 2,560,396 shares of Common Stock issued to ROC Holdings in connection with the PIPE Financing at a purchase price of $10.10 per share, (ii) 409,901 shares of Common Stock issued to FP SPAC 2 in connection with the FP SPAC Note Conversion at a purchase price of $10.10 per share, (iii) up to 2,427,500 Founder Shares, which were issued to ROC Holdings at a purchase price of $0.006 per share, (iv) 2,042,181 shares of Common Stock issued to certain Selling Stockholders pursuant to the Exchange Agreements, which were issued to the Exchangors in lieu of an aggregate of $10,804,618 that would have otherwise been payable to them as consideration under the Merger Agreement and at a price of $5.29 per share, (v) 875,600 shares of Common Stock issued to ROC Holdings in exchange for ROC Rights and shares of ROC Common Stock issued to it in connection with a private placement at a purchase price of $10.00 per share, (vi) 1,761,570 shares of Common Stock issuable upon exercise of certain outstanding Options, having an exercise price of $3.72 per share, held by certain of the Selling Stockholders and (vii) 16,913,116 shares of Common Stock issued in connection with the Business Combination at an implied equity consideration value of $10.10 per share. The shares of Common Stock being offered for resale pursuant to this prospectus by the Selling Stockholders represent the large majority (approximately 85.6%) of the shares of Common Stock outstanding as of July 20, 2023 (assuming the issuance of all 1,761,570 shares of Common Stock subject to Options covered by this prospectus). As a result, significant near-term resale of shares of the Common Stock pursuant to this prospectus could have a significant, negative impact on the trading price of the Common Stock since the number of shares of Common Stock that the Selling Stockholders can sell into the public markets pursuant to this prospectus would constitute a considerable increase to our current public float. This impact may be heightened by the fact that certain of the Selling Stockholders purchased shares of the Common Stock at prices that are well below the current trading price of the Common Stock. See " – *The Selling Stockholders purchased the shares covered by this prospectus at different prices, some significantly below the current trading price of the shares, and may therefore make substantial profits upon resales even if the current trading price of the Common Stock is at or significantly below the price at which the units were issued in the ROC IPO*." and " – *Certain Selling Stockholders can earn a positive return on their investment, even if other stockholders experience a negative rate of return on their investment in DTIC*."

We may issue additional shares of Common Stock or other equity securities without your approval, which would dilute your ownership interests and may depress the market price of your shares.

We may issue additional shares of Common Stock or other equity securities of equal or senior rank in the future in connection with, among other things, future acquisitions or repayment of outstanding indebtedness, without Stockholder approval, in a number of circumstances. The issuance of additional shares or other equity securities of equal or senior rank could have the following effects:

- existing Stockholders' proportionate ownership interest will decrease;
- the amount of cash available per share, including for payment of dividends in the future, may decrease;
- the relative voting strength of each previously outstanding share of Common Stock may be diminished; and
- the market price of the Common Stock may decline.

We have access to a significant amount of cash and our management has broad discretion over the use of that cash. Our management may use the cash in ways that our Stockholders may not approve.

We have broad discretion over the use of our cash and cash equivalents. You may not agree with our use of such cash and cash equivalents. Our failure to apply these resources effectively could compromise our ability to pursue our growth strategy and we might not be able to yield a significant return, if any, on our investment of these assets. You will not have the opportunity to influence directly our decisions on how to use our cash resources.

Because there are no current plans to pay cash dividends on the Common Stock for the foreseeable future, you may not receive any return on investment unless you sell the Common Stock at a price greater than what you paid for it.

We may retain future earnings, if any, for future operations, expansion and debt repayment and there are no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made by the Board and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that the Board may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness DTIC or its subsidiaries incur. As a result, you may not receive any return on an investment in Common Stock unless you sell your shares of Common Stock for a price greater than that which you paid for it.

The unaudited pro forma condensed combined financial information included in this prospectus may not be indicative of what our actual financial position or results of operations would have been.

The unaudited pro forma condensed combined and consolidated financial information in this prospectus is presented for illustrative purposes only and is not necessarily indicative of what our actual financial position or results of operations would have been had the Business Combination been completed on the dates indicated. See the section titled "*Unaudited Pro Forma Condensed Combined Financial Information*" for more information.

DTIC's sole material asset is its direct equity interest in DTIH and, accordingly, it is dependent upon distributions from DTIH to pay taxes and cover its corporate and other overhead expenses and pay dividends, if any, on the Common Stock.

DTIC is a holding company and has no material assets other than its direct equity interest in DTIH. We have no independent means of generating revenue. To the extent DTIH has available cash, DTIC will cause DTIH to make distributions of cash to pay taxes, cover its corporate and other overhead expenses and pay dividends, if any, on the Common Stock. To the extent that DTIC needs funds and DTIH's operating subsidiaries fail to generate sufficient cash flow to distribute funds to DTIC or is restricted from making such distributions or payments under applicable law or regulation or under the terms of DTIC's financing arrangements, or is otherwise unable to provide such funds, DTIC's liquidity and financial condition could be materially adversely affected.

Nasdaq may delist the Common Stock from trading, which could limit investors' ability to execute transactions in the Common Stock and subject us to additional trading restrictions.

We cannot assure you that the Common Stock will continue to be listed on Nasdaq. If Nasdaq delists the Common Stock from trading and we are unable to list the Common Stock on another national securities exchange, we expect the Common Stock could be quoted on an over-the-counter market. If this were to occur, we could face significant material adverse consequences, including:

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

The National Securities Markets Improvement Act of 1996, which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as "covered securities." Because the Common Stock is listed on Nasdaq, the Common Stock qualifies as a covered security. Although the states are preempted from regulating the sale of the Common Stock, the federal statute does allow the states to investigate companies if there is a suspicion of fraud, and, if there is a finding of fraudulent activity, then the states can regulate or bar the sale of covered securities in a particular case. Further, if we were no longer listed on Nasdaq, shares of Common Stock would not be covered securities and we would be subject to regulation in each state in which we offer the Common Stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding the Common Stock adversely, the price and trading volume of the Common Stock could decline.

The trading market for the Common Stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, the price of the Common Stock would likely decline. If an analyst that covers us ceases its coverage or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

We are a "controlled company" within the meaning of the applicable rules of Nasdaq and, as a result, qualify for exemptions from certain corporate governance requirements. If we rely on these exemptions, our Stockholders will not have the same protections afforded to stockholders of companies that are subject to such requirements.

HHEP controls more than 50% of the voting power for the election of the Board. Accordingly, we are a "controlled company" within the meaning of the Nasdaq rules. A "controlled company" and may elect not to comply with certain corporate governance requirements, including the requirements to have:

- a board of directors with the majority comprised of independent directors;

- a compensation committee; and
- independent oversight of director nominations.

While we do not currently rely on these exemptions, we may take advantage of these exemptions in the future. As a result, our Stockholders may not have the same protections afforded to stockholders of companies that are subject to all of Nasdaq's corporate governance requirements.

USE OF PROCEEDS

All of the shares of Common Stock offered by the Selling Stockholders pursuant to this prospectus will be sold by the Selling Stockholders for their respective accounts. We will not receive any of the proceeds from these sales.

The Selling Stockholders will pay any underwriting discounts or selling commissions attributable to the securities covered by this prospectus. We will bear the costs and expenses incurred in effecting the registration of the securities covered by this prospectus, including, but not limited to, all registration and filing fees, fees and expenses of compliance with securities or "blue sky" laws, printing expenses, our internal expenses (including all salaries and expenses of our officers and employees), the fees and expenses incurred in connection with listing the shares of Common Stock on Nasdaq, Financial Industry Regulatory Authority fees, and fees and disbursements of our counsel and for our independent certified public accountants.

MARKET INFORMATION AND DIVIDEND POLICY

Market Information

The Common Stock is listed on Nasdaq under the symbol "DTI". On July 19, 2023, the closing price of the Common Stock was $4.50 per share. As of July 18, 2023, there were approximately 35 holders of record of Common Stock. Such number does not include beneficial owners holding shares of the Common Stock through nominees.

Dividend Policy

Neither ROC nor we have paid any cash dividends on the ROC Common Stock or the Common Stock, respectively. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Our ability to pay dividends on the Common Stock could be restricted by the terms of the Credit Facility Agreement or the terms of any agreement governing other indebtedness we may incur. Any future determination to declare cash dividends will be made at the discretion of the Board, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions and other factors that the Board may deem relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

The 2023 Plan was approved at the June 1, 2023 special meeting of ROC stockholders held, in part, to ask such stockholders to vote on a proposal to approve the Business Combination (the "ROC Special Meeting"). In accordance with the 2023 Plan, we have reserved approximately 2,976,857 shares of Common Stock for issuance pursuant to awards under the 2023 Plan. See "*Executive Compensation*."

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Capitalized terms used below, but not otherwise defined, in this section shall have the meanings ascribed to them elsewhere in the prospectus.

Introduction

The following unaudited pro forma condensed combined financial information and accompanying notes are provided to aid you in your analysis of the financial aspects of the Business Combination, the PIPE Financing, and adjustments for other material events. These other material events are referred to herein as "Material Events" and the pro forma adjustments for the Material Events are referred to herein as "Adjustments for Material Events." The following information is also relevant to understanding the unaudited pro forma condensed combined financial information contained herein:

- On February 13, 2023, ROC Energy Acquisition Corp. ("ROC"), a Delaware corporation, Drilling Tools International Holdings, Inc. ("DTI"), a Delaware corporation, and ROC Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of ROC ("Merger Sub"), entered into the Merger Agreement. Pursuant to the Merger Agreement, Merger Sub merged with and into DTI with DTI surviving the merger (the "Merger"). As a result of the Merger, DTI became a wholly-owned subsidiary of ROC, with the stockholders of DTI becoming stockholders of ROC (such transaction, the "Business Combination," and the post-Business Combination entity being referred to as "New DTI").
- Immediately prior to the closing of the Business Combination, ROC Energy Holdings, LLC, (the "ROC Sponsor") held 5,971,000 shares of common stock of ROC, of which 5,175,000 are subject to restrictions set forth in the Escrow Agreement, the Sponsor Support Agreement, the Subscription Agreements, and the Exchange Agreements (the "Founder Shares"), and EarlyBirdCapital, Inc ("EarlyBirdCapital") held 180,000 shares of common stock of ROC. Upon the closing of the Business Combination, the ROC Sponsor forfeited 1,775,084 of these shares of common stock of ROC pursuant to the terms of the Sponsor Support Agreement and the ROC Sponsor forfeited 972,416 of these shares of common stock of ROC pursuant to the terms of the Exchange Agreements. The remaining 3,223,500 shares of ROC owned by ROC Sponsor and 180,000 shares of ROC owned by EarlyBirdCapital remained outstanding upon the closing of the Business Combination and represent common stock in New DTI.
- Upon consummation of the Business Combination, each of ROC's outstanding public rights were exchanged for one-tenth of one share of ROC's outstanding common stock, for an aggregate of 2,070,000 shares of common stock in New DTI. In addition, upon consummation of the Business Combination, each of ROC's outstanding private rights were exchanged for one-tenth of one share of ROC's outstanding common stock, for an aggregate of 79,600 shares of common stock in New DTI.
- Upon consummation of the Business Combination, each share of DTI common stock that was issued and outstanding immediately prior to the consummation of the Business Combination was canceled and automatically converted into the right to receive a number of shares of New DTI common stock equal to the Per Share Company Common Stock Consideration of 0.2282, which is calculated as the quotient of (A) the sum of (i) the Company Equity Value of $209,273,033 divided by the Closing Share Price of $10.10 plus (ii) the Variable Stock Amount of 1,775,084 divided by (B) the Company Fully Diluted Shares of 98,562,706.
- Pursuant to the Merger Agreement, holders of DTI's Redeemable convertible preferred stock held a right to receive the Aggregate Company Cash Consideration of $11.0 million and New DTI common stock upon consummation of the Business Combination. In June 2023, certain DTI preferred stockholders and ROC Sponsor entered into the Exchange Agreements wherein they exchanged their rights to receive their portions of the Aggregate Company Cash Consideration for the rights to receive shares of New DTI common stock and ROC Sponsor agreed to forfeit shares of New DTI common stock. This resulted in the issuance of 2,042,181 shares of New DTI common stock for $10.8 million,

and the forfeiture of 972,416 shares of New DTI common stock by ROC Sponsor. The remaining $0.2 million of the Aggregate Company Cash Consideration was paid to certain DTI preferred stockholders in cash upon the closing of the Business Combination. Furthermore, upon the closing of the Business Combination, the outstanding common stock of DTI was converted into the right to receive New DTI common stock. In consideration for the acquisition of all of the issued and outstanding ROC common stock, New DTI issued one share of New DTI common stock in exchange for each share of ROC common stock acquired by virtue of the Business Combination. Immediately after the closing of the Business Combination, DTI's stockholders owned approximately 21,086,518 shares of New DTI common stock.

- Upon consummation of the Business Combination, each share of DTI Redeemable convertible preferred stock that was issued and outstanding immediately prior to the consummation of the Business Combination was canceled and automatically converted into the right to receive a number of shares of New DTI common stock equal to the Per Share Company Preferred Stock Consideration of 0.3299, which is calculated as (A) the Aggregate Company Preferred Stock Consideration of 6,719,641 *divided by* (B) the Company Preferred Stock of 20,370,377 shares. In addition to the Per Share Company Preferred Stock Consideration of 0.3299 shares of New DTI common stock, each share of Redeemable convertible preferred stock outstanding that was canceled immediately prior to the consummation of the Business Consummation also obtained the right to receive the Per Share Company Preferred Cash Consideration of $0.54, which is calculated as (A) the Aggregate Company Cash Consideration of $11.0 million *divided by* (B) the Company Preferred Stock of 20,370,377 shares. The Aggregate Company Preferred Stock Consideration of 6,719,641 is calculated as (i) the Per Share Company Common Stock Consideration of 0.2282 (calculation detailed above) *multiplied* by the As Converted Preferred Share Count[1] of 34,214,055 *less* (ii) the Aggregate Company Cash Consideration of $11.0 million *divided* by the Closing Share Price of $10.10. As discussed above, certain DTI preferred stockholders entered into Exchange Agreements wherein they exchanged their rights to receive the Aggregate Company Cash Consideration in cash for the rights to receive shares of New DTI common stock in lieu of cash.
- As of March 31, 2023, DTI had entered into Subscription Agreements for 1,485,148 shares of New DTI common stock to be issued to various accredited investors at a price of $10.10 per share (the "PIPE Financing"). As a result of the PIPE Financing, New DTI received approximately $10.9 million in cash in exchange for the issuance of 1,075,247 shares of New DTI common stock. In addition, upon consummation of the Business Combination, the Convertible promissory notes—related party, which were issued to affiliates of the ROC Sponsor on December 2, 2022 and March 2, 2023, which had a combined outstanding principal balance of $4.1 million upon the Business Combination, were converted into New DTI common stock in connection with the PIPE Financing. The conversion resulted in the issuance of 409,901 shares of New DTI common stock, which is calculated as (A) the outstanding principal of $4.1 million *divided by* (B) $10.10, which is the price per share of New DTI common stock issued in the PIPE Financing.
- Subsequent to March 31, 2023 and prior to the closing of the Business Combination, additional Subscription Agreements were entered into with certain investors in the PIPE Financing, which include certain of ROC's directors and officers, ROC Holdings, or their respective affiliates (the "PIPE Investors"), certain DTI preferred stockholders entered into Exchange Agreements, ROC borrowed additional funds on its working capital loan, DTI borrowed additional funds on its revolving line of credit, and a holder of DTI stock options net exercised options resulting in the issuance of shares of DTI common stock. Refer to the *Material Events and Background Relevant to Material Events* section below for details of these Material Events that occurred subsequent to March 31, 2023.

1 The As Converted Preferred Share Count is equal to the number of shares of DTI common stock issuable upon the conversion of all DTI Redeemable convertible preferred stock issued and outstanding immediately prior to the closing of the Business Combination, inclusive of DTI common stock issuable as a result of the accumulation of paid-in-kind dividends on DTI's Redeemable convertible preferred stock.

- The tables below present the exchange of DTI common stock for the right to receive New DTI common stock and the exchange of DTI Redeemable convertible preferred stock for the right to receive New DTI common stock that occurred upon the closing of the Business Combination.

	Shares of DTI common stock outstanding as of March 31, 2023 (Historical)	Payment of transaction services fee to certain DTI stockholders in DTI common stock equivalents(1)	Net exercise of a DTI employee's stock options into common stock equivalents	DTI common stock equivalents outstanding immediately prior to Closing (excluding DTI common stock equivalents arising from DTI redeemable convertible preferred stock)
Common stock, par value $0.01 per share	52,363,872	1,478,371	158,444	54,000,687
DTI common stock equivalents outstanding immediately prior to Closing (excluding DTI common stock equivalents arising from DTI redeemable convertible preferred stock)				54,000,687
Exchange Ratio				0.2282
Shares of New DTI common stock issued to holders of DTI common stock upon Closing				12,324,697

1) In accordance with the Transaction Services Agreement amongst DTI and certain stockholders of DTI, as amended February 13, 2023, payment for advisory services rendered to DTI by certain stockholders was made in DTI common stock immediately prior to the closing of the Business Combination.

	Shares of DTI redeemable convertible preferred stock outstanding as of March 31, 2023 (Historical)
Redeemable convertible preferred stock, par value $0.01 per share	20,370,377
Exchange Ratio	0.3299
Estimated shares of New DTI common stock issued to holders of DTI redeemable convertible preferred stock upon Closing	6,719,641

For additional information about the Business Combination, please see the "*Introductory Note*."

Material Events and Background Relevant to Material Events

- In June 2023, Subscription Agreements were entered into with certain PIPE Investors. These PIPE Investors have committed to subscribe for and purchase, and New DTI has agreed to issue and sell, an aggregate of 1,485,148 shares of New DTI common stock. At the closing of the Business Combination, the New DTI common stock was sold to these PIPE Investors at a purchase price of $10.10 per share, for an aggregate purchase price equal to $15.0 million in cash.
- In June 2023, certain DTI preferred stockholders entered into Exchange Agreements to exchange their rights to receive a portion of the total Aggregate Company Cash Consideration of $11.0 million for the rights to receive shares of New DTI common stock at a purchase price of $10.10 per share. This

resulted in the issuance of 1,069,764 shares of New DTI common stock for $10.8 million of the Aggregate Company Cash Consideration. Additionally, pursuant to the Exchange Agreements, the ROC Sponsor forfeited 972,416 shares of New DTI common stock to certain DTI preferred stockholders.

- Subsequent to March 31, 2023, DTI borrowed an additional $5.0 million under its revolving line of credit and amended the line which resulted in DTI incurring $0.3 million of deferred financing costs, net in connection with the amendment.
- Under DTI’s 2012 Nonqualified Stock Option Plan, each option holder can elect for such holder’s options to be net exercised whereby the exercise price is paid in shares and additional shares are withheld for income taxes. In June 2023 and prior to the closing of the Business Combination, one option holder net exercised all of such holder’s options, resulting in 158,444 shares of DTI common stock being issued upon the net exercise.
- Subsequent to March 31, 2023, ROC borrowed an additional $0.3 million under the working capital loan.

The unaudited pro forma condensed combined financial information have been prepared based on the ROC and DTI historical financial statements as adjusted to give effect to the Business Combination. The unaudited pro forma condensed combined balance sheet as of March 31, 2023 gives pro forma effect to the Business Combination as if it had occurred on March 31, 2023. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2022 gives effect to the Business Combination as if it had occurred on January 1, 2022. The unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2023 gives effect to the Business Combination and Material Events as if they had occurred on January 1, 2022.

The unaudited pro forma condensed combined financial information have been derived from and should be read in conjunction with:

- the accompanying notes to the unaudited pro forma condensed combined financial information;
- the historical unaudited financial statements of ROC as of and for the year ended December 31, 2022, and the historical unaudited financial statements of ROC as of and for the three months ended March 31, 2023, and the related notes included elsewhere in this prospectus;
- the historical unaudited financial statements of DTI as of and for the year ended December 31, 2022, and the historical unaudited financial statements of DTI as of and for the three months ended March 31, 2023, and the related notes included elsewhere in this prospectus; and
- the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and other financial information relating to each of ROC and DTI included elsewhere in this prospectus.

The unaudited pro forma condensed combined financial information are for illustrative purposes only and are not necessarily indicative of what the actual results of operations and financial position would have been had the Business Combination and the Material Events taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of New DTI.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF MARCH 31, 2023

			Actual Redemptions				
			Transaction Accounting Adjustments				
(In thousands, except for share Data)	ROC (Historical)	DTI (Historical)	Adjustments for Material Events	Notes	Other Transaction Accounting Adjustments	Notes	Pro Forma Balance Sheet
ASSETS							
Current assets							
Cash	$ 8	$ 820	15,000	3(aa)	$ 217,776	3(a)	$ 8,751
	—	—	4,967	3(cc)	(3,178)	3(b)	—
	—	—	(195)	3(dd)	(4,698)	3(c)	—
	—	—	280	3(ee)	(16,188)	3(j)	—
	—	—	—		10,860	3(k)	—
	—	—	—		(216,301)	3(e)	—
	—	—	—		(400)	3(h)	—
Accounts receivable, net	—	30,339	—		—		30,339
Inventories, net	—	4,723	—		—		4,723
Prepaid expenses and other current assets	127	3,665	—		—		3,792
Investment - equity securities, at fair value	—	1,110	—		—		1,110
Total current assets	135	40,657	20,052		(12,129)		48,715
Cash and marketable securities held in the ROC trust account	217,776	—	—		(217,776)	3(a)	—
Property, plant and equipment, net	—	49,175	—		—		49,175
Operating lease right-of-use asset	—	20,257	—		—		20,257
Intangible assets, net	—	251	—		—		251
Deferred financing costs, net	—	207	325	3(cc)	(207)	3(j)	325
Deposits and other long-term assets	—	386	—		—		386
Total assets	$ 217,911	$ 110,933	$ 20,377		$ (230,112)		$ 119,109
LIABILITIES. REDEEMABLE STOCK. AND STOCKHOLDERS' EQUITY							
Current liabilities:							
Accounts payable	$ 2,078	$ 13,046	$ —		$ (1,730)	3(c)	$ 11,738
	—	—	—		(1,656)	3(b)	—
Accrued expenses and other current liabilities	—	7,611	—		2,576	3(c)	10,187
Convertible promissory notes - related party	4,140	—	—		(4,140)	3(k)	—
Current portion of operating lease liabilities	—	3,537	—		—		3,537
Revolving line of credit	—	10,896	5,292	3(cc)	(16,188)	3(j)	—
Income taxes payable	545	—	—				545
Working capital loan	120	—	280	3(ee)	(400)	3(h)	—
Total current liabilities	6,883	35,090	5,572		(21,538)		26,007
Operating lease liabilities, less current portion	—	16,739	—		—		16,739
Deferred tax liabilities, net	—	4,301	—		—		4,301
Total liabilities	6,883	56,130	5,572		(21,538)		47,047

See accompanying notes to the unaudited pro forma condensed combined financial information

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF MARCH 31, 2023

(In thousands, except for share Data)	ROC (Historical)	DTI (Historical)	Actual Redemptions — Transaction Accounting Adjustments — Adjustments for Material Events	Notes	Other Transaction Accounting Adjustments	Notes	Pro Forma Balance Sheet
Common stock subject to possible redemption at redemption value (20,700,000 shares at $10.48 per share)	216,977	—	—		(216,977)	3(e)	—
Series A redeemable convertible preferred stock, par value $0.01; 30,000,000 shares authorised, 20,370,377 shares issued and outstanding	—	18,192	(11,000)	3(dd)	(7,192)	3(i)	—
Stockholders' equity:							
DTl common stock, par value $0.01; 65,000,000 shares authorised, 53,175,028 shares issued and 52,363,872 shares outstanding	—	532	1	3(bb)	(548)	3(i)	—
	—	—	—		15	3(b)	—
ROC Common Stock, $0.0001 par value; 100,000,000 shares authorised; 6,151,000 shares issued and outstanding (excluding 20,700,000 shares subject to possible redemption)	1	—	—		(1)	3(d)	—
New DTI common stock, par value $0.0001	—	—	—	3(aa)	1	3(d)	3
	—	—	—	3(dd)	—	3(g)	—
	—	—	—		—	3(k)	—
	—	—	—		—	3(e)	—
	—	—	—		2	3(i)	—
Additional paid-in-capital	—	52,476	15,000	3(aa)	1,661	3(f)	98,552
	—	—	(1)	3(bb)	—	3(g)	—
	—	—	10,805	3(dd)	2,080	3(b)	—
	—	—	—		15,000	3(k)	—
	—	—	—		676	3(e)	—
	—	—	—		855	3(i)	—
Accumulated deficit	(5,950)	(15,353)	—		(1,661)	3(f)	(26,382)
	—	—	—		(3,617)	3(b)	—
	—	—	—		(5,544)	3(c)	—
	—	—	—		5,950	3(i)	—
	—	—	—		(207)	3(i)	—
Less treasury stock, at cost; 811,156 shares	—	(933)	—		933	3(i)	—
Accumulated other comprehensive loss	—	(111)	—		—		(111)
Total stockholders' equity	(5,949)	36,611	25,805		15,595		72,062
Total liabilities, redeemable stock, and stockholders' equity	$ 217,911	$ 110,933	$ 20,377		$ (230,112)		$ 119,109

See accompanying notes to the unaudited pro forma condensed combined financial information

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UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2023

(in thousands, except per share and weighted-average share data)	Three Months Ended March 31, 2023 ROC (Historical)	Three Months Ended March 31, 2023 DTI (Historical)	Actual Redemptions Transaction Accounting Adjustments	Notes	Actual Redemptions Pro Forma Statement of Operations	
Revenue, net:						
Tool rental	$ —	$ 32,276	$ —		$ 32,276	
Product sale	—	8,523	—		8,523	
Total revenue, net	—	40,798	—		40,799	
Operating cost and expenses:						
Cost of tool rental revenue	—	8,137	—		8,137	
Cost of product sale revenue	—	1,303	—		1,303	
Selling, general and administrative expense	1,960	18,423	(3,314)	4(b)	17,069	
Depreciation and amortization expense	—	5,015	—		5,015	
Total operating costs and expenses	1,960	32,878	(3,314)		31,524	
Operating income (loss)	(1,960)	7,921	3,314		9,275	
Other income (expense):						
Interest expense, net	—	(573)	573	4(d)	(20)	
	—	—	(20)	4(h)	—	
Interest earned on investment held in the ROC trust account	2,231	—	(2,231)	4(a)	—	
Gain on sale of property	—	69	—		69	
Unrealized gain (loss) on equity securities	—	(33)	—		(33)	
Other income (expense)	—	40	—		40	
Total other income, net	2,231	(497)	(1,678)		56	
Income before income tax (expense)	271	7,424	1,636		9,331	
Income tax benefit (expense)	(458)	(1,723)	(828)	4(g)	(3,009)	
Net income (loss)	$ (187)	$ 5,701	$ 808		$ 6,322	
Net income attributable to DTI common stockholders —basic		$ 5,387				
Net income attributable to DTI common stockholders — diluted		$ 5,701				
Earnings per share — basic, DTI common stock		$ 0.10				
Earnings per share — diluted, DTI common stock		$ 0.07				
Weighted-average common shares used in computing earnings per share — basic, DTI common stock		52,363,872				
Weighted-average common shares outstanding — diluted, DTI common stock		77,145,236				
Basic and diluted net loss per share, ROC common stock	$ (0.01)					
stock	26,851,000					
Pro forma basic earnings per share, New DTI common stock					$ 0.21	4(i)
Pro forma weighted-average common shares outstanding — basic, New DTI common stock					29,768,535	4(i)
Pro forma diluted earnings per share, New DTI common stock					$ 0.21	4(i)
Pro forma weighted-average common shares outstanding — diluted,						
New DTI common stock					30,739,102	4(i)

See accompanying notes to the unaudited pro forma condensed combined financial information

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UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands, except per share and weighted-average share data)	Year Ended December 31, 2022 ROC (Historical)	Year Ended December 31, 2022 DTI (Historical)	Actual Redemptions Transaction Accounting Adjustments	Notes	Pro Forma Statement of Operations	
Revenue, net:						
Tool rental	$ —	$ 99,018	$ —		$ 99,018	
Product sale		30,538			30,538	
Total revenue, net	—	129,556	—		129,556	
Operating cost and expenses:						
Tool rental operating costs	—	27,581	—		27,581	
Product sale operating costs	—	5,423	—		5,423	
Selling, general, administrative	1,282	51,566	12,475	4(b)	66,984	
	—	—	1,661	4(c)	—	
Depreciation and amortization expense	—	19,709	—		19,709	
Total operating costs and expenses	1,282	104,279	14,136		119,697	
Operating income (loss)	(1,282)	25,277	(14,136)		9,859	
Other income (expense):						
Interest expense, net	—	(477)	306	4(d)	(401)	
	—	—	58	4(e)	—	
	—	—	(207)	4(f)	—	
	—	—	(81)		—	
Interest earned on investment held in the ROC trust account	2,844	—	(2,844)	4(a)	—	
Gain on forgiveness of PPP loan	—	234	—		234	
Gain on sale of property	—	127	—		127	
Unrealised gain on securities	—	—	—		—	
Other expense	—	(384)	—		(384)	
Total other income, net	2,844	(500)	(2,768)		(424)	
Income (loss) before income tax benefit (expense)	1,562	24,777	(16,904)		9,435	
Income tax benefit (expense)	(546)	(3,697)	3,534	4(g)	(709)	
Net income (loss)	$ 1,016	$ 21,080	$ (13,370)		$ 8,726	
Net income attributable to DTI common stockholders — basic		$ 19,891				
Net income attributable to DTI common stockholders — diluted		$ 21,080				
Earnings per share — basic, DTI common stock		$ 0.38				
Earnings per share — diluted, DTI common stock		$ 0.27				
Weighted-average common shares used in computing earnings per share — basic, DTI common stock		52,363,872				
Weighted-average common shares outstanding — diluted, DTI common stock		77,145,236				
Basic and diluted earnings per share, ROC common stock	$ 0.04					
stock	26,851,000					
Pro forma basic earnings per share, New DTI common stock					$ 0.29	4(i)
Pro forma weighted-average common shares outstanding — basic, New DTI common stock					29,768,535	4(i)
Pro forma diluted earnings per share, New DTI common stock					$ 0.28	4(i)
Pro forma weighted-average common shares outstanding — diluted, New DTI common stock					30,739,102	4(i)

See accompanying notes to the unaudited pro forma condensed combined financial information

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Basis of Pro Forma Presentation

The unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of SEC Regulation S-X, as amended by the final rule, Release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*. Release No. 33-10786 replaces the historical pro forma adjustments criteria with simplified requirements to depict the accounting for the transaction *(“Transaction Accounting Adjustments”*) and present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur *(“Management’s Adjustments”).* Management has elected not to present Management’s Adjustments and has only presented Transaction Accounting Adjustments in the unaudited pro forma condensed combined financial information. The adjustments presented in the unaudited pro forma condensed combined financial information have been identified and presented to provide relevant information necessary for an understanding of the combined company upon consummation of the Business Combination, the PIPE Financing, and the Adjustments for Material Events. The unaudited pro forma condensed combined financial information does not give effect to any anticipated synergies, operating efficiencies, tax savings, or cost savings that may be associated with the Business Combination. ROC and DTI have not had any historical relationship prior to the Business Combination. Accordingly, no pro forma adjustments were required to eliminate activities between the companies.

The unaudited pro forma condensed combined balance sheet as of March 31, 2023, was derived from the unaudited historical balance sheet of ROC as of March 31, 2023, and the unaudited historical balance sheet of DTI as of March 31, 2023 and gives effect to the Business Combination as if it had occurred on March 31, 2023. The unaudited pro forma condensed combined statement of operations for the year ended March 31, 2023, combines the historical statement of operations of ROC for the year ended March 31, 2023, and the historical statement of operations of DTI for the year ended March 31, 2023, and gives effect to the Business Combination as if it had occurred on January 1, 2022.

The pro forma adjustments reflecting the consummation of the Business Combination, the PIPE Financing, and the Material Events are based on certain currently available information and certain assumptions and methodologies that each of ROC and DTI believes are reasonable under the circumstances. The pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments, and it is possible that the differences may be material. Each of ROC and DTI believes that its assumptions and methodologies provide a reasonable basis for presenting all the significant effects of the Business Combination, the PIPE Financing, and the Material Events based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information has been prepared based on actual redemptions of 20,541,379 shares of ROC common stock for an aggregate redemption price of $216.3 million out of the ROC trust account. No other shares of ROC common stock were subject to redemption.

Upon the closing of the Business Combination, shares outstanding as presented in the unaudited pro forma condensed combined financial statements include the following:

	Number of Shares Owned	% Ownership
(Shares in thousands)		
DTI stockholders[(1)]	21,086	70.8%
ROC Sponsor and related parties[(2)]	6,194	20.8%
ROC stockholders[(3)]	2,488	8.4%
Total	**29,768**	**100.0%**

1) The 21,086 shares of New DTI owned by DTI stockholders are comprised of 12,324 New DTI shares issued to holders of DTI common stock equivalents (excluding DTI common stock equivalents arising from DTI redeemable convertible preferred stock) in connection with the exchange of DTI shares for New DTI shares, 6,720 New DTI shares issued to holders of DTI redeemable convertible preferred stock in connection with the exchange of DTI shares for New DTI shares, 1,070 shares of New DTI issued to holders of DTI redeemable convertible preferred stock in accordance with the Exchange Agreements, and 972 shares of New DTI forfeited by the ROC Sponsor to holders of DTI redeemable convertible preferred stock in accordance with the Exchange Agreements.

2) The 6,194 shares of New DTI owned by the ROC Sponsor and related parties are comprised of 2,970 shares of New DTI issued in connection with Subscription Agreements, plus the 5,971 shares originally held by the ROC Sponsor less the 1,775 shares of New DTI forfeited by the ROC Sponsor to DTI stockholders in connection with the First Amendment to Sponsor Support Agreement less the 972 shares of New DTI forfeited by the ROC Sponsor to holders of DTI redeemable convertible preferred stock in accordance with the Exchange Agreements.

3) The 2,488 shares of New DTI owned by ROC stockholders are comprised of 2,149 shares of New DTI issued in connection with the closing of the Business Combination in accordance with stock rights, 180 shares of New DTI held by EarlyBirdCapital, and 159 shares of ROC common stock that were initially subject to possible redemption but that were not redeemed and were thus exchanged for 159 shares of New DTI in connection with the closing of the Business Combination.

2. Accounting for the Business Combination

Notwithstanding the legal form, the Business Combination will be accounted for as a reverse recapitalization in accordance with U.S. GAAP and not as a business combination under ASC 805. Under this method of accounting, ROC, will be treated as the acquired company for accounting purposes, whereas DTI will be treated as the accounting acquirer. In accordance with this method of accounting, the Business Combination will be treated as the equivalent of DTI issuing shares for the net assets of ROC, accompanied by a recapitalization. The net assets of DTI will be stated at historical cost, with no goodwill or other intangible assets recorded, and operations prior to the Business Combination will be those of DTI. DTI has been determined to be the accounting acquirer for purposes of the Business Combination based on an evaluation of the following facts and circumstances:

- DTI designated a majority of the governing body of New DTI and legacy DTI stockholders have a majority of the voting interest in New DTI.
- An individual from DTI has been designated as the chairman of the governing body of New DTI and the Chief Executive Officer of New DTI and a second individual from DTI has been designated as the Chief Financial Officer of New DTI and the remaining members of senior management of New DTI are comprised entirely of individuals from DTI.
- DTI's operations comprise the ongoing operations of New DTI.

3. Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2023

The pro forma notes and adjustments, based on preliminary estimates that could change materially as additional information is obtained, are as follows:

Pro Forma Adjustments for Material Events:

(aa) To reflect the issuance of 1,485,148 shares of New DTI common stock to certain PIPE Investors who entered into Subscription Agreements in June 2023 at a purchase price of $10.10 per share for an aggregate purchase price of $15.0 million in cash.

(bb) To reflect the net exercise of DTI stock options into 158,444 shares of DTI common stock in June 2023 and prior to the closing of the Business Combination.

(cc) To reflect a $5.3 million increase in the DTI revolving line of credit as a result of additional borrowings subsequent to March 31, 2023. The adjustment also increases cash by $5.0 million and deferred financing costs, net by $0.3 million.

(dd) To reflect the issuance of 1,069,764 shares of New DTI common stock at a purchase price of $10.10 per share to DTI preferred stockholders for $10.8 million in accordance with the Exchange Agreements that were entered into in June 2023.

(ee) To reflect $0.3 million of additional borrowings under the working capital loan subsequent to March 31, 2023.

Pro Forma Other Transaction Accounting Adjustments:

(a) To reflect a reclassification of the cash and marketable securities held in the ROC trust account to Cash at the closing of the Business Combination.

(b) To reflect the cash payment for DTI transaction costs of $3.2 million, which includes the payment of $1.6 million of transaction costs that were incurred prior to March 31, 2023 and that were recorded as accounts payable in the historical financial statements, as well as the payment of $1.6 million (of which $1.4 million are expensed in the pro forma statement of operations and $0.2 million are recorded as a reduction to additional paid-in capital) of transaction costs that were incurred subsequent to March 31, 2023 (but prior to the closing of the Business Combination). This adjustment increases DTI common stock by $15 thousand as a result of 1,478,432 shares being issued to certain stockholders of DTI immediately before the closing of the Business Combination in accordance with the Transaction Services Agreement between DTI and such stockholders. The adjustment increases accumulated deficit by $3.7 million, which is comprised of $2.3 million (1,478,432 shares multiplied by the estimated fair value[2] per DTI share of common stock of $1.58 upon the closing of the Business Combination) for the issuance of DTI common stock in accordance with the Transaction Services Agreement and $1.4 million for transaction costs incurred subsequent to March 31, 2023 that are expensed in the pro forma statement of operations. In addition, the adjustment reduces accumulated deficit by $0.1 million as a result of transaction costs incurred prior to March 31, 2023 that were expensed in the historical financial statements but that have been reclassified to additional paid-in capital in the unaudited pro forma condensed combined financial information because these were costs were related to the offering of securities. As a result, the net impact of this adjustment is to increase accumulated deficit by $3.6 million ($3.7 million *less* $0.1 million). This adjustment also increases additional paid-in capital by $2.0 million, which is comprised of an increase of $2.3 million for the issuance of DTI common stock in accordance with the Transaction Services Agreement and decreases of $0.1 million and $0.2 million for transaction costs related to the offering of securities incurred prior to March 31, 2023 and subsequent to March 31, 2023, respectively.

(c) To reflect the cash payment for ROC transaction costs of $4.7 million. The adjustment reflects the payment of total advisory, legal, and other professional fees that were incurred in connection with the Business Combination but that are not directly attributable to the offering of securities and are non-recurring items. The adjustment reduces accounts payable by $1.7 million as this portion of the $4.7 million cash payment went to paying off transaction costs that were incurred but unpaid as of March 31, 2023. In addition, this adjustment increases the Accumulated deficit by $5.5 million and increases Accrued expenses and other current liabilities by $2.5 million as a result of transaction costs incurred in connection with the closing of the Business Combination but that are not due and payable until after the closing of the Business Combination.

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2 Fair value was estimated by multiplying the ROC quoted market price upon issuance of shares in share exchange in connection with closing of the Business Combination by the Per Share Company Common Stock Consideration.

(d) To reflect the exchange of ROC common stock to New DTI common stock at an exchange ratio of 1.0.

(e) To reflect the redemption of 20,541,379 shares of ROC common stock subject to possible redemption at a redemption price per share of $10.53 for an aggregate redemption price of $216.3 million. Additionally, this resulted in a reclassification of the 158,621 shares of ROC Common stock that were not redeemed to an immaterial amount of New DTI common stock and additional paid-in capital of $0.1 million.

(f) To reflect the stock-based compensation for stock options that are subject to accelerated vesting upon the consummation of the Business Combination. The grant date fair value of the awards was estimated using the Black-Scholes-Merton option pricing model. The key inputs and assumptions of the model include the expected term of the option, stock price volatility, the risk-free interest rate, stock price, and exercise price.

(g) To reflect the issuance of 2,070,000 and 79,600 shares of New DTI common stock pursuant to the automatic exercise upon the consummation of the Business Combination of the ROC public rights and ROC private rights, respectively.

(h) To reflect the cash repayment of $0.4 million for the working capital loan.

(i) To reflect the recapitalization of DTI through the Business Combination and the issuance of 19,044,338 shares of New DTI common stock and the elimination of the accumulated deficit of ROC. As a result of the recapitalization, the following amounts were derecognized: ROC’s accumulated deficit of $6.0 million, DTI’s common stock of $0.5 million, DTI’s redeemable convertible preferred stock of $7.2 million, and DTI’s treasury stock of $0.9 million. The shares of New DTI common stock issued in exchange for DTI’s capital were recorded as an increase to New DTI common stock of $2 thousand and an increase to additional paid-in capital of $0.8 million.

(j) To reflect the repayment of DTI’s revolving line of credit as management settled the line of credit upon the closing of the Business Combination. This entry reflects a reduction in the revolving line of credit balance of $16.2 million consisting of the $10.9 million balance as of March 31, 2023 and the additional $5.3 million borrowing subsequent to March 31, 2023, a reduction in Cash of $16.2 million, a write-off of deferred financing costs, net, of $0.2 million, and an increase in accumulated deficit of $0.2 million. The increase in the accumulated deficit is due to the write-off of the deferred financing costs, net.

(k) To reflect the issuance of an aggregate of 1,485,148 shares of New DTI common stock to various accredited investors at a price of $10.10 per share in connection with the PIPE Financing. As a result of the PIPE Financing, New DTI received approximately $10.9 million in cash in exchange for the issuance of 1,075,247 shares of New DTI common stock. In addition, the convertible promissory notes – related party, which were issued to affiliates of the ROC Sponsor on December 2, 2022 and March 2, 2023, were converted into 409,901 shares of New DTI common stock connection with the PIPE Financing. The conversion of the notes into 409,901 shares is calculated as (A) the outstanding principal of the notes of approximately $4.1 million *divided by* (B) $10.10, the price per share of New DTI common stock issued in the PIPE Financing.

4. Adjustments to the Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2023 and the year ended December 31, 2022

The pro forma notes and adjustments, based on preliminary estimates that could change materially as additional information is obtained, are as follows:

Pro Forma Other Transaction Accounting Adjustments:

(a) To reflect the elimination of interest earned on investment held in the ROC trust account.

(b) To reflect transaction costs for ROC and DTI for certain accounting, auditing, and other professional fees incurred in connection with the Business Combination that are not deemed to be specific incremental costs directly attributable to this proposed offering of securities. In addition, this entry moves the ROC and DTI transaction costs from the statement of operations for the three months ended March 31, 2023 to the statement of operations for the year ended December 31, 2022. The assumption for the pro forma statement of operations is that the Business Combination closed and the transaction costs were expensed on January 1, 2022. This adjustment also reduces historical transaction costs that were recorded as expenses for costs related to the offering of securities as it is assumed that if the Business Combination had closed on January 1, 2022 these costs would not have been recorded as expenses on the pro forma statement of operations but as a reduction to additional paid-in capital.

(c) To reflect the stock-based compensation for stock options that were subject to accelerated vesting when the Business Combination closed.

(d) To reflect the elimination of interest expense on DTI's revolving line of credit agreements with PNC Bank. Management settled the revolving line of credit upon the closing of the Business Combination and the pro forma combined statements of operations assume that the Business Combination closed and that the revolving line of credit was settled on January 1, 2022. In addition, this entry moves the amortization of deferred financing costs, net, on the revolving line of credit from the statement of operations for the three months ended March 31, 2023 to the statement of operations for the year ended December 31, 2022. The assumptions for the pro forma statement of operations that the Business Combination closed and that the revolving line of credit was settled on January 1, 2022 result in all financing costs being expensed on January 1, 2022 as all financing costs are immediately expensed when the associated debt is settled. Refer to Note 4(f) for the adjustment expensing the unamortized deferred financing costs, net, in the pro forma statement of operations for the year ended December 31, 2022.

(e) To reflect the elimination of interest expense on DTI's notes payable, net, as it is assumed that the notes would have been repaid on January 1, 2022 if the Business Combination had closed on January 1, 2022.

(f) To reflect the write-off of the unamortized deferred financing costs, net, on the revolving line of credit as management settled the line of credit upon the closing of the Business Combination.

(g) To reflect an adjustment to income taxes as a result of the tax impact of the pro forma adjustments at the estimated combined statutory tax rate of 25.0%.

(h) To reflect the amortization of deferred financing costs, net associated with the amendment to the revolving line of credit that was entered into subsequent to March 31, 2023.

(i) The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed combined statement of operations are based on the number of New DTI shares outstanding as if the Business Combination, PIPE Financing, and Material Events had occurred on January 1, 2022. The calculation of weighted-average shares outstanding for pro forma basic and diluted earnings per share assume that the shares issuable in connection with the Business Combination, PIPE Financing, and Material Events have been outstanding for the entirety of the periods presented.

Pro forma basic and diluted earnings per share is calculated as follows for the three months ended March 31, 2023:

Three Months Ended March 31, 2023	Actual Redemptions
Numerator:	
Pro forma net income	$ 6,322,000
Denominator:	
Assume conversion of ROC common stock into New DTI common stock effective January 1, 2022 as a result of assuming closing of the Business Combination on January 1, 2022	4,375,916
Assume reclassification of ROC common stock subject to possible redemption to New DTI common stock effective January 1, 2022 as a result of assuming closing of the Business Combination on January 1, 2022	158,621
Assume January 1, 2022 issuance of New DTI common stock in connection with the PIPE Financing	2,970,296
Assume January 1, 2022 issuance of New DTI common stock in connection with the Exchange Agreements	1,069,764
Assume conversion of ROC public rights into 2,070,000 shares of New DTI common stock and conversion of ROC private rights into 79,600 shares of New DTI common stock effective January 1, 2022 as a result of assuming closing of the Business Combination on January 1, 2022	2,149,600
Assume January 1, 2022 issuance of New DTI common stock to DTI stockholders as a result of assuming closing of the Business Combination on January 1, 2022	19,044,333
Pro forma weighted-average shares outstanding—basic	29,768,535
Assume January 1, 2022 exchange of DTI stock options for New DTI stock options and issuance of New DTI common stock upon exercise in accordance with the treasury stock method(1)	970,567
Pro forma weighted-average shares outstanding—diluted	30,739,102
Pro forma net loss per share—basic	$ 0.21
Pro forma earnings per share—diluted	$ 0.21

(1) The 970,567 dilutive shares of New DTI common stock are calculated by multiplying the weighted-average of 4,252,543 options to purchase DTI stock by the Per Share Company Common Stock Consideration of 0.2282.

Pro forma basic and diluted earnings per share is calculated as follows for the year ended December 31, 2022:

Year Ended December 31, 2022	Actual Redemptions
Numerator:	
Pro forma net income	$ 8,726,000
Denominator:	
Assume conversion of ROC common stock into New DTI common stock effective January 1, 2022 as a result of assuming closing of the Business Combination on January 1, 2022	4,375,916
Assume reclassification of ROC common stock subject to possible redemption to New DTI common stock effective January 1, 2022 as a result of assuming closing of the Business Combination on January 1, 2022	158,621
Assume January 1, 2022 issuance of New DTI common stock in connection with the PIPE Financing	2,970,296
Assume January 1, 2022 issuance of New DTI common stock in connection with the Exchange Agreements	1,069,764
Assume conversion of ROC public rights into 2,070,000 shares of New DTI common stock and conversion of ROC private rights into 79,600 shares of New DTI common stock effective January 1, 2022 as a result of assuming closing of the Business Combination on January 1, 2022	2,149,600
Assume January 1, 2022 issuance of New DTI common stock to DTI stockholders as a result of assuming closing of the Business Combination on January 1, 2022	19,044,338
Pro forma weighted-average shares outstanding—basic	29,768,535
Assume January 1, 2022 exchange of DTI stock options for New DTI stock options and issuance of New DTI common stock upon exercise in accordance with the treasury stock method(1)	970,567
Pro forma weighted-average shares outstanding—diluted	30,739,102
Pro forma net loss per share—basic	$ 0.29
Pro forma earnings per share—diluted	$ 0.28

(1) The 970,567 dilutive shares of New DTI common stock are calculated by multiplying the weighted-average of 4,252,543 options to purchase DTI stock by the Per Share Company Common Stock Consideration of 0.2282.

BUSINESS

Our Company

We are a leading OSC, based on the percentage of active rigs to which we supply tools in the geographies in which we are active, that rents downhole drilling tools used in horizontal and directional drilling of oil and natural gas. We operate from 18 locations in North America and four locations in Europe and the Middle East, and maintain a large fleet of rental equipment consisting of drill collars, stabilizers, crossover subs, wellbore conditioning tools, drill pipe, hevi-wate drill pipe and tubing. We also rent surface control equipment such as blowout preventers and handling tools, and provide downhole products for producing wells.

Drilling and producing oil and gas is a complex endeavor that requires tools of various shapes and sizes. Many of our customers rent these tools, as opposed to owning them, because of the many factors that affect which tools are needed for a specific task. Such factors include different formations, drilling methodologies, drilling engineer preferences, drilling depth and hole size. We believe that we are successful because we meet our customers' wide demands by operating from multiple locations with over 65,000 tools in our fleet.

We are led by an accomplished management team that has significant experience in the oil and gas industry and has worked together for much of the last decade. Since 2012, we have grown the business and strengthened our standing in the industry. Specifically, we have:

- Grown our revenue by 271%, from $35 million in 2012 to $130 million in 2022;
- Increased substantially our market share within North American land drilling, in which we are the market leader, based on the percentage of active projects to which we supply tools, and regularly have active tool rentals on more than 50% of working locations;
- Expanded our footprint from three facilities to 18 locations in North America, allowing us to serve all major oil and gas producing basins in North America land and offshore;
- Established four additional locations with international partners in Europe and the Middle East;
- Secured distribution rights for Drill-N-Ream, a patented specialty reaming tool that saves our customers time and money;
- Become the market leader in GOM deepwater drilling operation tool rentals, based on the percentage of active projects to which we supply tools, growing from serving only a single GOM project in 2012;
- Upgraded our customer base from one comprised primarily of independent directional service providers to one comprised of major diversified OSCs and global E&P operators;
- Built a large sales and marketing organization focused on team selling; and
- Secured distribution rights for emerging technologies that fulfill the growing demand for longer horizontal lateral drilling.

Our Operating Activities

Our operating activities are divided into four divisions:

- ***Directional Tool Rentals*** — Our DTR division is a leading provider of downhole tools to directional drilling and upstream energy customers in both land and offshore markets, based on the percentage of active rigs to which we supply tools in the geographies in which we are active. DTR maintains a fleet of over 25,000 tools and accounted for approximately 60.2% of our 2022 revenue. DTR rents drill collars, stabilizers, sub-assemblies and other tools used in horizontal and directional drilling of oil and natural gas. We charge our customers a day rate, monthly rate or per-well rate, and customers are required to compensate us for lost or damaged tools. DTR operates ten full-service locations and additional stocking points in key locations. DTR is our core division and operates in all markets which we serve.

- ***Premium Tools*** — Our PTD rents drill pipe, drill collars, kellys, pup joints, work strings, blowout preventers and production tubing to drilling operators across the United States. PTD accounted for approximately 17.5% of our 2022 revenue. PTD's fleet of drill pipe includes approximately 1,000,000 feet of drill pipe and tubing in diameters ranging from 3.5-inch to 5.5-inch with premium connection licenses from a subsidiary of NOV Inc. We typically rent drill pipe under long term contracts under which the customer is responsible for tools lost or damaged tools while in its possession. This division operates two full-service locations and one stocking point.
- ***Wellbore Optimization Tools*** — WOT distributes Drill-N-Ream, the leading wellbore conditioning tool, based on the percentage of active rigs that are candidates for wellbore conditioning where Drill-N-Ream is deployed and used in horizontal and directional drilling. WOT accounted for approximately 19.5% of our 2022 revenue. Drill-N-Ream is manufactured by SDPI, which holds the applicable patent. Pursuant to a periodically reviewed pricing agreement with SDPI, we purchase Drill-N-Ream units to rent to our customers and in turn pay SDPI a royalty based on the revenue we derive from such rentals. We have been the sole North American distributor of Drill-N-Ream since 2016. Drill-N-Ream conditions the wellbore during the drilling process, making it easier to back out of the hole once drilling is finished and clean the wellbore during the drilling process. This tool saves customers time and money by enabling operators to extend the length of their wellbore at a lower cost. We generally charge customers on a per foot basis and the customer is typically responsible for tools that are lost or damaged while in its possession. WOT is also launching emerging products that we believe will deliver added value to our customers. A specialized group of salespeople and service personnel regularly visit drill sites to support our customers in their use of our tools.
- ***Other Products & Services, including Downhole Solutions Inspection Services & Downhole Machining Solutions*** — DTI's Other Products and Services division ("Other Products & Services division") includes Downhole Solutions Inspection Services & Downhole Machining Solutions and primarily provides inspection and machining services to our DTR, PTD and WOT divisions and a few select customers. Other Products & Services accounted for approximately 2.7% (net of eliminations) of our 2022 revenue. Other Products and Services enables us to manage the maintenance and repair of our tools, which in turn empowers us to maximize their uptime.

Our Industry

The Role of Rental Tool Companies in the Production of Oil and Gas

Wellbore construction is a critical stage in the production of oil and gas. Wellbore construction is comprised of drilling the wellbore, logging the target producing formation to determine if commercial amounts of hydrocarbons exist, installing casing, cementing casing and performing completion procedures to prepare the well for production. Even after wellbore construction is complete, production products and services are needed over the well's full life cycle.

Oil and gas companies typically hire a drilling contractor with an appropriate drilling rig to begin wellbore construction. However, drilling contractors generally do not have all the necessary tools to complete the project, and instead focus their business on the rig and its main components and rarely rent tools on behalf of oil and gas operators. Instead, oil and gas companies prefer to procure the products and services involved in drilling and subsequent procedures on a temporary basis from entities operating in the OFS industry. This enables them to obtain the best quality, service, and pricing value directly from the service and equipment suppliers. As a result, upon completion of the well, the oil and gas operator does not hold assets that it no longer needs.

The tools provided by rental tool companies vary from select bottom hole assembly components, drill string tools, pressure control devices and a wide variety of specialty items. Rental tool companies purchase assets and rent them to their oil and gas operator customers, who in turn use these tools to complete their respective projects. Rental tool companies typically charge daily rental fees, but fees also can be structured as hourly, footage, weekly, or monthly charges. Rental tool companies also bill customers for repair charges if tools are damaged beyond normal wear and tear. In addition, if the tools are lost in the well, or damaged beyond repair, the customer is charged a replacement fee. Rental tool companies' ability to charge such fees are particularly important in light of the acceleration of drilling rates, as such acceleration has led to an increase in the number of damaged or lost-in-hole tools. We believe that this commercial arrangement has been standard practice in the industry for over 70 years. Given the cyclical nature of the oil and gas industry, commercial terms will be more favorable to rental tool companies when oil and gas industry activity is higher.

Oil and Gas Drilling Activity

Rental tool companies' financial and operating results are tied to the level of oil and gas drilling activity in their respective regions of operation, which, in our case, are generally the United States and Canada. Historically, the level of activity was measured by the number of active drilling rigs. As of December 31, 2022, there were 779 rigs drilling in the United States and 189 rigs drilling in Canada. These figures have increased by 518 rigs, or 198%, in the United States since the low in the third quarter of 2020 and by 165 rigs, or 687%, in Canada since the low in the second quarter of 2020. However, these rig counts are down substantially from 2014 highs of 1,903 rigs in the United States and 548 rigs in Canada.

Drilling rigs now operate faster than ever before. As a result, a rig can now accomplish more than one could have in the past. Accordingly, we believe that well count and feet drilled are better indicators of the level of oil and gas drilling activity.

Our Strategy

We intend to (i) maximize the profitability of our core rental tool business, (ii) commercialize new high-value rental tools that make the drilling process more efficient (iii) extend our reach into other segments of a well's lifecycle, such as completion and production and (iv) expand geographically. We intend to execute our strategy through the following:

- ***Increase sales to E&P operators*** — E&P operators are the most profitable and financially robust renters of oil and gas drilling tools. As a result, in 2014, we began to expand our customer base by targeting these companies. We have subsequently grown the percentage of our revenue derived from E&P operators from less than 10% in 2014 to over 47.2% in 2022. We believe that we can continue increasing the amount of business we do with E&P operators through persistent selling efforts, excellent customer service and strategically expanding our rental tool fleet with differentiated new tools. We believe that we can eventually generate in excess of 50% of our revenue from E&P operators while maintaining our leading position with OSC customers. We strive to maintain business relationships and brand recognition with both E&P operators, drilling contractors, and service companies. Some E&P operators have implemented a strategy to go directly to suppliers and de-bundle directional drilling service providers in order to get the tools they want and extract value from that de-bundling process. By ensuring we have a business path to both the E&P operators and the directional drilling service companies, we believe we are in a position to win business regardless of the commercial profile of the end user.
- ***Maximize the uptime of our rental tool fleet*** — We only earn a return from tools that are being rented. Accordingly, we strive to minimize the number of tools that are unused or awaiting repair. We intend to do so by leveraging our COMPASS, which empowers us to transfer tools from facilities where they are under-utilized to those where they are in greatest demand. COMPASS also enables us to stock the optimal number of a particular tool, such that we have enough inventory to meet all customer needs without having excess inventory and thereby stranding capital. See "— Our Competitive Strengths — COMPASS inventory management system." Our inspection, machining and robotic capabilities also allow us to maximize the uptime of our rental tool fleet because we can control these critical functions and return our rental tools to service.

- ***Further professionalize the organization*** — Historically, rental tool companies' success was largely tied to their ability to provide customers with ancillary benefits and perks, such as golf outings and meals. While safety standards existed, compliance therewith was not typically audited. Moreover, operating facilities were unimpressive and rarely visited by customers, rental tools were worn and inexact, and quality audits were uncommon. Today, however, safety and quality standards are far more exacting. Accordingly, rental tool companies must be professional, transparent and sophisticated. As the oil and gas industry professionalizes, all segments of the industry are increasingly evaluated based on a strict set of criteria that includes safety, ability to fulfill tool orders, the presence of repeatable and verifiable processes and procedures, billing accuracy and "one-stop shop" capabilities. While rental tool companies must maintain relationships with customers, they must also have auditable and repeatable processes to win business. We have transformed our business in light of the new normal, allocating resources to ensure we meet our customers' high expectations. We believe that many of our competitors have not made this transition. We intend to press this advantage by continuing to professionalize our workforce and processes, thereby widening the gap between us and our competitors.
- ***Execute accretive mergers and acquisition*** — We have a demonstrated track record of successfully integrating acquired businesses. Because of our industry reputation, we are frequently presented with acquisition opportunities. However, given our capital limitations in recent years, we have not been able to proceed with many of these transactions. From 2010 to 2016, significant capital flowed into the OFS sector, led by energy-focused private equity firms that typically have investment horizons of ten years or less. Although many of these investments are now more than ten years old, the private equity firms have no clear path to achieving liquidity since little new capital is entering the energy industry. We believe we have compelling accretive acquisition opportunities, the purchase price consideration for which can be shares of Common Stock. Given their relationships in the industry, the members of our management team can source attractive acquisition targets. We intend to focus our acquisition activity on the downhole rental tool sector, including companies that rent or sell drilling motors and their components, specialty downhole tools that provide added value, power sections that transmit power transmission to the drill bit, and products that support the downhole pumping operations used in production. We believe that an ability to provide these products will further embed us with our customers, and acquired companies would benefit from our customer relationships, facilities, salesforce and industry reputation. Nonetheless, we intend to extend our participation into the completion and production portion of a well's lifecycle. Because the owners of many companies in our target sectors have limited options to realize liquidity, we believe we can attain attractive purchase prices that are highly accretive to our valuation metrics.
- ***Partner with leading drilling tool producers*** — We intend to differentiate ourselves from our competitors by partnering with leading drilling tool producers, thereby empowering us to rent value-added tools to which our competitors do not have access. We have a track record of partnering with drilling tool producers to achieve mutually beneficial results. For example, we are party to a distribution agreement with SDPI, which holds the patent to Drill-N-Ream. SDPI launched the tool in 2012, but experienced slowing sales by 2015 and 2016. We leveraged our industry relationships to secure distribution rights for Drill-N-Ream in May 2016. As a signal of our commitment to the product and relationship with SDPI, we hired all the related personnel and launched a North American commercial strategy. Our Wellbore Optimization team has over 25 employees trained and dedicated to selling and servicing the Drill-N-Ream. We have a unique "field first" approach whereby we provide service to the field foreman and wellsite superintendents, and communicate with the city sales team to provide performance data and feedback to the clients in corporate offices. We developed a Technical Services department with mechanical and petroleum engineers to support the value proposition of our core products and products like Drill-N-Ream. Because of our efforts, Drill-N-Ream is now the market leader in wellbore conditioning. See "*Risk Factors — Risks Related to Our Business — Termination of, or failure to comply with, the terms of our non-exclusive distribution agreement with SDPI could have a material adverse effect on our business*." If we are unable to fully protect our intellectual property

rights or trade secrets, we may suffer a loss in revenue or any competitive advantage or market share we hold, or we may incur costs in litigation defending intellectual property rights.” Similarly we have entered into an exclusive distribution agreement with CTES, a Canadian firm that developed the HydroClutch. This tool, which we have rebranded as RotoSteer, allows drillers to use an alternative method of horizontal well drilling. By using RotoSteer, customers can enhance levels of performance with the traditional methods of horizontal well drilling, and lower cost with significantly lower risk. We finalized an agreement with CTES in the third quarter of 2022 and have established a fleet of 12 RotoSteer tools in inventory. On February 6, 2023, we completed a purchase of a motor shop and downhole motor product line that will support our RotoSteer offering. We are now able to service our fleet of RotoSteer tools. We have ten RotoSteer tools in our fleet that are ready to be deployed. We believe that our RotoSteer tool business has the potential to achieve a commanding market share in the United States in the next three to five years. We believe that there is an opportunity to expand our RotoSteer offering into the international market.

- ***Expand international operations*** — We intend to expand our international footprint, including by acquiring identified targets. While we intend to maintain and grow our current North American business, we intend to increase, in the next five years, the percentage of our revenue and income derived from outside of North America. To successfully implement this strategy, we will need to make several strategic acquisitions and invest additional capital.

Our Competitive Strengths

To implement the strategies discussed above, we plan to leverage the following competitive strengths:

- ***Experienced management team with significant industry experience*** — We are led by oil and gas industry veterans with experience spanning many decades, industry cycles and segments of the oil and gas industry. Our CEO, Wayne Prejean, began his career in 1979 as an entry-level service technician on an offshore drilling platform in the GOM, providing monitoring equipment for producing wells. In 1981, he joined a new firm providing guidance and survey tools for directional drilling services. Throughout the 1980s, Mr. Prejean became a directional drilling operator, supervisor and manager, using novel techniques in the nascent horizontal and directional drilling processes. Mr. Prejean spent the next 20 years in senior management roles, developing and growing numerous successful companies in multiple sectors of the industry. Mr. Prejean became our CEO in 2013. Mr. Prejean’s industry expertise, paired with that of the other members of our management team, is a significant strength. Every member of the management team has worked at a major OSC. Accordingly, our team understands corporate structure, internal processes and the needs of our customers. As a result, the management team helps us become an integral part of our customers’ operations. Many members of our management team have worked together over the past ten years and have helped us transform from a small, entrepreneurial company with few processes and procedures, less sophisticated customers and few operating locations into a professional company serving leading OSCs and E&P operators from 18 locations in North America and four locations in Europe and the Middle East.
- ***Large fleet of rental tools meeting our customers’ needs*** — We operate and maintain a large rental tool fleet that is dispersed across most of the oil and gas producing regions of the U.S. and Canada. Our fleet is significantly concentrated in the Permian Basin, one of the world’s most prolific oil and gas fields. We have recently expanded into Europe and the Middle East via partnerships with existing suppliers. The tools that make up a bottom hole assembly and a drill string vary widely due to the differing nature of oil and gas formations, hole sizes, wellbore design, connections and drilling engineer preferences. Therefore, it is not efficient for even the largest diversified OSCs, such as SLB, Baker Hughes or Phoenix, to maintain their own rental tool fleet. Furthermore, high-quality customers expect rental tool companies to meet all their tool needs. Thus, without a sizeable rental tool fleet, smaller providers cannot secure large contracts covering multiple geographic locations. The sheer number of tool variations and the substantial cost to replicate a rental tool fleet serve as barriers to entry for new competitors in the downhole rental tool industry.

- ***Master Service Agreements with leading customers*** — We have over 325 master service agreements MSAs with leading OSCs and E&P operators. An MSA is necessary to do business with many of our customers. Obtaining an MSA requires both time and a relationship with the customer. Additionally, to enter into MSAs with its customers, a rental tool company must demonstrate a record of safety, repeatable processes and procedures and, in some cases, industry certifications such as API (American Petroleum Institute) and ISO (International Organization for Standards). A rental tool company must also satisfy numerous site and job specific quality criteria. We possess all certifications that are required by our customers, have a robust quality assurance department and regularly satisfy customer audits. Many smaller rental tool providers cannot meet the stringent requirements set out by world-leading OSCs and E&P operators.
- ***Wide distribution network*** — In 2012 we had three facilities. We have since grown our physical footprint significantly, and now operate from 22 locations, including five facilities in the Permian Basin (two in Midland, Texas, two in Odessa, Texas and one in Carlsbad, New Mexico). Our ability to support customers across all of North America is critical to winning business because our customers operate across the continent. Most of these facilities operate 24 hours per day, 365 days per year, and many are equipped with machining and welding capabilities to facilitate in-house tool repair, which maximizes turnaround time and minimizes downtime. We can meet many of our customers' rental tool needs in every location in which they operate.
- ***COMPASS inventory management system*** — In 2016, we began designing COMPASS, a proprietary inventory and order management system. COMPASS enables customers to place orders online using a streamlined interface similar to the "Add to Cart" function provided by many online retailers. Every tool available for rental on COMPASS is accompanied by a description, a photograph and all relevant connection, size and raw material information. Customers can create a custom basket, thereby allowing them to more efficiently place repeat orders. COMPASS provides customers with full transparency on tool orders and account status with all-day instant access and customized automated scheduling reports. We believe that none of our competitors are making a similar technological transition. COMPASS has helped us maximize fleet utilization. Specifically, COMPASS generates reports that enable facility managers to identify slow-moving or under-utilized tools and to "right size" the rental tool fleet at each location. Thus, instead of buying a new tool when needed at a busy facility, the tool can be moved from a facility where it is not currently being utilized. Awareness of an asset's use enables us to increase rental tool utilization and maximize return on capital.
- ***Large, talented salesforce with deep customer relationships*** — Our salespeople specialize in a particular tool type (e.g., drilling tools, wellbore optimization tools and drill pipe) and service all locations where our customers operate. Our salespeople are divided into two teams: city-sales and field-sales. The city-sales team focuses its efforts on customers' corporate offices, striving to establish and maintain long-term relationships that can culminate in multi-year first call supply agreements with detailed pricing arrangements. The field-sales team focuses its efforts on customers' drilling rigs and field offices. The field-sales team seeks to fulfill customers' needs that are specific to ongoing or soon-to-launch projects. Whether a member of our city-sales team or our field-sales team, each salesperson focuses on providing customers the right tools when and where those tools are needed.

Customers

Our customer base is comprised of: (i) diversified OSCs such as SLB (formerly Schlumberger), Baker Hughes, Phoenix Energy and Halliburton (accounting for approximately 54.1% of 2022 revenue); (ii) E&P operators such as Occidental Petroleum, EOG, ConocoPhillips and Pioneer Energy (accounting for approximately 42.7% of 2022 revenue); and (iii) oil and gas equipment manufacturers such as National Oilwell Varco and Liberty Lift (accounting for approximately 3.2% of 2022 revenue). In 2022, 28% of our total revenue was earned from our two largest customers.

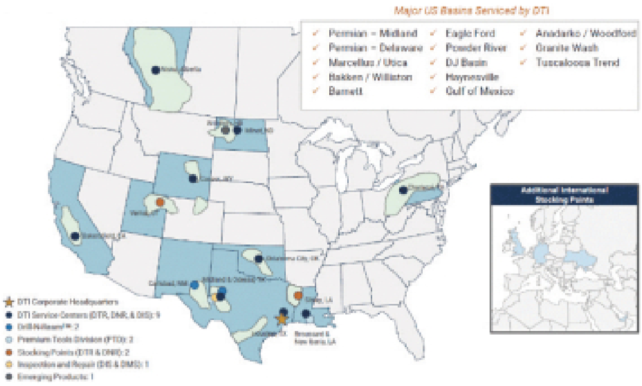
Conducting business with top tier customers requires world class service quality, safety and auditable work processes. These operating requirements are contained in MSAs with our clients. Obtaining MSAs can be difficult and time-consuming. We believe this creates a barrier to entry for smaller, less competent providers and provides us an industry advantage.

Employees and Employee Safety

We have 385 employees and contractors, all of whom were full-time. Our workforce includes over 25 sales professionals who are divided between city-sales and field-sales teams. Keeping our workforce safe and healthy is a key priority, and management is committed to ensuring our employees return home safely after each shift. In 2018, we implemented “Safety Now,” a rigorous safety program that is part of DTI’s Safe, Inspired, Productive incentive program (“SIP”). SIP has helped reduce our total recordable incident rate from 2.3 in 2018 to 1.2 in 2022, which is significantly better than the industry average. The success of SIP is necessary for us to do business with many of our customers, including SLB, Baker Hughes, Occidental and EOG.

Properties

We operate from 18 locations in North America and four locations in Europe and the Middle East, as shown below:



Government Regulation and Environmental, Health and Safety Measures

Our business is significantly affected by federal, state and local laws and other regulations. These regulations primarily impact the operation of our facilities. The laws and regulations relate to, among other things:

- worker safety standards;
- the protection of the environment; and
- waste management, with respect to both fluids and solids.

Our internal environmental group monitors our compliance with applicable laws and regulations. We also engage third parties to review our compliance with such.

We cannot predict the level of enforcement of existing laws and regulations or how such laws and regulations may be interpreted by enforcement agencies or court rulings in the future. We also cannot predict whether additional laws and regulations will be adopted, including changes in regulatory oversight, increase of federal, state or local taxes, increase of inspection costs, or the effect such changes may have on us, our business or our financial condition.

Competition

We believe that there are a limited number of competitors in the oil and gas drilling rental tools industry. Of those, most are local and regional players, and we believe only one competitor is of appreciable scale. We believe that we enjoy a competitive advantage with respect to these competitors due to our large relevant tool inventory, strong management team and significant scale.

Corporate Information

Our operations date to the founding of Directional Rentals, Inc. in 1984. Its name was changed to "Drilling Tools International, Inc." in 2014, and it is a wholly owned subsidiary of DTIH. As a result of the Business Combination, DTIH became a wholly owned subsidiary of ROC. In connection with the Business Combination, ROC changed its name to "Drilling Tools International Corporation". See "*Introductory Note*."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations with our unaudited consolidated financial statements as of and for the three months ended March 31, 2023 and 2022 (the "Interim Financial Statements") and our audited consolidated financial statements as of and for the years ended December 31, 2022 and 2021 (the "Annual Financial Statements"), together with the related notes thereto, included elsewhere in this prospectus. The discussion and the analysis should also be read together with the information set forth in the section entitled "Business." The following discussion contains forward-looking statements based upon current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the sections titled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" or in other parts of this prospectus. Our historical results are not necessarily indicative of the results that may be expected for any period in the future.

Overview

We are a leading OSC, based on the percentage of active rigs to which we supply tools in the geographies in which we are active, that rents downhole drilling tools used in horizontal and directional drilling of oil and natural gas. We operate from 18 locations in North America and four locations in Europe and the Middle East, and maintain a large fleet of rental equipment consisting of drill collars, stabilizers, crossover subs, wellbore conditioning tools, drill pipe, hevi-wate drill pipe and tubing. We also rent surface control equipment such as blowout preventers and handling tools and provide downhole products for producing wells.

Our business model primarily centers on revenue generated from tool rentals and product sales. We generated revenue from tool rentals and product sales of $40.8 million and $26.0 million for the three months ended March 31, 2023 and 2022, respectively, and had net income of $5.7 million and $1.3 million for those same periods. Additionally, we generated revenue from tool rentals and product sales of $129.6 million and $77.4 million for the years ended December 31, 2022 and 2021, respectively, and had net income of $21.1 million and $2.1 million for those same years. We have incurred significant operating losses since inception. As of March 31, 2023 and December 31, 2022, we had an accumulated deficit of $15.4 million and $21.1 million, respectively.

We believe our future financial performance will be driven by continued investment in oil and gas drilling following years of industry underinvestment.

Market Factors

Demand for our services and products depends primarily upon the general level of activity in the oil and gas industry, including the number of active drilling rigs, the number of wells drilled, the depth and working pressure of these wells, the number of well completions, the level of well remediation activity, the volume of production and the corresponding capital spending by oil and natural gas companies. Oil and gas activity is in turn heavily influenced by, among other factors, investor sentiment, availability of capital and oil and gas prices locally and worldwide, which have historically been volatile.

Our tool rental revenues are primarily dependent on drilling activity and our ability to gain or maintain market share with a sustainable pricing model.

Our product sales revenues are primarily dependent on oil and gas companies paying for tools that are lost or damaged in their drilling programs as well as the drilling contractors need to replace aging or consumable products and our ability to provide competitive pricing.

These factors may be influenced by the oil and gas region in which our customers operate. While these factors may lead to differing revenues, we have generally been able to forecast our product needs and anticipated revenue levels based on historic trends in a region and with a specific customer.

Recent Developments and Trends

In 2020 and early 2021, demand for oil significantly declined as a result of the COVID-19 pandemic and other factors. Oil prices have since increased due in part to an increase in demand for oil and increases in oil production by OPEC+ members. However, prices remained volatile through 2022. In the first half of 2022, West Texas Intermediate ("WTI") oil prices and volatility thereof increased dramatically, in large part due to Russia's invasion of Ukraine. Russia has since been subject to a host of sanctions, some of which limit its ability to export crude oil and other petroleum products. The anticipated impact on supply drove WTI oil prices above $123 per barrel in early March 2022.

By the end of December 2022, WTI oil prices declined to approximately $80 per barrel due in part to high inflation rates and fears of a global recession that could negatively impact oil demand. WTI oil prices declined further during the first quarter of 2023, reaching a low of $67 per barrel in the middle of March, following turmoil in the banking sector, which escalated fears of a global recession and a concomitant decline in oil demand. However, in April 2023, WTI oil prices returned to the low-$80s per barrel range, due in part to OPEC+'s decision to further cut production by approximately 1.2 million barrels per day. This production cut was effective as of May 2023 and is expected to continue through the end of the year.

Despite this high volatility in spot oil prices, our customers tend to focus more on medium-term and long-term commodity prices when making investment decisions due to the longer lead times of offshore projects. These forward prices experienced far less volatility in 2022 and the early part of 2023, and they have remained at levels that are highly favorable for offshore project demand.

Prices for natural gas have declined throughout the first quarter of 2023 in the United States due to several factors, including a decrease in demand for heating due to a warmer winter, ample natural gas supply, and turmoil in the banking sector that has weighed on commodities. Henry Hub natural gas spot prices have decreased from an average of $5.53 per one million British Thermal Units ("MMBtu") in December 2022 to an average of $2.31 per MMBtu in March 2023.

The ongoing conflict in Ukraine has caused uncertainty in the financial markets and the oil and natural gas markets, both globally and in the United States. Such uncertainty has already caused, and could continue to cause, stock price volatility and supply chain disruptions. This uncertainty could cause higher oil and natural gas prices. Such elevated prices could in turn cause higher inflation, which could impact consumer spending and negatively impact demand for our goods and services. Moreover, additional interest rate increases by the U.S. Federal Reserve could further increase the probability of a recession.

Notwithstanding the significant commodity price volatility of the past several years, we have seen increases in United States onshore drilling activity. During the three months ended March 31, 2023, the weekly average U.S. onshore rig count as reported by Baker Hughes was 760 rigs compared to 776 rigs for the three months ended December 31, 2022 and 636 rigs for the three months ended March 31, 2022. Current rig activity remains significantly reduced from 2019 levels when the weekly average rig count for the three months ended March 31, 2019 was 1,043. However, notwithstanding the impact of longer laterals, improved rig efficiencies have partially offset the impact of this reduction.

Inflation and Increased Costs

We are experiencing the impacts of global inflation, both in increased personnel costs and the prices of goods and services required to operate our rigs and execute capital projects. While we are currently unable to estimate the ultimate impact of rising prices, we do expect that our costs will continue to rise in the near term and will impact our profitability. To date, we do not believe that inflation has had a material impact to our financial condition or results of operations because we have been able to increase the prices we receive from our customers.

How We Evaluate Our Operations

We use a number of financial and operational measures to routinely analyze and evaluate the performance of our business, including revenue, net and non-GAAP measures Adjusted EBITDA and Free Cash Flow.

Revenue, net

We analyze our performance by comparing actual monthly revenue to revenue trends and revenue forecasts by product line as well as tool activity trends for each month. Our revenue is primarily derived from tool rental and product sales.

Adjusted EBITDA

We regularly evaluate our financial performance using Adjusted EBITDA. Our management believes Adjusted EBITDA is a useful financial performance measure as it excludes non-cash charges and other transactions not related to our core operating activities and allows more meaningful analysis of the trends and performance of our core operations.

Free Cash Flow

We define Free Cash Flow as net cash (used in) provided by operating activities, *less* purchases of property, plant and equipment. Free Cash Flow is a supplemental non-GAAP financial measure that is used by our management and other external users of our financial statements, such as industry analysts, investors, lenders, rating agencies and others to assess our ability to internally fund our capital program, service or incur additional debt and pay dividends. We believe Free Cash Flow is a useful liquidity measure because it allows us and others to compare cash flow provided by operating activities across periods and to assess our ability to internally fund our capital program, reduce leverage, fund acquisitions and pay dividends to Stockholders where applicable.

Please refer to the section titled "— *Non-GAAP Financial Measures*" below for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial performance measure calculated and presented in accordance with GAAP, and a reconciliation of Free Cash Flow to net cash (used in) provided by operating activities, the most directly comparable liquidity measure calculated and presented in accordance with GAAP.

Key Components of Results of Operations

The discussion below relating to significant line items from our consolidated statements of operations and comprehensive income are based on available information and represent our analysis of significant changes or events that impact the comparability of the reported amount. Where appropriate, we have identified specific events and changes that affect comparability or trends and, where reasonably practicable, we have quantified the impact of such items.

Revenue, net

We currently generate our revenue, net from tool rental services and product sales. Tool rental services, which consists of rental services, inspection services, and repair services, is accounted for under Topic 842. We recognize revenues from renting tools on a straight-line basis. Our rental contract periods are daily, monthly, per well, or based on footage. As part of this straight-line methodology, when the equipment is returned, we recognize as incremental revenue the excess, if any, of the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the drilling tool was rented, over the cumulative amount of revenue recognized to date.

The rental tool recovery component of product sales revenue is recognized when a tool is deemed to be lost-in-hole, damaged-beyond-repair, or lost-in-transit while in the care, custody, or control of the customer. Other made to order product sales revenue is recognized when the product is made available to the customer for pickup at our shipping dock.

We expect our tool rental services revenue to increase due to an expected increase in drilling activity and customer pricing.

We expect our product sales revenue to increase because we expect oil and gas companies to continue to drill faster and harder, thereby pushing the limits of downhole drilling tools and often contributing to tools being lost-in-hole or damaged-beyond-repair. In addition, we expect that product sales revenue will increase as drilling contractors replace aged and consumable products to maintain or increase capacity.

Costs and Expenses

Our costs and expenses consist of cost of revenue, selling, general and administrative expense, and depreciation and amortization expense.

Cost of Revenue

Our cost of revenue consists primarily of all direct and indirect expenses related to providing our tool rental services offering and delivering our product sales, including personnel-related expenses and costs associated with maintaining the facilities.

We expect our total cost of tool rental revenue and our total cost of product sale revenue to increase in absolute dollars in future periods, corresponding to our anticipated growth in revenue and employee headcount. This increase in headcount is intended to support our customers and maintain the manufacturing, operations and field service team. The expected increase in these two costs builds-in some expected cost inflation.

We expect that gross margins will continue to improve slightly as we leverage our existing cost structure to increase our business activity. In addition, we expect that customer price increases will help offset cost inflation.

Selling, General and Administrative

General and administrative expenses consist primarily of personnel-related expenses, including salaries, benefits and stock-based compensation for personnel, and outside professional services expenses including legal, audit and accounting services, insurance, other administrative expenses and allocated facility costs for our administrative functions.

We expect our operating expenses to increase in absolute dollars for the foreseeable future as a result of operating as a public company. In particular, we expect our legal, accounting, tax, personnel-related expenses and directors' and officers' insurance costs reported within general and administrative expense to increase as we establish more comprehensive compliance and governance functions, increase security and IT compliance functions, review internal controls over financial reporting in accordance with the Sarbanes-Oxley Act and prepare and distribute periodic reports as required by the rules and regulations of the SEC. As a result, our historical results of operations may not be indicative of our results of operations in future periods.

Selling expenses consist primarily of personnel-related expenses, including salaries, benefits and stock-based compensation for personnel, direct advertising, marketing and promotional material costs, sales commission expense, consulting fees and allocated facility costs for our sales and marketing functions.

We intend to increase investments in our sales and marketing organization to increase revenue, expand our global customer base, and broaden our brand awareness. We expect our sales and marketing expenses to continue to increase in absolute dollars for the foreseeable future.

Depreciation and Amortization Expense

Depreciation and amortization expense relates to the consumption of our property and equipment, which consists of rental tools, shop equipment, computer equipment, furniture and fixtures and leasehold improvements, and the amortization of our intangible assets mainly related to customer relationships, software and partnerships.

Other (expense) income, net

Our other (expense) income, net is primarily comprised of interest income (expense), gain on sale of property, unrealized gain (loss) on securities, and other miscellaneous income and expense unrelated to our core operations.

Results of Operations

Comparison of the Three Months Ended March 31, 2023 and 2022

The following table set forth our results of operations for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
(In thousands)	**2023**	**2022**
Revenue, net:		
Tool rental	$32,276	$20,417
Product sale	8,523	5,560
Total revenue, net	40,799	25,977
Cost and expenses:		
Cost of tool rental revenue	8,137	6,315
Cost of product sale revenue	1,303	1,151
Selling, general, administrative expense	18,423	12,235
Depreciation and amortization expense	5,015	5,076
Total costs and expenses	32,878	24,777
Operating income (loss)	7,921	1,200
Other (expense) income:		
Interest income (expense)	(573)	216
Gain on sale of property	69	5
Unrealized gain (loss) on equity securities	(33)	410
Other income (expense)	40	(69)
Total other (expense) income, net	(497)	562
Income before income taxes	7,424	1,762
Income tax (expense) benefit	(1,723)	(429)
Net income	$ 5,701	$ 1,333

Revenue, net

Our revenue, net consists of tool rental and product sale revenues.

(In thousands)	Three Months Ended March 31, 2023	2022	Change Amount	%
Tool rental	$32,276	$20,417	$11,859	58%
Product sale	$ 8,523	$ 5,560	$ 2,963	53%

Tool rental revenue increased $11.9 million, or 58%, to $32.3 million for the three months ended March 31, 2023 as compared to $20.4 million for the three months ended March 31, 2022. The increase was primarily driven by increased market activity and customer pricing across all divisions, especially in relation to our DTR division, the revenue of which increased $6.7 million, and our PTD division, the revenue of which increased $5.1 million.

Product sale revenue increased $3.0 million, or 53%, to $8.5 million for the three months ended March 31, 2023 as compared to $5.5 million for the three months ended March 31, 2022. The increase was primarily driven by increased market activity and customer pricing across all divisions. The increased market activity and customer pricing also impacted our rental tool recovery sales revenue, which collectively increased $2.5 million.

Costs and Expenses

Cost of Revenue

(In thousands)	Three Months Ended March 31, 2023	2022	Change Amount	%
Cost of tool rental revenue	$8,137	$6,315	$1,822	29%
Cost of product sale revenue	$1,303	$1,151	$ 152	13%

Cost of tool rental revenue increased $1.8 million, or 29%, to $8.1 million for the three months ended March 31, 2023 as compared to $6.3 million for the three months ended March 31, 2022. The increase in cost of tool rental revenue was primarily driven by increased directional tool rental activity year-over-year. The primary increases were for our DTR division, the cost of tool rental revenue of which increased $0.7 million, our PTD division, the cost of tool rental revenue of which increased $0.5 million, and our WOT division, the cost of tool rental revenue which increased by $0.4 million.

Cost of product sale revenue increased $0.2 million, or 13%, to $1.3 million for the three months ended March 31, 2023 as compared to $1.1 million for the three months ended March 31, 2022. The increase in cost of product sale revenue was primarily driven by an increase in product sales year-over-year.

Selling, General and Administrative Expense

(In thousands)	Three Months Ended March 31, 2023	2022	Change Amount	%
Selling, general and administrative expense	$18,423	$12,235	$6,188	51%

Selling, general, and administrative expense increased $6.2 million, or 51%, to $18.4 million for the three months ended March 31, 2023 as compared to $12.2 million for the three months ended March 31, 2022. This increase was primarily driven by a:

- $2.9 million increase in personnel-related expenses,
- $2.0 million increase in accounting, legal, and professional services for due diligence matters in preparation for a potential transaction, and
- $0.3 million increase in bad debt expenses.

No other driver of this increase was individually significant.

Depreciation and Amortization Expense

(In thousands)	Three Months Ended March 31, 2023	2022	Change Amount	%
Depreciation and amortization expense	$5,015	$5,076	$ (61)	(1)%

Depreciation and amortization expenses decreased $0.1 million, or 1%, to $5.0 million for the three months ended March 31, 2023 as compared to $5.1 million for the three months ended March 31, 2022. The decrease was primarily due a decrease in depreciation expense resulting from assets reaching the end of their depreciable lives and a decrease in amortization expense as certain intangible assets reached the end of their useful lives.

Other (expense) income

Interest Income (Expense)

(In thousands)	Three Months Ended March 31, 2023	2022	Change Amount	%
Interest income (expense)	$(573)	$216	$ (789)	(365)%

Interest expense for the three months ended March 31, 2023 was $0.6 million, a decrease of $0.8 million, or 365%, compared to the three months ended March 31, 2022 primarily due to the change in unrealized losses on the interest rate swap.

Gain on Sale of Property

(In thousands)	Three Months Ended March 31, 2023	2022	Change Amount	%
Gain on sale of property	$ 69	$ 5	$ 64	1,280%

Gain on the sale of property increased $64 thousand, or 1,280%, to $69 thousand for the three months ended March 31, 2023 as compared to $5 thousand for the three months ended March 31, 2022. The increase was driven by an increase in the selling price of the property sold compared to its net book value.

Unrealized Gain (Loss) on Equity Securities

(In thousands)	Three Months Ended March 31, 2023	2022	Change Amount	%
Unrealized gain (loss) on equity securities	$ (33)	$ 410	$ (443)	(108)%

Unrealized loss on equity securities for the three months ended March 31, 2023 was $33 thousand, a decrease of $0.4 million, or 108%, compared to the three months ended March 31, 2022 primarily due to unfavorable market conditions in 2023 as compared to 2022.

Other Income (Expense)

(In thousands)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Change Amount	Change %
Other income (expense)	$ 40	$ (69)	$ 109	(158)%

Other income for the three months ended March 31, 2023 was $40 thousand, an increase of $0.1 million, or 158%, compared to the three months ended March 31, 2022. The increase was primarily due to interest income on Employee Retention Credit payments ("ERC Benefits") received from the Internal Revenue Service in the first quarter of 2023 with no comparable activity in the first quarter of 2022.

Comparison of the Years Ended December 31, 2022 and 2021

The following table set forth our results of operations for the years ended December 31, 2022 and 2021:

(In thousands)	Years Ended December 31, 2022	Years Ended December 31, 2021
Revenue, net:		
Tool rental	$ 99,018	$59,287
Product sale	30,538	18,092
Total revenue, net	129,556	77,379
Cost and expenses:		
Cost of tool rental revenue	27,581	19,941
Cost of product sale revenue	5,423	3,688
Selling, general, administrative	51,566	38,309
Depreciation and amortization expense	19,709	21,718
Total costs and expenses	104,279	83,656
Income (loss) from operations	25,277	(6,277)
Other (expense) income:		
Interest expense	(477)	(1,229)
Gain on forgiveness of PPP loan	—	8,575
Gain on sale of property	127	899
Unrealized gain on equity securities	234	157
Other expense	(384)	(233)
Total other (expense) income, net	(500)	8,169
Income before income taxes	24,777	1,892
Provision for (benefit from) income taxes	(3,697)	209
Net income	$ 21,080	$ 2,101

Revenue, net

Our revenue, net consists of tool rental and product sale revenues.

(In thousands)	Years Ended December 31, 2022	2021	Change Amount	%
Tool rental	$99,018	$59,287	$39,731	67%
Product sale	$30,538	$18,092	$12,446	69%

Tool rental revenue increased $39.7 million, or 67%, to $99.0 million for the year ended December 31, 2022 as compared to $59.3 million for the year ended December 31, 2021. The increase was primarily driven by increased market activity and customer pricing across all divisions, especially in relation to our DTR, the revenue of which increased $23.0 million, our PTD division, the revenue of which increased $10.9 million, and our WOT division, the revenue of which increased by $6.7 million. The increases were partially offset by a decrease in the Engineering Services & New Products division of $0.9 million.

Product sale revenue increased $12.4 million, or 69%, to $30.5 million for the year ended December 31, 2022 as compared to $18.1 million for the year ended December 31, 2021. The increase was primarily driven by increased market activity and customer pricing across all divisions. The increased market activity and customer pricing also impacted our rental tool recovery sales revenue, which collectively increased $10.6 million.

Costs and Expenses

Cost of Revenue

Our cost of revenue consists of cost of tool rental revenue and cost of product sale revenue.

(In thousands)	Years Ended December 31, 2022	2021	Change Amount	%
Cost of tool rental revenue	$27,581	$19,941	$7,640	38%
Cost of product sale revenue	$ 5,423	$ 3,688	$1,735	47%

Cost of tool rental revenue increased $7.7 million, or 38%, to $27.6 million for the year ended December 31, 2022 as compared to $19.9 million for the for the year ended December 31, 2021. The increase in cost of tool rental revenue was primarily driven by increased directional tool rental activity year-over-year. The primary increases were for our DTR division, the cost of tool rental revenue of which increased $5.1 million, and our PTD division, the cost of tool rental revenue of which increased $2.6 million. Partially offsetting the increase in cost of tool rental revenue was a decrease in inventory obsolescence write-offs of $0.4 million for the year ended December 31, 2022 compared to the year ended December 31, 2021.

Cost of product sale revenue increased $1.7 million, or 47%, to $5.4 million for the year ended December 31, 2022 as compared to $3.7 million for the for the year ended December 31, 2021. The increase in cost of product sale revenue was primarily driven by an increase in product sales year-over-year.

Selling, General, and Administrative

(In thousands)	Years Ended December 31, 2022	2021	Change Amount	%
Selling, general, and administrative	$51,566	$38,309	$13,257	35%

Selling, general, and administrative expenses increased 13.3 million, or 35%, to $51.6 million for the year ended December 31, 2022 as compared to $38.3 million for the year ended December 31, 2021. This increase was primarily driven by a:

- $9.9 million increase in personnel-related expenses,
- $1.5 million increase in accounting and professional services for due diligence matters in preparation for a potential transaction,
- $1.0 million increase in contract labor expenses, and
- $0.8 million increase in internal freight expenses.

No other driver of this increase was individually significant.

These increases were partially offset by $4.3 million related to ERC Benefits we qualified for during the year ended December 31, 2022 related to the COVID-19 Coronavirus Aid, Relief, and Economic Security Act. These ERC Benefits were included in selling, general, administrative expense as an offset to the related compensation expenses.

Depreciation and Amortization Expense

	Years Ended December 31,		Change	
(In thousands)	**2022**	**2021**	**Amount**	**%**
Depreciation and amortization expense	$19,709	$21,718	$(2,009)	(9)%

Depreciation and amortization expenses decreased $2.0 million, or 9%, to $19.7 million for the year ended December 31, 2022 as compared to $21.7 million for the year ended December 31, 2021. The decrease was primarily due a decrease in depreciation expense resulting from assets reaching the end of their depreciable lives and a decrease in amortization expense as certain intangible assets reached the end of their useful lives.

Other (expense) income

Interest Expense

	Years Ended December 31,		Change	
(In thousands)	**2022**	**2021**	**Amount**	**%**
Interest expense	$(477)	$(1,229)	$ 752	61%

Interest expense decreased $0.7 million, or 61%, to $0.5 million for the year ended December 31, 2022 as compared to $1.2 million for the year ended December 31, 2021 primarily due to the change in unrealized gain on the interest rate swap.

Gain on Forgiveness of Paycheck Protection Plan ("PPP") Loan

	Years Ended December 31,		Change	
(In thousands)	**2022**	**2021**	**Amount**	**%**
Gain on forgiveness of PPP loan	$—	$8,575	$(8,575)	nm

* *Percentage changes that are considered not meaningful are denoted with "nm".*

Gain on forgiveness of PPP loan for the year ended December 31, 2022 was $0, a decrease of $8.6 million compared to the year ended December 31, 2021. The forgiveness of the PPP loan was granted by the Small Business Association on July 29, 2021 and December 30, 2021, which collectively resulted in a gain of $8.6 million.

Gain on Sale of Property

	Years Ended December 31,		Change	
(In thousands)	2022	2021	Amount	%
Gain on sale of property	$127	$899	$ (772)	(86)%

Gain on the sale of property decreased $0.8 million, or 86%, to $0.1 million for the year ended December 31, 2022 as compared to $0.9 million for the year ended December 31, 2021. The decrease is driven by a decrease in the selling price of the property sold compared to its net book value.

Unrealized Gain on Equity Securities

	Years Ended December 31,		Change	
(In thousands)	2022	2021	Amount	%
Unrealized gain on equity securities	$234	$157	$ 77	49%

Unrealized gain on equity securities increased by $0.1 million, or 49%, to $0.2 million for the year ended December 31, 2022 as compared to $0.1 million for the year ended December 31, 2021 primarily due to favorable market conditions in 2022 as compared to 2021.

Other Expense

	Years Ended December 31,		Change	
(In thousands)	2022	2021	Amount	%
Other expense	$(384)	$(233)	$ (151)	65%

Other expense for the year ended December 31, 2022 was $0.4 million, an increase of $0.2 million, or 65%, compared to the year ended December 31, 2021. The increase was primarily due to increased foreign currency losses and fewer collections of bad debt for the year ended December 31, 2022 compared to the year ended December 31, 2021. This is partially offset by a decrease in miscellaneous costs associated with the sale of property for the year ended December 31, 2022 compared to the year ended December 31, 2021.

Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use certain non-GAAP financial measures, as described below, to understand and evaluate our core operating performance. These non-GAAP financial measures, which may be different than similarly titled measures used by other companies, are presented to enhance investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use the non-GAAP financial measure Free Cash Flow, which is defined as net cash (used in) provided by operating activities, *less* purchases of property, plant and equipment. We believe Free Cash Flow is an important liquidity measure of the cash that is available, after capital expenditures, for operational expenses and investment in our business and is a key financial indicator used by management. Free Cash Flow is useful to investors as a liquidity measure because it measures our ability to generate or use cash. Once our business needs and obligations are met, cash can be used to maintain a strong balance sheet and invest in future growth.

We use the non-GAAP financial measure Adjusted EBITDA, which is defined as net income (loss), excluding interest income (expense), other income (expense), income tax benefit (expense), depreciation and amortization, and certain other non-cash or non-recurring items impacting net income (loss) from time to time. We believe that Adjusted EBITDA helps identify underlying trends in our business that could otherwise be masked by the effect of the expenses that we exclude in Adjusted EBITDA.

These non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures compared to the closest comparable GAAP measure. These limitations include:

- Free Cash Flow does not reflect our future contractual commitments;
- Adjusted EBITDA excludes certain recurring, non-cash charges such as depreciation of fixed assets and amortization of acquired intangible assets and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and
- Adjusted EBITDA excludes income tax benefit (expense).

The following table presents a reconciliation of Free Cash Flow to net cash (used in) provided by operating activities for the three months ended March 31, 2023 and 2022, and years ended December 31, 2022 and 2021:

	Three Months Ended March 31,		Years Ended December 31,	
(In thousands)	2023	2022	2022	2021
Net cash (used in) provided by operating activities	$ 11,341	$ 2,010	$ 13,856	$ (494)
Less:				
Purchases of property, plant and equipment	(10,815)	(3,566)	(23,753)	(11,387)
Free Cash Flow	$ 526	$(1,556)	$ (9,897)	$(11,881)

The following table presents a reconciliation of Adjusted EBITDA to net income (loss) for the three months ended March 31, 2023 and 2022, and years ended December 31, 2022 and 2021:

	Three Months Ended March 31,		Years Ended December 31,	
(In thousands)	2023	2022	2022	2021
Net income (loss)	$ 5,701	$1,333	$21,080	$ 2,101
Add (deduct):				
Income tax (benefit) expense	1,723	429	3,697	(209)
Depreciation and amortization	5,015	5,076	19,709	21,718
Interest (income) expense	573	(216)	477	1,229
Gain on forgiveness of PPP loan	—	—	—	(8,575)
ERC forgiveness	—	—	(4,272)	—
Stock option expense	—	—	—	32
Monitoring fees	216	67	449	291
Gain on sale of property	(69)	(5)	(127)	(899)
Loss (gain) on non-operating assets	—	—	—	(25)
Unrealized (gain) loss on equity securities	33	(410)	(234)	(157)
Transaction expense	1,694	—	—	—
Other (income) expense	(40)	69	384	233
Adjusted EBITDA	$14,846	$6,343	$41,163	$15,739

Liquidity and Capital Resources

On March 31, 2023 and December 31, 2022, we had $0.8 million and $2.4 million of cash and cash equivalents, respectively. Our primary sources of liquidity and capital resources are cash on hand, cash flows generated by operating activities and, if necessary, borrowings under the Credit Facility Agreement. We may use additional cash generated to execute strategic acquisitions or for general corporate purposes. We believe that our existing cash on hand, cash generated from operations and available borrowings under the Credit Facility Agreement will be sufficient for at least the next 12 months to meet working capital requirements and anticipated capital expenditures.

Credit Facility Agreement

On the Closing Date, we entered into the Credit Facility Agreement. The Credit Facility Agreement provides for a revolving credit facility with a maximum revolving advance amount of $60.0 million. The proceeds under the Credit Facility Agreement may be used to (i) pay fees and expenses related to the Credit Facility Agreement and certain acquisitions and other investments and (ii) provide for general corporate purposes, including working capital requirements and capital expenditures. Interest on outstanding principal under the Credit Facility Agreement is charged at rates equal to the sum of the applicable margin, plus a base rate calculated by reference to the Overnight Bank Funding Rate (as defined in the Credit Facility Agreement) or the Secured Overnight Financing Rate. The Credit Facility Agreement includes covenants that limit the ability of Drilling Tools International, Inc. ("DTII") and certain of its subsidiaries to incur additional indebtedness; make investments or loans; create liens; consummate mergers and similar fundamental changes; and declare and pay dividends and distributions. DTIC is subject to a passive holding company covenant which generally restricts DTIC's activities to holding the equity securities of its subsidiaries and those activities necessary to maintain its corporate existence. DTIC is required to maintain Liquidity (as defined in the Credit Facility Agreement) of at least $6.0 million at all times. Certain other financial ratios are tested during a Cash Dominion Period (as defined in the Credit Facility Agreement). DTIC and its subsidiaries that are or become party to the Credit Facility Agreement as borrowers or guarantors are jointly and severally liable for the obligations thereunder.

Capital Expenditures

Our capital expenditures relate to capital additions or improvements that add to our rental or repair capacity or extend the useful life of our drilling tools and related infrastructure. Also, our capital expenditures relate to the replacement of tools that are lost or damaged by a customer, and such expenditures are funded by a rental tool recovery sale amount paid by the customer. We regularly incur capital expenditures on an on-going basis to (i) increase the size of or maintain our rental tool fleet and equipment, (ii) extend the useful life of our rental tools and equipment and (iii) acquire or upgrade computer hardware and software. The amount of our capital expenditures is influenced by, among other things, demand for our services, recovery of lost or damaged tools, schedules for refurbishing our various rental tools and equipment, cash flow generated by our operations, expected rates of return and cash required for other purposes.

Contractual Obligations and Commitments

Our material contractual obligations arise from leases of facilities and vehicles under non-cancellable operating leases agreements. See Note 13, *Commitments and contingencies*, of the notes to the Interim Financial Statements.

Tax Obligations

We currently have available federal net operating loss carryforwards to offset our federal taxable income, and we expect that these carryforwards will substantially reduce our cash tax payments over the next several years. If we forfeit these carryforwards for any reason or deplete them faster than anticipated, our cash tax obligations could increase substantially. For additional information, see Note 8, *Income Taxes*, of the notes to the Interim Financial Statements.

Cash Flows

The following table sets forth our cash flows for the periods indicated:

(In thousands)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Years Ended December 31, 2022	Years Ended December 31, 2021
Net cash (used in) provided by:				
Operating activities	$11,341	$ 2,010	$13,856	$ (494)
Investing activities	(5,420)	(710)	(2,392)	3,338
Financing activities	(7,453)	(2,537)	(9,337)	(2,868)
Effect of changes in foreign exchange rate	—	(75)	173	(59)
Net (decrease) increase in cash and cash equivalents	$(1,532)	$(1,312)	$ 2,300	$ (83)

Cash Flows (Used In) Provided by Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2023 was $11.3 million, resulting from our net income of $5.7 million, adjusted for non-cash charges of $4.8 million in depreciation and amortization, including amortization of right of use assets, deferred financing costs, and debt discounts, $3.8 million in net changes from operating assets and liabilities, and $1.1 million in deferred tax expense. This was partially offset by a $4.5 million gain on rental tool recovery sales and a $0.1 million gain on sale of property. The $3.8 million in cash provided by operating assets and liabilities is primarily due to a $6.0 million cash inflow in accounts payable and accrued expenses due to differences in the timing of disbursements during the first three months of 2023 compared to the first three months of 2022. This was partially offset by a $1.7 million cash outflow in accounts receivable associated with an increase in sales and higher revenues during the first three months of 2023 compared to the first three months of 2022, and a $1.4 million cash outflow resulting from an increase in purchased inventory related to our attempt to reduce risk and uncertainty in our supply chain. We will continue to evaluate our capital requirements for both short-term and long-term liquidity needs, which could be affected by various risks and uncertainties, including, but not limited to, the effects of the current inflationary environment, rising interest rates, and other risks detailed in the section of this prospectus entitled “*Risk Factors*.”

Net cash provided by operating activities for the three months ended March 31, 2022 was $2.0 million, resulting from our net income of $1.3 million, adjusted for non-cash charges of $6.1 million in depreciation and amortization, including amortization of right of use assets, deferred financing costs, and debt discounts. This was partially offset by a $2.3 million gain on rental tool recovery sales, $2.2 million in net changes from operating assets and liabilities, and a $0.7 million unrealized gain on interest rate swaps. The $2.2 million in cash used from operating assets and liabilities is primarily due to a $1.3 million cash outflow in purchased inventory related to our attempt to reduce risk and uncertainties in our supply chain and a $0.9 million cash outflow from our operating leases.

Net cash provided by operating activities for the year ended December 31, 2022 was $13.9 million, resulting from our net income of $21.1 million, adjusted for non-cash charges of $19.9 million in depreciation and amortization, including amortization of right of use assets, deferred financing costs, and debt discounts. This was partially offset by a $16.8 million gain on rental tool recovery sales, $6.1 million in net changes from operating assets and liabilities, and $1.4 million in unrealized gains on interest rate swaps. The $6.1 million in cash used from operating assets and liabilities is primarily due to a $9.3 million cash outflow in accounts receivable associated with an increasing sales trend and higher revenues during 2022 compared to 2021, a $3.5 million cash outflow in prepaid expenses, and a $0.9 million cash outflow resulting from an increase in purchased inventory as we seek to reduce risk and uncertainties in our supply chain. This is partially offset by a $3.8 million cash inflow in accounts payable and accrued expenses due to differences in the timing of disbursements during 2022 compared to 2021, and a $3.7 million cash inflow relating to operating lease liabilities associated with our real estate and equipment lease agreements.

Net cash used in operating activities for the year ended December 31, 2021 was $0.5 million, resulting from our net income of $2.1 million, adjusted for non-cash charges of $22.0 million in depreciation and amortization, including amortization of right of use assets, deferred financing costs, and debt discounts. This was partially offset by a $8.6 million gain on forgiveness of PPP loan, a $7.9 million gain on rental tool recovery sales, $5.2 million in net changes from operating assets and liabilities, and $1.3 million in deferred tax benefits. The $5.2 million in cash used from operating assets and liabilities is primarily due to a $9.4 million cash outflow in accounts receivable associated with an increasing sales trend and higher revenues during 2021 compared to 2020, partially offset by a $3.6 million cash inflow in accounts payable and accrued expenses due to differences in the timing of disbursements during 2021 compared to 2020.

Cash Flows (Used In) Provided by Investing Activities

Net cash used in investing activities for the three months ended March 31, 2023 was $5.4 million. Purchases of property, plant, and equipment of $10.8 million were offset by proceeds from rental tool recovery sales of $5.3 million and proceeds from sale of property of $0.1 million.

Net cash used in investing activities for the three months ended March 31, 2022 was $0.7 million. Purchases of property, plant, and equipment of $3.6 million were partially offset by proceeds from rental tool recovery sales of $2.9 million.

Net cash used in investing activities for the year ended December 31, 2022 was $2.4 million. Proceeds from rental tool recovery sales of $20.3 million and proceeds from sale of property of $1.0 million were offset by purchases of property, plant, and equipment of $23.7 million.

Net cash provided by investing activities for the year ended December 31, 2021 was $3.3 million. Proceeds from rental tool recovery sales of $9.7 million and proceeds from sale of property of $5.0 million were partially offset by purchases of property, plant, and equipment of $11.4 million.

Cash Flows (Used In) Provided by Financing Activities

Net cash used in financing activities for the three months ended March 31, 2023 was $7.5 million resulting from a net decrease in amounts outstanding under the Credit Facility Agreement of $7.5 million.

Net cash used in financing activities for the three months ended March 31, 2022 was $2.5 million resulting from a net decrease in amounts outstanding under the Credit Facility Agreement of $2.5 million.

Net cash used in financing activities for the year ended December 31, 2022 was $9.3 million resulting from a net decrease in amounts outstanding under the Credit Facility Agreement of $8.1 million, payments of long-term debt of $1.0 million, and payments of deferred financing costs of $0.2 million.

Net cash used in financing activities for the year ended December 31, 2021 was $2.9 million resulting from payments of long-term debt of $3.9 million, a net decrease in amounts outstanding under the Credit Facility Agreement of $0.8 million, and payments of deferred financing costs of $0.2 million partially offset by proceeds from PPP loan of $2.0 million.

Quantitative and Qualitative Disclosures about Market Risk

Credit risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. We maintain cash and cash equivalents with major and reputable financial institutions. Deposits held with these financial institutions may exceed the amount of insurance provided by the Federal Deposit Insurance Corporation and Canadian Deposit Insurance Corporation on such deposits but may be redeemed upon demand. We perform periodic evaluations of the relative credit standing of these financial institutions. With respect to accounts receivable, we monitor the credit quality of our customers as well as maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments.

Concentration risk

During the three months ended March 31, 2023, two of our customers accounted for 10% or more of our total revenue. 31.0% of our total revenue was earned from the combination of these two customers. Amounts due from these two customers included in accounts receivable at March 31, 2023 were approximately $7.6 million. During the three months ended March 31, 2022, 29.1% of our total revenue was earned from these same two customers. Amounts due from these two customers included in accounts receivable at March 31, 2022 were approximately $5.6 million.

During the years ended December 31, 2022 and 2021, 28% and 18%, respectively, of our total revenue was earned from the same two customers. Amounts due from these customers included in accounts receivable at December 31, 2022 and December 31, 2021 were approximately $8.6 million and $4.2 million, respectively.

Foreign currency risk

Our customers are primarily located in the United States and Canada. Therefore, foreign exchange risk exposures arise from transactions denominated in currencies other than the U.S. dollar, which is our functional and reporting currency. To date, a majority of our sales have been denominated in United States and Canadian dollars. As we expand our presence in international markets, our results of operations and cash flows may increasingly be subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements to minimize the impact of these fluctuations in the exchange rates. We will periodically reassess our approach to manage our risk relating to fluctuations in currency rates.

We do not believe that foreign currency risk had a material effect on our business, financial condition, or results of operations during the periods presented.

Inflation Risk

We expect we will continue to experience inflationary pressures on our cost structure for the foreseeable future. However, tightness in overseas freight and transit times from have eased. Nonetheless, we cannot be confident that transit times or input prices will return to the lower levels experienced in prior years. Continued inflation and looming concerns regarding a possible recession weigh on the outlook for oil demand which could in turn negatively impact demand for our goods and services.

Cybersecurity Risk

We have a suite of controls including technology hardware and software solutions, regular testing of the resiliency of our systems including penetration and disaster recovery testing as well as regular training sessions on cybersecurity risks and mitigation strategies. We have established an incident response plan and team to take steps it determines are appropriate to contain, mitigate and remediate a cybersecurity incident and to respond to the associated business, legal and reputational risks. There is no assurance that these efforts will fully mitigate cybersecurity risk and mitigation efforts do not ensure complete protections from malicious cybersecurity incidents.

Critical Accounting Policies and Estimates

The Annual Financial Statements and Interim Financial Statements included in this prospectus have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of the Annual Financial Statements Interim Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. We also make estimates and assumptions that affect the reported amounts and related disclosures for the periods presented. Our estimates are based on our historical experience and other factors that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly. Additionally, changes in assumptions, estimates or assessments due to unforeseen events or other causes could have a material impact on our financial position or results of operations.

The critical accounting estimates, assumptions and judgements we believe to have the most significant impact on the Annual Financial Statements and Interim Financial Statements are described below. See Note 1, *Summary of significant accounting policies*, to the Annual Financial Statements and Note 1, *Summary of significant accounting policies*, to the Interim Financial Statements included elsewhere in this prospectus for additional information related to critical accounting estimates and significant accounting policies.

Revenue recognition

On January 1, 2019, we adopted ASC 606 on a modified retrospective basis for all contracts with customers. As a result of the adoption, there were no material changes to the timing of the revenue recognition or measurement of revenue. Therefore, the only changes to the Interim Financial Statements related to the adoption are in the disclosures as included herein. We adopted ASC 842, Leases (“ASC 842”) as of January 1, 2022. ASC 842 was adopted using the modified retrospective transition approach, with no restatement of prior periods or cumulative adjustments to retained earnings.

We recognize revenue in accordance with two different accounting standards: 1) Topic 606 (which addresses revenue from contracts with customers) and 2) Topic 842 (which addresses lease revenue). We derive our revenue from two revenue types: tool rental services and product sales.

Tool Rental Services

Tool rental services consist of rental services, inspection services, and repair services. Tool rental services are accounted for under Topic 842.

Owned tool rentals represent our most significant revenue type and are governed by our standard rental contract. We account for such rentals as operating leases. The lease terms are included in the contracts, and the determination of whether our contracts contain leases generally does not require significant assumptions or judgements. Our lease revenues do not include a material amount of variable payments. Owned tool rentals represent revenue from renting tools that we own. We do not generally provide an option for the lessee to purchase the rented equipment at the end of the lease.

We recognize revenues from renting tools on a straight-line basis. Our rental contract periods are daily, monthly, per well, or based on footage. As part of this straight-line methodology, when the equipment is returned, we recognize as incremental revenue the excess, if any, of the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the drilling tool was out on rent, over the cumulative amount of revenue recognized to date. In any given accounting period, we will have customers return the drilling tool and be contractually required to pay us more than the cumulative amount of revenue recognized to date under the straight-line methodology.

We record the amounts billed to customers in excess of recognizable revenue as deferred revenue on our consolidated balance sheet.

As noted above, we are unsure of when the customer will return rented drilling tools. As such, we do not know how much the customer will owe us upon return of the tool and we therefore cannot provide a maturity analysis of future lease payments. Our drilling tools are generally rented for short periods of time, oftentimes for significantly less than a year. Lessees do not provide residual value guarantees on rented equipment.

We expect to derive significant future benefits from our drilling tools following the end of the rental term. Our rentals are generally short-term in nature, and our tools are typically rented for the majority of the time that we own them.

Product Sales

Product sales consist of charges for rented tools that are damaged beyond repair, charges for lost-in-hole, and charges for lost-in-transit while in the care, custody or control of our customers, and other charges for made to order product sales. Product sales are accounted for under Topic 606.

Revenue is recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To determine revenue recognition for our arrangements with customers, we: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

We account for a contract when we have approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the revenue standard. The transaction price is measured as consideration specified in a contract with a customer and excludes any sales incentives and taxes or other amounts collected on behalf of third parties. As each of our contracts with customers contain a single performance obligation to provide a product sale, we do not have any performance obligations requiring allocation of transaction prices.

The performance obligation for made to order product sales is satisfied and revenue is recognized when control of the asset transfers to the customer, which typically occurs upon delivery of the product or when the product is made available to the customer for pickup at our shipping dock. Additionally, pursuant to the contractual terms with our customers, the customer must notify us of, and purchase from us, any rented tools that are damaged beyond repair, lost-in-hole, or lost-in-transit while in the care, custody or control of such customer. Revenue is recognized for these products when the customer notifies us that one of these noted events has occurred.

We do not have any material revenue expected to be recognized in the future related to remaining performance obligations or contracts with variable consideration related to undelivered performance obligations. There was no revenue recognized in the current period from performance obligations satisfied in previous periods.

Contract estimates and judgments

Our revenues accounted for under Topic 606 generally do not require significant estimates or judgments, primarily because:

- The transaction price is generally fixed and stated in our contracts;
- As noted above, our contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation;

- Our revenues do not include material amounts of variable consideration, or result in significant obligations associated with returns, refunds or warranties; and
- Most of our revenue is recognized when the applicable performance obligations are readily determinable. As noted above, our Topic 606 revenue is generally recognized at the time of delivery to, or made available for pick-up by, the customer or upon notification from our customers that a rented tool is damaged beyond repair, lost-in-hole, or lost-in-transit while in the care, custody or control of our customers.

Our revenues accounted for under Topic 842 also generally do not require significant estimates or judgments. We monitor and review our estimated standalone selling prices on a regular basis.

Fair Value of Financial Instruments

When active market quotes are not available, management uses valuation techniques to measure the fair value of financial instruments.

In applying the valuation techniques, management makes maximum use of market inputs wherever possible, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. Such estimates include liquidity risk, credit risk and volatility, and such estimates may vary from the actual results that would be achieved in an arm's length transaction at the reporting date. The assessment of the timing and extent of impairment of intangible assets involves both significant judgements by management about the current and future prospects for the intangible assets as well as estimates about the factors used to quantify the extent of any impairment that is recognized.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, Compensation – Stock Compensation. ASC 718 requires that the cost of awards of equity instruments offered in exchange for employee services, including employee stock options and restricted stock awards, be measured based on the grant-date fair value of the award. We adopted FASB ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, on February 1, 2019. This ASU involves several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the accompanying consolidated statements of cash flows. The adoption did not have a material impact on the Interim Financial Statements.

We determine the fair value of stock options granted using the Black-Scholes-Merton option-pricing model and recognize the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period, net of estimated forfeitures. Because DTIH Common Stock was not publicly traded as of March 31, 2023, we had to estimate the fair value of the DTIH Common Stock. The board of directors of DTIH considered numerous objective and subjective factors to determine the fair value of DTIH Common Stock at each meeting in which awards were approved. The factors considered included, but were not limited to: (i) the results of contemporaneous independent third-party valuations of DTIH Common Stock; (ii) the prices, rights, preferences, and privileges of DTIH redeemable convertible preferred stock relative to those of DTIH Common Stock; (iii) the lack of marketability of DTIH Common Stock; (iv) actual operating and financial results; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of DTIH, given prevailing market conditions; and (vii) precedent transactions involving shares of DTIH Common Stock.

Leases

We adopted ASC 842, Leases as of January 1, 2022. ASC 842 was adopted using the modified retrospective transition approach, with no restatement of prior periods or cumulative adjustments to retained earnings. Upon adoption, we elected the package of transition practical expedients, which allowed us to carry forward prior conclusions related to whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases and initial direct costs for existing leases. We elected the use-of-hindsight to reassess lease term. We elected not to recognize leases with an initial term of 12 months or less within the consolidated balance sheets and to recognize those lease payments on a straight-line basis in the consolidated statements of operation over the lease term. The new lease accounting standard also provides practical expedients for an entity's ongoing accounting. We elected the practical expedient to not separate lease and non-lease components for all leases.

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and current operating lease liabilities and operating lease liabilities, net of current portion on our consolidated balance sheets. We recognize lease expense for its operating leases on a straight-line basis over the term of the lease.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from a lease. ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease ROU assets also include the impact of any lease incentives. An amendment to a lease is assessed to determine if it represents a lease modification or a separate contract. Lease modifications are reassessed as of the effective date of the modification using an incremental borrowing rate based on the information available at the commencement date. For modified leases we also reassess the lease classification as of the effective date of the modification.

The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate because the interest rate implicit in our leases is not readily determinable. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

Our lease terms include periods under options to extend or terminate the lease when it is reasonably certain that we will exercise that option in the measurement of its ROU assets and liabilities. We consider contractual-based factors such as the nature and terms of the renewal or termination, asset-based factors such as physical location of the asset and entity-based factors such as the importance of the leased asset to our operations to determine the lease term. We generally use the base, non-cancelable lease term when determining the ROU assets and lease liabilities. The ROU asset is tested for impairment in accordance with Accounting Standards Codification Topic 360, Property, Plant, and Equipment.

Lessor Accounting

Our leased equipment primarily consists of rental tools and equipment. Our agreements with our customers for rental equipment contain an operating lease component under ASC 842 because (i) there are identified assets, (ii) the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use and (iii) the customer directs the use of the identified assets throughout the period of use.

Our lease agreement contract periods are daily, monthly, per well, or based on footage. Lease revenue is recognized on a straight-line basis based on these rates. We do not provide an option for the lessee to purchase the rented tools at the end of the lease and the lessees do not provide residual value guarantees on the rented assets.

We recognized operating lease revenue within “Tool rentals” on the consolidated statements of operations and comprehensive income.

Long-Lived Asset Impairment

We evaluate the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible asset’s carrying amount may not be recoverable. Such circumstances could include but are not limited to (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent to or manner in which an asset is used, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. We measure the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires us to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. For the three months ended March 31, 2023 and 2022, and the years ended December 31, 2022 and 2021, management determined that there was no impairment with regard to our intangible assets.

For property, plant and equipment, events or circumstances indicating possible impairment may include a significant decrease in market value or a significant change in the business climate. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss is the excess of the asset’s carrying amount over its fair value. For the three months ended March 31, 2023 and 2022, and the years ended December 31, 2022 and 2021, management determined that there was no impairment with regard to our property, plant, and equipment.

Recently Issued and Adopted Accounting Standards

A discussion of recent accounting pronouncements is included in Note 1, *Summary of significant accounting policies*, to the Annual Financial Statements and Note 1, *Summary of significant accounting policies*, to Interim Financial Statements included elsewhere in this prospectus.

JOBS Act Accounting Election

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Therefore, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected to avail ourselves of this extended transition period and, as a result, we will not adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies. In addition, as an emerging growth company, we may take advantage of certain reduced disclosure and other requirements that are otherwise applicable generally to public companies. We will take advantage of these exemptions until such earlier time that it is no longer an emerging growth company. We will cease to be an emerging growth company on the date that is the earliest of (i) December 31, 2026, the last day of the fiscal year following the fifth anniversary of the date of the ROC IPO; (ii) the last day of the fiscal year in which we have total annual gross revenues of $1.235 billion or more; (iii) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

ROC Holdings Support Agreement

In connection with the execution of the Merger Agreement, on February 13, 2023, ROC Holdings entered into a support agreement with DTIH and ROC, and amended such agreement on the Closing Date. Pursuant to this agreement, ROC Holdings agreed to vote all Subject Shares (as therein defined) beneficially owned by it in favor of the Business Combination. Further, ROC Holdings agreed to forfeit, without any consideration, 1,775,084 shares of Common Stock, and ROC agreed to issue 1,775,084 shares of Common Stock to certain stockholders of DTIH. On the Closing Date, such shares were issued to the stockholders of DTIH pursuant to the Merger Agreement.

Company Stockholder Support Agreement

On February 13, 2023, in connection with the execution of the Merger Agreement, ROC, DTIH and HHEP entered into the Company Stockholder Support Agreement, pursuant to which HHEP agreed to vote all DTIH Common Stock and DTIH Preferred Stock beneficially owned by it in favor of the Business Combination at the ROC Special Meeting.

Amended and Restated Registration Rights Agreement

On February 13, 2023, ROC, ROC Holdings, EarlyBird Capital, Inc., HHEP, RobJon and Michael W. Domino, Jr. entered into the Amended and Restated Registration Rights Agreement (the “Registration Rights Agreement”), which became effective on the Closing Date. Pursuant to the Registration Rights Agreement, ROC agreed to use commercially reasonable efforts to file a registration statement under the Securities Act to permit the resale of shares of Common Stock held by the other parties to the Registration Rights Agreement within 30 days of the Closing Date and to use commercially reasonable efforts to cause such registration statement to be declared effective as soon as practicable after the filing thereof. This Registration Statement was filed to satisfy that obligation.

Lock-Up Agreements

On the Closing Date, in connection with the Closing, DTIC entered into Company Stockholder Lock-Up Agreements with each of HHEP, RobJon and Michael W. Domino, Jr. (the “Stockholder Parties” and the “Lock-Up Agreements”). Under the terms of the Lock-Up Agreements, the Stockholder Parties agreed, subject to certain customary exceptions, that during the period that is the earlier of (i) the date that is 180 days following the Closing Date and (ii) the date specified in a written waiver of the provisions of the Lock-Up Agreements duly executed by ROC Holdings and DTIC, not to dispose of, directly or indirectly, any shares of Common Stock subject to their respective Lock-Up Agreement, or take other related actions with respect to such shares. The shares of DTIC Common Stock subject to the Lock-Up Agreements include all such shares held by the Stockholder Parties, except for shares of Common Stock issued pursuant to the Exchange Agreements.

Pre-Business Combination Related Party Transactions of Legacy DTI

Monitoring and Oversight Agreement

On January 27, 2012, DTIH entered into a Monitoring and Oversight Agreement (as amended on February 13, 2023, the “Monitoring and Oversight Agreement”) with Hicks Holdings Operating LLC (the “Monitor”). On the Closing Date, DTIH and DTIC entered into an Assignment and Assumption of the Monitoring and Oversight Agreement, pursuant to which DTIH assigned to DTIC all of its rights and obligations under the Monitoring and Oversight Agreement. The Monitor is an affiliate of Hicks Equity Partners LLC, an affiliate of DTIC’s majority owner, HHEP (“Hicks”) and HHEP, a beneficial owner of more than five percent of DTIC’s voting securities. Pursuant to the Monitoring and Oversight Agreement, the Monitor provides financing oversight and monitoring services to DTI as requested by the Board. As compensation for the Monitor's services to DTI, DTI pays the Monitor a quarterly fee (the "Monitoring Fee") equal to the greater of (i) $62,500 and (ii) 0.625% of DTI's earnings before interest, taxes, depreciation and amortization for the last 12 months (subject to a one quarter lag), as calculated pursuant to the Monitoring and Oversight Agreement. The Monitoring Fee is subject to a cap of $187,500 per quarter. In addition to the Monitoring Fee, we reimburse the Monitor for all reasonable disbursements and out-of-pocket expenses incurred by the Monitor or its affiliates for our account or in connection with the Monitor's performance of the Monitoring and Oversight Agreement. In 2022, DTIH paid the Monitor $490,315 in Monitoring Fees and reimbursements. From January 1, 2023, through the date of this prospectus, we and DTIH paid the Monitor, in aggregate, $375,000. We anticipate that the Monitoring and Oversight Agreement will remain in effect until December 31, 2027.

Transaction Services Agreement

On January 27, 2012, DTIH entered into a Transaction Services Agreement (as amended on February 13, 2023, the "Transaction Services Agreement") with Hicks Holdings Operating LLC (the "Advisor"). The Advisor is an affiliate of Hicks and HHEP, a beneficial owner of more than five percent of DTIC's voting securities. Pursuant to the Transaction Services Agreement, the Advisor rendered transaction, financial advisory and other similar services to Legacy DTI in connection with various financing and acquisition transactions. In connection with such transactions, Legacy DTI paid the Advisor 1.5% of the value of the applicable transaction (the "Transaction Fee"). In addition to the Transaction Fee, Legacy DTI reimbursed the Advisor for all reasonable disbursements and out-of-pocket expenses incurred by the Advisor in connection with the Advisor's performance of the Transaction Services Agreement. In 2022 and up to, but not including, the Closing Date, Legacy DTI did not make any payments to the Advisor under the Transaction Services Agreement. At Closing, a fee equal to 1.5% of the consideration received by the stockholders of DTIH pursuant to the Merger Agreement was payable to the Advisor under the Transaction Services Agreement with respect to the Business Combination. In lieu of receipt of the $1,717,513 payable in cash to the Advisor, the Advisor elected to receive 262,429 shares of Common Stock. The Transaction Services Agreement terminated in accordance with its terms at Closing.

Pre-Business Combination Related Party Transactions of ROC

Founder Shares

On October 7, 2021, ROC Holdings paid $25,000 to cover certain offering costs of ROC in consideration for 4,312,500 Founder Shares. In December 2021, ROC effected a stock dividend of 0.2 shares for each share of ROC Common Stock outstanding, resulting in ROC Holdings holding an aggregate number of 5,175,000 Founder Shares.

ROC Holdings had agreed, subject to certain limited exceptions, not to transfer, assign or sell any of the Founder Shares until (1) with respect to 50% of the Founder Shares, the earlier of one year after the completion of a business combination and the date on which the closing price of the ROC Common Stock equaled or exceeded $12.50 per share (as adjusted for share sub-divisions, share dividends, rights issuances, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing after a business combination and (2) with respect to the remaining 50% of the Founder Shares, one year after the completion of a business combination, or earlier, in either case, if, subsequent to a business combination, ROC completed a liquidation, merger, share exchange or other similar transaction which resulted in all of ROC's stockholders having the right to exchange their shares of ROC Common Stock for cash, securities or other property. The limitation on ROC Holdings transferring, assigning and selling Founder Shares was amended to align it with the restrictions in the Lock-Up Agreements pursuant to an Amended and Restated Stock Escrow Agreement dated June 8, 2023 among ROC, ROC Holdings and Continental Stock Transfer & Trust Company, the transfer agent for the Common Stock ("Continental").

Administrative Support Agreement

ROC entered into an agreement, commencing on December 1, 2021, and terminating in connection with the Closing, to pay Fifth Partners, LLC, an affiliate of ROC Holdings, a total of $13,000 per month for general and administrative services including office space, utilities and secretarial support. For the year ended December 31, 2022 and for the period from September 2, 2021 (inception) through December 31, 2021, ROC incurred and paid $156,000 and $13,000, respectively, pursuant to the Administrative Support Agreement.

ROC Holdings Subscription Agreements

See "*Introductory Note*" for a description of the ROC Holdings Subscription Agreements.

Amended FP SPAC 2 Subscription Agreement

See "*Introductory Note*" for a description of the Amended FP SPAC 2 Subscription Agreement.

Related Party Transactions Policy

We have adopted a written policy for the review and approval or ratification of transactions involving related persons that conforms with the requirements for issuers having securities listed on Nasdaq. This policy covers, but is not limited to, any financial transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which DTI was, is or will be a participant and in which any related party had, has or will have a direct or indirect interest, other than transactions available to all employees generally. In reviewing and approving or ratifying any such transactions, the Audit Committee (as defined below) will consider all relevant facts and circumstances available to the Audit Committee, such as the benefits of the transaction, the impact of the transaction on a director's independence, the availability of other sources for comparable products or services, whether the transaction is negotiated on an arm's length basis, whether the Audit Committee determines that it has been duly apprised of all significant conflicts that may exist and that we are warranted in entering into the transaction, whether the rates or charges involved in the transaction are determined by competitive bids and whether the interest of the related party arises solely from the ownership of a class of our equity securities and that all holders of that class of our equity securities received or would receive the same benefit on a pro rata basis.

MANAGEMENT

Name	Age	Position
Executive Officers		
R. Wayne Prejean	62	Chief Executive Officer and Director
David R. Johnson	59	Chief Financial Officer
Michael W. Domino, Jr.	48	President, DTR Division
Directors		
Thomas O. Hicks	77	Director
Curtis L. Crofford	50	Director
John D. “Jack” Furst	63	Director
Eric C. Neuman	78	Director
Thomas M. “Roe” Patterson	48	Director
C. Richard Vermillion	77	Director

Executive Officers

References in this section to “DTI” are to DTIH for periods prior to the Business Combination and to DTIC for periods after the Business Combination.

R. Wayne Prejean has been the Chief Executive Officer of DTI since 2013. Mr. Prejean has more than 40 years of industry experience, having begun his career in 1979 working in field operations in the Gulf of Mexico. He spent the next 20 years employed by firms specializing in directional drilling and medium radius horizontal drilling technology, including Scientific Drilling, Becfield Horizontal, Drilling Measurements Inc., Drilex Services and Baker Hughes Inteq. He served in various field operations, operations management, sales and executive management roles, and was responsible for domestic and international business locations. In 1999, Mr. Prejean founded Wildcat Services, a provider of specialty automatic drilling equipment for drilling rigs. In five years, Wildcat Services grew from a local 50-rig supplier to having over 500 systems deployed in 20 countries. Wildcat Services was sold to National Oilwell Varco in 2004, and the Wildcat product grew to a worldwide unit count of just under 1,000 systems operating by 2008. Mr. Prejean continued as General Manager, later becoming a strategic advisor. In addition to founding Wildcat Services, Mr. Prejean co-founded several other OFS companies. These companies focused on solids control, data automation, downhole tool development, measurement-while-drilling products and precision metal cutting and machining. Mr. Prejean has been involved in several merger and acquisition transactions, and executed DTI’s post-merger and acquisition business integration process.

Mr. Prejean is a director of DTI. He was chosen to serve on the Board because of his broad, yet deep, industry knowledge, and his operational, technical, financial and strategic management experience, which span both domestic and international markets.

David R. Johnson has been the Chief Financial Officer of DTI since 2017, having initially started in that role in 2013. Mr. Johnson has more than 30 years of experience in accounting and more than 20 years of experience in oil and gas related industries. He has worked for firms such as Directional Drilling Company and Sharewell Energy Services. From 1998 to 2004, he served as Vice President of Finance and Administration for PathFinder Energy Services, Inc., an international oil field service company and wholly owned subsidiary of W-H Energy Services, Inc. Mr. Johnson has a B.S. from LeTourneau University and an M.B.A. from the University of Texas at Tyler. He is a Texas Certified Public Accountant, and a member of the American Institute of Certified Public Accountants.

Michael W. Domino, Jr. has been the President, DTR Division since 2020. Mr. Domino has nearly 30 years of experience, having started his career in operations at Directional Rentals. He then joined Stabil Drill where he held sales and management positions. He returned to Directional Rentals in 2009 as a key executive and led the company's transformation and growth through 2012. Since the acquisition of Directional Rentals, which was renamed Drilling Tools International, Mr. Domino has held various executive roles with DTI. Mr. Domino has a B.B.A. from the University of Southwestern Louisiana, and is a member of the American Association of Drilling Engineers, the Society of Petroleum Engineers and the International Association of Drilling Contractors.

Directors

References in this section to "DTI" are to DTIH for periods prior to the Business Combination and to DTIC for periods after the Business Combination.

Thomas O. Hicks has been a director of DTI since 2012. Mr. Hicks is a pioneer in the private equity industry in the United States. From 1984 to 1988 he was co-founder and co-chairman of Hicks & Haas, which successfully acquired numerous entities and brands, including Dr Pepper, Seven Up, A&W Root Beer, Sybron and Thermadyne. He later founded numerous private equity funds for HM, which raised over $12 billion. His funds have invested billions of dollars of equity in businesses in the United States, Europe and Latin America. Mr. Hicks retired from HM in 2004, and now manages his own family office private equity firm, Hicks Holdings, LLC. Mr. Hicks was a Director of Carpenter Technology Corporation until September 2014. Mr. Hicks is also the manager and indirect majority owner of HSG Sports Group Holdings LLC, which, through subsidiaries, formerly owned interests in professional sports franchises, including the Texas Rangers and the Dallas Stars. Mr. Hicks has a B.B.A. from the University of Texas at Austin and an MBA from the University of Southern California.

Mr. Hicks was chosen to serve on the Board because of his decades of experience successfully acquiring, integrating and operating businesses. Mr. Hicks' deep understanding of DTI's business also qualifies him to serve as a director of DTI.

Curtis L. Crofford has been a director of DTI since 2012. He is also a managing director at Hicks, a private equity investment firm founded by Thomas O. Hicks. Mr. Crofford has been with Hicks since 2005. Prior to joining Hicks, Mr. Crofford served in positions at numerous investment banks, including Dresdner Kleinwort Wasserstein; Donaldson, Lufkin & Jenrette; and BT Alex. Brown Inc. Mr. Crofford has been involved in many of Hicks' investments, including those in DTI, Latrobe Specialty Metals and Standard Pump Parts. Mr. Crofford received a B.A. from Vanderbilt University and an M.B.A. from Duke University.

Mr. Crofford was chosen to serve on the Board because of his 17 years of experience in private equity and eight years of experience in investment banking. Over the course of his career, Mr. Crofford has developed a deep understanding of the oil and gas industry in general and of DTI's business in particular.

John D. "Jack" Furst has been a director of DTI since 2012. He is also the founder of Oak Stream Investors, a private investment firm founded in 2008 which makes investments in real estate, oil and gas, fixed income securities and public and private equities. Mr. Furst joined HM Capital Partners LLC ("HM Capital Partners"), a private equity firm, in 1989, the year it was formed as HM. Until 2008, he was a partner at HM Capital Partners and was involved in all aspects of the firm's business, including originating, structuring and monitoring its investments. Prior to joining HM Capital Partners, Mr. Furst served as a Vice President, and subsequently as a partner, of Hicks & Haas from 1987 to 1989. From 1984 to 1986, Mr. Furst was a mergers and acquisitions and corporate finance specialist for The First Boston Corporation ("First Boston"). Before joining First Boston, Mr. Furst was a Financial Consultant at PricewaterhouseCoopers. Mr. Furst received a B.S. with honors from the College of Business Administration at Arizona State University and an M.B.A. with honors from the Graduate School of Business at the University of Texas at Austin.

Mr. Furst was chosen to serve on the Board because of his 38 years of experience in leveraged acquisitions and private investments. Mr. Furst's broad experience in the financial services industry allows him to offer unique insights into DTI's business.

Eric C. Neuman has been a director of DTI since 2012. He has also been a managing director and partner of Hicks since 2005. Previously, he had been a partner at HM since December 2000 and an officer of HM since 1993. At HM, Mr. Neuman was involved in the formation and development of many of the firm's media investments, including those in Chancellor Media and Capstar Broadcasting, Lin TV, Sunrise Television and Marcus Cable. In 2002, he assumed responsibility for HM's Latin American business.

Mr. Neuman currently serves on the board of directors of DirecPath Newco., LLC; Crossings, LLC and DTI. From 2000 to 2016, Mr. Neuman served as a director of Intercable, an international provider of television, internet and telephone services and an HM portfolio company. Mr. Neuman served as a director of GigaMonster from 2015 to 2019; Just Brakes, LLC from 2013 to 2017; and Glori Energy, Inc. from 2015 to 2017. Mr. Neuman received a B.A. from the University of South Florida and an M.B.A. from Northwestern University.

Mr. Neuman was chosen to serve on the Board because of his demonstrated track record of driving growth in businesses across a broad range of industries. Moreover, Mr. Neuman' experience serving as a director of numerous companies qualifies him to serve as a director of DTI.

Thomas M. "Roe" Patterson has more than 25 years of energy industry experience. He currently manages and invests in multiple companies inside and outside of the energy sector. He was Basic Energy Services, Inc.'s ("Basic") President and Chief Executive Officer, and served as a member of Basics' board of directors, from September 2013 until January 2020, when he retired from Basic. From 2006 to September 2013, Mr. Patterson worked for Basic in positions of increasing responsibility, including as Basic's Senior Vice President and Chief Operating Officer from April 201l until September 2013, Senior Vice President from September 2008 until April 2011 and as a Vice President from February 2006 until September 2008. Prior to joining Basic, he was President of TMP Companies, Inc. from 2000 to 2006. He was a Contracts / Sales Manager at Patterson Drilling Company from 1996 to 2000. From 1995 to 1996, he was employed as an Engine Sales Manager at West Texas Caterpillar. Mr. Patterson graduated with a Bachelor of Science degree in Biology from Texas Tech University.

Mr. Patterson was chosen to serve on the Board because of his extensive energy industry experience and leadership roles, including as a director, with another OSC.

C. Richard Vermillion has been a director of DTI since 2016. He has also served as the Chairman and CEO of MV Partners, Inc., a private investment vehicle, since 1996. During that time, Mr. Vermillion has invested in and served on the boards of several companies, including Gammaloy, L.P., an oilfield tool rental company; Seismic Energy Products, a rubber bearing manufacturer; and Fulcrum Analytics, a data analytics company. Additionally, Mr. Vermillion has served on the boards and audit committees of Varel Manufacturing, a drill bit manufacturer, and Triton Energy, a public oil and gas exploration company. Prior to this, Mr. Vermillion was a managing director of Donaldson, Lufkin & Jenrette, an investment bank, and CEO of MBank Houston, the third largest bank in Houston. Mr. Vermillion received a B.B.A. and M.B.A. from the University of Texas at Austin and is a graduate of the Harvard Advanced Management program.

Mr. Vermillion was chosen to serve on the Board because of his deep executive leadership experience in financial services, OFS, accounting, finance and private equity, and his extensive background in banking, investment banking, and asset management.

Board Composition

Our business and affairs are managed under the direction of the Board. The Board consists of seven members. Mr. Hicks is the Chairman of the Board. Subject to the terms of our Certificate of Incorporation, the Board may fix, by one or more resolutions adopted from time to time by the Board, the number of directors on the Board. In accordance with our Certificate of Incorporation, the Board is divided into three classes with staggered three-year terms. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following their election. Our directors are divided among the three classes as follows:

- the Class I directors are Messrs. Hicks and Vermillion, and their terms will expire at our annual meeting of stockholders to be held in 2024;
- the Class II directors are Messrs. Neuman and Prejean, and their terms will expire at our annual meeting of stockholders to be held in 2025; and
- the Class III directors are Messrs. Crofford, Furst and Patterson, and their terms will expire at our annual meeting of stockholders to be held in 2026.

Director Independence

Because the Common Stock is listed on Nasdaq, we are required to comply with the applicable rules of such exchange in determining whether a director is independent. The Board has determined, based on information provided by each director concerning his background, employment and affiliations, that each of Messrs. Furst, Neuman, Patterson and Vermillion qualifies as independent as defined under the applicable Nasdaq and SEC rules. In making these determinations, the Board considered the current and prior relationships that each director has and had with DTI and all other facts and circumstances the Board deemed relevant in determining their independence.

Board Committees

The Board directs the management of our business and affairs, as provided by Delaware law, and conducts its business through meetings of the Board and standing committees. The standing committees are the audit committee (the “Audit Committee”), the compensation committee (the “Compensation Committee”) and the nominating and corporate governance committee (the “Nominating and Corporate Governance Committee”).

Audit Committee

The Audit Committee is responsible for, among other things:

- the appointment, compensation, retention, replacement, and oversight of the work of the independent registered public accounting firm engaged by us;
- pre-approving all audit and permitted non-audit services to be performed for us by the independent registered public accounting firm, and establishing pre-approval policies and procedures;
- recommending to the Board hiring policies for employees or former employees of the independent registered public accounting firm, including but not limited to, as required by applicable laws and regulations;
- ensuring the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law;
- obtaining and reviewing a report, at least annually, from the independent registered public accounting firm describing (i) the independent registered public accounting firm’s internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm and any steps taken to deal with such issues and (iii) all relationships between the independent registered public accounting firm and us to assess the independent registered public accounting firm’s independence;
- reviewing and approving any related party transaction required to be disclosed pursuant to Item 404 of Regulation S-K promulgated by the SEC;

- discussing with management and the independent auditor any published reports or correspondence with regulators or governmental agencies that raise material issues regarding our financial statements or accounting policies; and
- discussing with our corporate counsel legal matters that may have a material impact on the financial statements or our compliance policies.

The Audit Committee consists of Messrs. Furst, Neuman and Patterson, with Mr. Furst serving as chair. Under the Nasdaq listing standards and applicable SEC rules, we are required to have at least three members of the Audit Committee, all of whom must be independent. The Board has affirmatively determined that Messrs. Furst, Neuman and Patterson each meet the definition of "independent director" for purposes of serving on the Audit Committee under Rule 10A-3 of the Exchange Act and Nasdaq rules. In addition, the Board has determined that Mr. Neuman qualifies as an "audit committee financial expert," as such term is defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC. The Board has adopted a written charter for the Audit Committee, which is available on our website. The information on any of our websites is deemed not to be incorporated in this prospectus or to be part of this prospectus.

Compensation Committee

The Compensation Committee is responsible for, among other things:

- consulting with senior management to establish DTIC's general compensation philosophy and objectives;
- determining compensation, including salary, bonus, incentive and equity compensation, for the CEO and other executive officers;
- reviewing and approving all employment agreements, severance arrangements, change in control provisions and agreements and any special supplemental benefits applicable to the CEO and other executive officers;
- reviewing and making recommendations to the Board with respect to compensation plans and policies for employees generally;
- overseeing the risk assessment of the DTIC's compensation arrangements applicable to the executive officers;
- as applicable, reviewing and discussing with management the disclosures made in the Compensation Discussion and Analysis ("CD&A") prior to the filing of the DTIC's annual report on the Form 10-K ("Form 10-K") or DTIC's proxy statement for the annual meeting of its stockholders ("Proxy Statement"), as the case may be, and recommend to the Board whether the CD&A should be included in the Form 10-K or the Proxy Statement;
- reviewing and approving any additional services to be performed for DTIC or its affiliates by a compensation consultant or its affiliates;
- reviewing and making recommendations to the Board with respect to director compensation;
- conducting a periodic performance evaluation of the Compensation Committee;
- administering the 2023 Plan; and
- overseeing DTIC's human capital management policies, processes and practices related to workforce diversity, wage and opportunity equity, and inclusion programs.

The Compensation Committee consists of Messrs. Neuman and Vermillion, with Mr. Neuman serving as chair. The Board has affirmatively determined that Messrs. Neuman and Vermillion each meet the definition of "independent director" for purposes of serving on the Compensation Committee under the Nasdaq rules, including for purposes of the additional independence test for Compensation Committee members, and are "non-employee directors" as defined in Rule 16b-3 of the Exchange Act. The Board has adopted a written charter for the Compensation Committee, which is available on our website. The information on any of our websites is deemed not to be incorporated in this prospectus or to be part of this prospectus.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for, among other things:

- identifying individuals qualified to become members of the Board;
- recommending to the Board the director nominees for election by Stockholders at each meeting of Stockholders at which directors will be elected and recommend to the Board nominees to fill any vacancies and newly created directorships on the Board;
- developing, subject to approval by the Board, a process for an annual evaluation of the Board and its committees and to oversee the conduct of such annual evaluation;
- conducting and overseeing the self-evaluation of the Board and each of its committees and reporting such results to the Board;
- periodically reviewing the criteria for the selection of new directors to serve on the Board;
- evaluate candidates for Board membership, including those recommended by Stockholders in accordance with our Bylaws;
- periodically reviewing and making recommendations regarding the composition and size of the Board, taking into account, as an important factor, considerations of diversity;
- periodically review and make recommendations regarding the composition, size, purpose and structure of each of the Board's committees, including the creation of additional committees or elimination of existing committees;
- periodically recommend to the Board the chairpersons and members of each of the Board's committees; and
- reviewing, as appropriate and in light of the then current Board policies, upon a significant change in a director's principal occupation, the continued Board membership of such director.

The Nominating and Corporate Governance Committee consists of Messrs. Furst and Vermillion, with Mr. Vermillion serving as chair. The Board has affirmatively determined that Messrs. Furst and Vermillion each meet the definition of "independent director" under the Nasdaq rules. The Board has adopted a written charter for the Nominating and Corporate Governance Committee, which is available on our website. The information on any of our websites is deemed not to be incorporated in this prospectus or to be part of this prospectus.

Compensation Committee Interlocks and Insider Participation

No person who has served as a member of the Compensation Committee during the last completed fiscal year (i) was, during that fiscal year, an officer or employee of DTIC, (ii) was formerly an officer of DTIC or (iii) had any relationship requiring disclosure by DTIC under any paragraph of Item 404 of Regulation S-K.

No executive officer of DTIC served as a member of the Compensation Committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on the Compensation Committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of DTIC.

No executive officer of DTIC served as a director of another entity, one of whose executive officers served on the Compensation Committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of DTIC.

No executive officer of DTIC served as a member of the Compensation Committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a director of DTIC.

Risk Oversight

The Board is responsible for overseeing our risk management process. The Board focuses on our general risk management strategy, the most significant risks facing us, and oversees the implementation of risk mitigation strategies by management. The Audit Committee is also responsible for reviewing and discussing with management our major financial risk exposures and our risk assessment and risk management programs.

Code of Business Conduct

We have adopted a written code of business conduct that applies to all our employees, officers and directors. We also expect our contractors, consultants, trainees, temporary employees and the like to follow the code of business conduct. A copy of the code is posted on the investor relations portion of our website at drillingtools.com. In addition, we intend to post on our website all disclosures that are required by law or Nasdaq listing standards concerning any amendments to, or waivers from, any provision of the code. The reference to our website address does not constitute incorporation by reference of the information contained at or available through our website, and you should not consider it to be a part of this prospectus.

EXECUTIVE COMPENSATION

We are an "emerging growth company" as defined in the JOBS Act and a "smaller reporting company" as defined in the rules promulgated under the Securities Act. As such, we have opted to comply with the executive compensation disclosure rules applicable to such companies. By doing so, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. These include, but are not limited to, exemptions from certain narrative and tabular disclosure obligations regarding executive and director compensation in connection with our obligations under this Registration Statement, including the requirement to include a Compensation Discussion and Analysis, scaled financial reporting, as well as exemptions from the requirements to hold a nonbinding advisory vote on executive compensation and obtain stockholder approval of any golden parachute payments not previously approved.

Introduction

This section discusses the material components of the executive and director compensation programs, including a narrative description of the material factors necessary to understand the information disclosed in the "Summary Compensation Table" below. For the year ended December 31, 2022, our named executive officers ("NEOs") and their positions were as follows:

- R. Wayne Prejean, Chief Executive Officer;
- David R. Johnson, Chief Financial Officer; and
- Michael W. Domino, Jr., President, DTR Division.

Summary Compensation Table

The following table contains information pertaining to the compensation of our NEOs for the year ended December 31, 2022.

Name and Position	Year	Salary($)(1)	Bonus($)(2)	Option awards ($)(3)	All other compensation ($)(4)	Total ($)
R. Wayne Prejean *Chief Executive Officer*	2022	400,000	121,370	—	18,780	540,150
David R. Johnson *Chief Financial Officer*	2022	252,000	121,140	79,000	21,812	473,952
Michael W. Domino, Jr. *President, DTR Division*	2022	252,000	121,450	—	780	374,230

(1) Amounts reported in this column represent the base salaries paid to the NEOs during 2022.

(2) Amounts reported in this column represent a year-end cash bonus, a cash safety bonus and an annual tenure-based cash service award paid to each NEO during 2022. For more details regarding these cash bonuses, see "— *Narrative to Summary Compensation Table — Bonuses*."

(3) Amounts reported in this column represent the aggregate incremental fair value increase of the repricing of Mr. Johnson's 2017 option grant, which was repriced on January 26, 2022, determined as of such repricing date in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718. The exercise price was adjusted from $1.15 per share to $0.85 per share (prior to giving effect to the Conversion) to align Mr. Johnson's incentives with those of our other senior management. We did not grant any options to its NEOs in 2022.

(4) Amounts reported in this column represent employment contract allowance, expenses related to personal use of company vehicles and expenses related to mileage accrued on personal use vehicles paid to the NEOs during 2022.

Narrative to the Summary Compensation Table

Salaries

Our NEOs receive a base salary to compensate them for services rendered to us. The base salary payable to each NEO provides a fixed compensation component commensurate with the executive's skill, experience, role and responsibilities. For 2022, the salaries for Mr. Prejean, Mr. Johnson and Mr. Domino were $400,000, $252,000 and $252,000, respectively.

Bonuses

Annual cash performance bonuses were determined by the Board based on the recommendation of our Chief Executive Officer. The amount of the cash performance bonuses is based on the achievement of corporate and/or individual performance goals, as set forth in each NEO's employment agreement. Our NEOs each earned an annual cash performance bonus of $120,000 during 2022. Additionally, each NEO is eligible to participate in our internal safety award program, pursuant to which each NEO earned a safety bonus of $250 during 2022. Each NEO is also eligible to participate in our tenure-based award program, pursuant to which Mr. Prejean, Mr. Johnson and Mr. Domino received an annual tenure-based service award equal to $1,120, $890 and $1,200, respectively, for 2022.

Long-Term Equity Incentive

Our NEOs did not receive grants of long-term equity incentive awards pursuant to the Stock Plan in 2022. Historically, we have made share option awards to the NEOs subject to time-based vesting or performance-based vesting conditions, as reflected in the Outstanding Equity Awards at 2022 Fiscal Year End table below. On January 26, 2022, Mr. Johnson's November 27, 2017 option grant was amended to reduce the exercise price thereof from $1.15 per share to $0.85 per share (prior to giving effect to the Conversion).

Employee Benefits

In addition to any individual benefits set forth in each NEO's employment agreement (as described below), the NEOs are generally eligible to participate in our employee health and welfare, retirement and other employee benefit programs on the same basis as other similarly situated employees, subject to applicable law. We maintain a qualified 401(k) plan which allows participants, including the NEOs, to defer cash compensation up to the maximum amount allowed under Internal Revenue Service guidelines. We may make discretionary matching contributions to the plan equal to 150% of a participant's first 3% of elective deferrals, up to $2,000, and discretionary profit-sharing contributions. Participants are always 100% vested in their contributions to the plan and vest in any matching and profit-sharing contributions over six years.

All Other Compensation

The other compensation earned by our NEOs includes employment contract allowance, expenses related to personal use of company vehicles and expenses related to mileage accrued on personal use vehicles.

Employment Agreements

Each of the NEOs is party to an employment agreement with us, as described below.

R. Wayne Prejean

On September 1, 2013, we entered into an employment agreement with Mr. Prejean pursuant to which he serves as Chief Executive Officer. Mr. Prejean's employment with us renews in successive one-year periods, unless either we or Mr. Prejean give written notice to the other party of its intent not to renew the employment agreement at least 60 days prior to the end of the ongoing term. Mr. Prejean is entitled to an annual base salary of $400,000 and to participate in annual bonus plans in accordance with the terms described above under "— *Narrative to Summary Compensation Table — Bonuses*." Mr. Prejean is also eligible to receive stock options, restricted stock awards or other equity compensation pursuant to the policies and plans adopted from time to time by the Board in its sole discretion.

If Mr. Prejean's employment is terminated for cause, due to his death, voluntary resignation or because he chooses not to renew his employment, the agreement provides that Mr. Prejean will be paid (i) the accrued and unpaid portion of his base salary through the date of the termination of employment, (ii) any accrued but unused vacation days for the calendar year in which the termination of employment occurs and (iii) any reimbursement for business travel and other expenses to which Mr. Prejean is entitled (collectively, the "Prejean Accrued Amounts"). If Mr. Prejean's employment is terminated due to his death, his to agreement also provides for (i) payment of an amount equal to 50% of his base salary, prorated based on the time of year the employment is terminated (the "Prorated Bonus"), (ii) accelerated vesting of any outstanding unvested equity awards that vest solely upon a change in control, and (iii) retention of any vested equity awards in that are vested as of the date of such termination, subject to applicable repurchase provisions. If Mr. Prejean's employment is terminated for cause or due to his voluntary resignation or his nonrenewal of his employment, Mr. Prejean will forfeit any unvested equity awards and retain any vested equity awards subject to applicable repurchase provisions. If Mr. Prejean's employment is terminated by us without cause, terminated by us because we choose not to renew his employment, terminated by Mr. Prejean for good reason or terminated due to a disability of Mr. Prejean, the agreement provides that Mr. Prejean will be entitled to (a)(i) payment of the Prejean Accrued Amounts and (ii) the Prorated Bonus, (b) for a period of 15 months following the date of the termination, beginning in the first month following the termination of employment, an amount each month equal to 150% of his base salary in effect immediately before the termination of employment divided by 12, (c) premiums paid by DTII for his health insurance for 15 months following the date of termination, pay the premium for Mr. Prejean's health insurance under the same group health insurance policy(ies) that is (are) provided to our employees, subject to the terms of and to the extent permitted by our group health insurance policy(ies), the standard terms of the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"), and Mr. Prejean making appropriate elections to participate in such coverage, and (d) accelerated vesting of his unvested equity awards other than those that vest solely upon a change in control (except in the event of termination due to our non-renewal of his employment) and to retain any vested equity awards subject to applicable repurchase provisions.

David R. Johnson

On November 27, 2017, we entered into an employment agreement with Mr. Johnson pursuant to which he serves as our Chief Financial Officer. Mr. Johnson's employment with us renews in successive one-year periods, unless either we or Mr. Johnson give written notice to the other party of its intent not to renew the employment agreement at least 60 days prior to the end of the ongoing term. Mr. Johnson is entitled to an annual base salary of $252,000 and to participate in annual bonus plans in accordance with the terms described above under "— *Narrative to Summary Compensation Table — Bonuses*." Mr. Johnson is also eligible to receive stock options, restricted stock awards or other equity compensation pursuant to the policies and plans adopted from time to time by the Board in its sole discretion.

If Mr. Johnson's employment is terminated for cause, due to his death, voluntary resignation or because he chooses not to renew his employment, the agreement provides that Mr. Johnson will be paid (i) the accrued and unpaid portion of his base salary through the date of the termination of employment, (ii) any accrued but unused vacation days for the calendar year in which the termination of employment occurs and (iii) any reimbursement for business travel and other expenses to which Mr. Johnson is entitled (collectively the "Johnson Accrued Amounts"). If Mr. Johnson's employment is terminated due to his death, his agreement also provides for (i) immediate vesting in any outstanding unvested equity awards and (ii) retention of any vested equity awards that are vested as of the date of such termination subject to applicable repurchase provisions. If Mr. Johnson's employment is terminated for cause or due to his voluntary resignation or his nonrenewal of his employment, Mr. Johnson will forfeit any unvested equity awards and retain any vested equity awards subject to applicable repurchase provisions. If Mr. Johnson's employment is terminated by us without cause, terminated by us because it chooses not to renew his employment, terminated by Mr. Johnson for good reason or terminated due to a disability of Mr. Johnson, the agreement provides that Mr. Johnson will be entitled to (a)(i) payment of the Johnson Accrued Amounts and (ii) an amount equal to 50% of his base salary, prorated based on the time of year the employment is terminated, (b) for a period of 15 months following the date of the termination, beginning in the first month following the termination of employment, payment of an amount each month equal to 150% of his base salary in effect immediately before the termination of employment divided by 12, (c) DTII-paid premiums for his health insurance for 15 months following the date of termination, under the same group health insurance policy(ies) that is (are) provided to our employees, subject to the terms of and to the extent permitted by our group health insurance policy(ies), the standard terms of COBRA and Mr. Johnson making appropriate elections to participate in such coverage, and (d) accelerated vesting of his unvested equity awards (except in the event of termination due to our non-renewal of his employment) and to retain any vested equity awards subject to applicable repurchase provisions.

Michael W. Domino, Jr.

On April 1, 2017, we entered into an employment agreement with Mr. Domino pursuant to which he serves as President, DTR Division. Mr. Domino's employment with us renews in successive one-year periods, unless either we or Mr. Domino give written notice to the other party of its intent not to renew the employment agreement at least 60 days prior to the end of the ongoing term. Mr. Domino is entitled to an annual base salary of $252,000 and to participate in annual bonus plans in accordance with the terms described above under "— *Narrative to Summary Table — Bonuses*." Mr. Domino is also eligible to receive stock options, restricted stock awards or other equity compensation pursuant to the policies and plans adopted from time to time by the Board in its sole discretion.

If Mr. Domino's employment is terminated for cause, due to his death, voluntary resignation or because he chooses not to renew his employment, the agreement provides that Mr. Domino will be paid (i) the accrued and unpaid portion of his base salary through the date of the termination of employment, (ii) any accrued but unused vacation days for the calendar year in which the termination of employment occurs and (iii) any reimbursement for business travel and other expenses to which Mr. Domino is entitled (collectively, the "Domino Accrued Amounts"). If Mr. Domino's employment is terminated due to his death, his agreement also provides for (i) immediate vesting in any outstanding unvested equity awards and (ii) retention of any vested equity awards that are vested as of the date of such termination subject to applicable repurchase provisions. If Mr. Domino's employment is terminated for cause or due to his voluntary resignation or his nonrenewal of his employment, Mr. Johnson will forfeit any unvested equity awards and retain any vested equity awards subject to applicable repurchase provisions. If Mr. Domino's employment is terminated by us without cause, terminated by us because it chooses not to renew his employment, terminated by Mr. Domino for good reason or terminated due to a disability of Mr. Domino, the agreement provides that Mr. Domino will be entitled to (a)(i) payment of the Domino Accrued Amounts and (ii) payment of an amount equal to 50% of his base salary, prorated based on the time of year the employment is terminated, and (b) for a period of 15 months following the date of the termination, beginning in the first month following the termination of employment, payment of an amount each month equal to 150% of his base salary in effect immediately before the termination of employment divided by 12, (c) DTII-paid premiums for his health insurance for 15 months following the date of termination, pay the premium for Mr. Domino's health insurance under the same group health insurance policy(ies) that is (are) provided to our employees, subject to the terms of and to the extent permitted by our group health insurance policy(ies), the standard terms of COBRA and Mr. Domino making appropriate elections to participate in such coverage, and (d) accelerated vesting of his unvested equity awards (except in the event of termination due to our non-renewal of his employment) and to retain any vested equity awards subject to applicable repurchase provisions.

Under each NEO's employment agreement, severance payments are contingent upon the NEO's execution and non-revocation of a general release of claims in our favor. In addition, each NEO is bound by certain confidentiality and restrictive covenants pursuant to their arrangements.

Outstanding Equity Awards at 2022 Fiscal Year End

The following table summarizes the outstanding equity awards held by our NEOs as of December 31, 2022.

		Options awards				
Name	Grant Date	Number of securities underlying unexercised options exercisable (#)	Number of securities underlying unexercised options exercisable (#)	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price ($)	Option expiration date
R. Wayne Prejean	April 1, 2017(1)	667,808	—	—	3.72	April 1, 2027
	April 1, 2017(2)	—	—	267,032	3.72	April 1, 2027
	April 1, 2017(2)	—	—	267,032	3.72	April 1, 2027
David R. Johnson	November 27, 2017(1)	132,375	—	—	3.72(3)	November 27, 2027
Michael W. Domino, Jr.	April 1, 2017(1)	370,264	—	—	3.72	April 1, 2027

(1) Represents fully-vested time based option awards.

(2) Represents performance-based option awards that vest and become exercisable immediately prior to a Change of Control (as defined in the Stock Plan) to the extent that such options achieve a certain share price in connection with the Change of Control, as described in the underlying award agreement. The Board exercised its discretion and caused these performance-based options to vest and become exercisable immediately prior to the Business Combination.

(3) Mr. Johnson's option grant was amended on January 26, 2022, to adjust the exercise price from $1.15 per share to $0.85 share (prior to giving effect to the Conversion) to align Mr. Johnson's incentives with those of DTI's other senior management.

Potential Payments Upon a Termination or Change in Control

As of December 31, 2022, each NEO was eligible to receive severance benefits upon certain terminations of employment, as described above. Other than as set forth in each NEO's employment agreement, we did not offer or maintain any formal or informal severance or similar compensation programs providing for additional vesting, benefits, or payments in connection with a termination of employment as of December 31, 2022.

In the event of a "Change of Control" (as defined in the Stock Plan), any unvested time-based share options held by the NEOs will vest in full and become exercisable immediately prior to such Change of Control. Mr. Prejean's performance-based share options would vest in full and become exercisable immediately prior to a Change of Control to the extent that such options achieve a certain share price in connection with the Change of Control, as described in the underlying award agreement.

Director Compensation

The following table contains information pertaining to the compensation of our non-employee directors for the year ended December 31, 2022.

Name	Fees earned or paid in cash ($)(1)	All other compensation(2)	Total ($)
Curtis L. Crofford(3)	—	—	—
John D. "Jack" Furst	60,000	—	60,000
Thomas O. Hicks(3)	—	—	—
Thomas O. Hicks, Jr.(3)	—	—	—
Eric C. Neuman(3)	—	—	—
C. Richard Vermillion	60,000	1,072	61,072

(1) Represents director fees paid during 2022.
(2) Represents expenses reimbursed during 2022.
(3) Did not receive compensation from DTI for services as a director in 2022.
(4) As of December 31, 2022, Mr. Furst held fully vested options to purchase 25,000 shares of DTIH Common Stock.

2023 Plan

Key Plan Provisions

- Awards may be granted under the 2023 Plan for up to ten (10) years following the Business Combination, unless earlier terminated by the Board or the Compensation Committee, but no incentive stock options may be granted after ten (10) years from the earlier of the board of directors ROC's or the ROC stockholders' approval of the 2023 Plan.
- The 2023 Plan provides for the grant of stock options (both incentive stock options and nonqualified stock options) stock appreciation rights, restricted stock, restricted stock units, performance-based awards, and other stock- and cash-based awards.
- We have reserved a pool of shares of Common Stock for issuance pursuant to awards under the 2023 Plan equal to 2,976,857 shares.
- The 2023 Plan will be administered by the Board or, if delegated by the Board, the Compensation Committee or such committee as permitted by the 2023 Plan.

Summary of the 2023 Plan

The following paragraphs provide a summary of principal features of the 2023 Plan and its operation. However, this summary is not a complete description of all provisions of the 2023 Plan and is qualified in its entirety by the specific language of the 2023 Plan.

Purposes of the 2023 Plan

The purposes of the 2023 Plan are to (i) encourage our profitability and growth through short-term and long-term incentives that are consistent with our objectives; (ii) give participants an incentive for excellence in individual performance; (iii) promote teamwork among participants; and (iv) give us a significant advantage in attracting and retaining key employees, directors and consultants. These incentives will be provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance-based awards, and other stock- and cash-based awards as the administrator of the 2023 Plan may determine.

Authorized Shares

Subject to the adjustment provisions contained in the 2023 Plan, the maximum number of shares of Common Stock that may be issued pursuant to awards under the 2023 Plan is (i) 2,976,857 shares of Common Stock, plus (ii) any shares of Common Stock subject to stock options or other awards that were assumed in the Business Combination, with the maximum number of shares to be added to the 2023 Plan pursuant to clause (ii) equal to an anticipated shares of Common Stock. The 2023 Plan also includes an evergreen provision that provides for an automatic annual increase plan on the first day of each calendar year to the number of shares of Common Stock available for issuance under the 2023 Plan, equal to the lesser of:

- 3% of the total number of shares of Common Stock issued and outstanding on a fully-diluted basis as of the last day of the immediately preceding calendar year; or
- Such lesser amount determined by the administrator.

Generally, any shares of Common Stock subject to an award under the 2023 Plan that are forfeited, canceled, settled or otherwise terminated without a distribution of shares of Common Stock to a participant will thereafter be deemed to again be available for awards. In applying the immediately preceding sentence, if (i) shares of Common Stock otherwise issuable or issued in respect of, or as part of, any award are withheld to cover taxes or any applicable exercise price, such shares will be treated as having been issued under the 2023 Plan and shall not be available for issuance under the 2023 Plan, and (ii) any share-settled stock appreciation rights or options are exercised, the aggregate number of shares of Common Stock subject to such stock appreciation rights or options will be deemed issued under the 2023 Plan and will not be available again for issuance under the 2023 Plan. For the avoidance of doubt, (A) shares of Common Stock underlying awards that are subject to the achievement of performance goals shall be counted against the share reserve based on the target value of such awards unless and until such time as such awards become vested and settled in shares of Common Stock, and (B) awards that, pursuant to their terms, may be settled only in cash shall not count against the share reserve. If any extraordinary dividend or other extraordinary distribution (whether in cash, shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, reclassification, repurchase, or exchange of shares or other of our securities, other change in our corporate structure affecting the shares, or any similar equity restructuring transaction affecting the shares occurs, an equitable substitution or proportionate adjustment will be made, as may be determined by the administrator in its sole discretion to number and class of shares that may be delivered under the 2023 Plan and/or the number, class, and price of shares covered by each outstanding award, and the numerical share limits contained in the 2023 Plan.

Plan Administration

The Board or a committee appointed by the Board administers the 2023 Plan and is referred to as the administrator. Different administrators may administer the 2023 Plan with respect to different groups of service providers. The Board may retain the authority to concurrently administer the 2023 Plan and revoke the delegation of some or all authority previously delegated.

Subject to the terms of the 2023 Plan and applicable laws, the administrator generally has the power, in its sole discretion, to (i) select participants; (ii) determine whether and to what extent awards are to be granted to participants; (iii) determine the number of shares of Common Stock to be made subject to each award; (iv) determine the terms and conditions, not inconsistent with the terms of the 2023 Plan, of each award granted, including, but not limited to, (A) the restrictions applicable to awards and the conditions under which restrictions applicable to such awards shall lapse, (B) the performance goals and performance periods applicable to awards, if any, (C) the exercise price of each award, (D) the vesting schedule applicable to each award, (E) any confidentiality or restrictive covenant provisions applicable to the Award, and (F) any amendments to or waivers of the terms and conditions of outstanding awards, including, but not limited to, extending the exercise period of such Awards and accelerating the vesting schedule of such awards; (v) determine the terms and conditions, not inconsistent with the terms of the 2023 Plan; (vi) determine fair market value; (vii) approve forms of award agreements for use with the 2023 Plan; (viii) determine the duration and purpose of leaves of absence that may be granted to a participant without constituting termination of the participant's employment for purposes of awards granted under the 2023 Plan; (ix) adopt, alter and repeal such administrative rules, guidelines and practices governing the 2023 Plan as it shall from time to time deem advisable; (x) reconcile any inconsistency in, correct any defect in and/or supply any omission in the 2023 Plan, any award agreement or other instrument or agreement relating to the 2023 Plan or an award granted under the 2023 Plan; (xi) construe and interpret the terms and provisions of the 2023 Plan and any award issued under the 2023 Plan (and any award agreement relating thereto), and to otherwise supervise the administration of the 2023 Plan; and (xii) exercise all powers and authorities either specifically granted under the 2023 Plan or necessary or advisable in the administration of the 2023 Plan. The administrator's decisions, determinations, and interpretations are final and binding on all participants and any other holders of awards.

Eligibility

Persons eligible to receive awards under the 2023 Plan are our employees and consultants and our affiliates and non-employee directors. As of the date of this prospectus, our employees (of which there were 330 as of the date of this prospectus) and each of our non-employee directors are considered eligible under the 2023 Plan.
Our practice is generally not to grant equity awards to consultants, but we reserve the right to do so.

Stock Options

Options may be granted under the 2023 Plan. Subject to the provisions of the 2023 Plan, the administrator determines the terms and conditions of options, including when such options vest and become exercisable (and the administrator will have the discretion to accelerate the time at which such options will vest or become exercisable) and whether such options are designated as incentive stock options intended to qualify under Section 422 of the Code or options not intended to so qualify. Incentive stock options may be granted only to employees. The per share exercise price of any option generally must be at least 100% of the fair market value of a share on the date of grant, and the term of an option may not be more than 10 years. However, with respect to any incentive stock option granted to an individual who owns 10% of the voting power of all classes of our stock or any of our parent or subsidiary corporations, the term of such option may not exceed 5 years, and the per share exercise price of such incentive stock option must be at least 110% of the fair market value of a share on the grant date. After a participant's service terminates, he or she generally may exercise the vested portion of his or her option for the period of time stated in his or her option agreement. In no event may an option be exercised later than the expiration of its term, except in certain circumstances where the expiration occurs during a period where exercise is not permitted under applicable law. Subject to the provisions of the 2023 Plan, the administrator will determine the other terms of options, including but not limited to the acceptable forms of consideration for exercising an option.

Stock Appreciation Rights

Stock appreciation rights may be granted under the 2023 Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of Common Stock from the date of grant to the date of exercise. Subject to the provisions of the 2023 Plan, the administrator determines the terms and conditions of stock appreciation rights, including when such rights vest and become exercisable (and the administrator will have the discretion to accelerate the time at which such rights will vest or become exercisable) and whether to settle such award in cash, shares, or a combination of both. A stock appreciation right granted in conjunction with all or part of an option under the 2023 Plan entitles its holder to receive, at the time of exercise of the stock appreciation right and surrender of the related option, an amount per share equal to the excess of the fair market value (at the date of exercise) of a share of Common Stock over the exercise price of the related option. The per share exercise price of a stock appreciation right must be at least 100% of the fair market value a share on the date of grant, and the term of a stock appreciation right may not be more than 10 years. After a participant's service terminates, he or she generally may exercise the vested portion of his or her stock appreciation right for the period of time stated in his or her option agreement. In no event may a stock appreciation right be exercised later than the expiration of its terms, except in certain circumstances where the expiration occurs during a period where exercise is not permitted under applicable law, as described more fully in the 2023 Plan.

Restricted Stock

Restricted stock may be granted under the 2023 Plan. Restricted stock awards are grants of shares that vest in accordance with terms and conditions established by the administrator. The administrator determines the number of shares of restricted stock granted to a participant. The administrator may impose whatever conditions to vesting it determines to be appropriate (for example, the administrator may set restrictions based on the achievement of specific performance goals or continued service to us or our affiliates), and the administrator will have the discretion to accelerate the time at which any restrictions will lapse or be removed. Recipients of restricted stock awards generally will have voting rights but may have any dividends with respect to such shares accumulated and paid only if such shares vest in accordance with their terms. Shares of restricted stock as to which the restrictions have not lapsed are subject to forfeiture by the participant.

Restricted Stock Units

Restricted stock units may be granted under the 2023 Plan. A restricted stock unit is a bookkeeping entry representing a notional amount equal to the fair market value of one share of Common Stock. The administrator determines the terms and conditions of restricted stock units, including the vesting criteria (which may include accomplishing specified performance criteria or continued service to us) and the form and timing of payment. The administrator may grant dividend equivalents in connection with a grant of restricted stock units, which dividend equivalents may be accumulated and paid only if such restricted stock units vest in accordance with their terms. The administrator has the discretion to accelerate the time at which any restrictions will lapse or be removed and to settle earned restricted stock units in cash, shares, or a combination of both.

Performance-Based Awards

Performance-based awards may be granted under the 2023 Plan. Performance-based awards are awards that will result in a payment to a participant only if objectives established by the administrator are achieved or the awards otherwise vest. The administrator establishes organizational or individual performance objectives in its discretion, which, depending on the extent to which they are met, determines the value of the payout for the performance-based awards to be paid out to participants. The administrator has the discretion to reduce or waive any performance objectives or other vesting provisions for performance-based awards. Performance-based awards may have a threshold, target, and maximum payout value established by the administrator. The administrator has the discretion to pay earned performance-based awards in the form of cash, shares, or in some combination of both.

Other Stock-Based Awards

To enable us to respond to material developments in the areas of taxation and other legislation and to trends in executive compensation practices, the 2023 Plan authorizes the administrator to grant awards that are valued in whole or in part by reference to or otherwise based on or related to shares of the Common Stock, including, but not limited to, unrestricted shares of Common Stock and dividend equivalents. The administrator has the discretion to accelerate the time at which any restrictions will lapse or be removed and to settle earned other stock-based awards in cash, shares, or a combination of both.

Other Cash-Based Awards

Other cash-based awards may be granted on a free-standing basis or as an element of, a supplement to, or in lieu of any other award. The administrator has the discretion to determine the terms and conditions of other cash-based awards, including vesting and forfeiture terms.

Non-Employee Directors

The 2023 Plan provides that any of our non-employee directors may not, in any fiscal year, be granted compensation (including, but not limited to, awards under the 2023 Plan and cash retainers or fees) with an aggregate value of more than $ 750,000, increased to $ 1,000,000 in connection with the non-employee director's initial fiscal year of service, with the value of each equity award based on such award's grant date fair value. For purposes of this limitation, the grant date fair value is determined in accordance with GAAP. Any compensation paid to a non-employee director for his or her prior services as an employee, or for his or her services as a consultant (other than as a non-employee director), will not count for purposes of the limitation. The maximum limit does not necessarily reflect the intended size of any potential equity awards to our non-employee directors.

Non-Transferability of Awards

Unless the administrator provides otherwise, the 2023 Plan generally does not allow for the transfer or disposal of awards and only the recipient of an award may exercise an award during his or her lifetime. Any unauthorized transfer will be void.

Change in Control

The 2023 Plan provides that if there is a "change in control" (as defined in the 2023 Plan) of DTIC, each outstanding award will be treated as the administrator determines without a participant's consent, including that an award be continued by the successor corporation or that vesting of awards may accelerate automatically upon consummation of the transaction. The administrator is not required to treat all awards, portions of awards or participants similarly and may modify awards, subject to the provisions of the 2023 Plan.

Unless provided otherwise in an award agreement or other applicable agreement, upon a change in control, the administrator may provide for: (i) the continuation of any award by DTIC, if it is the surviving entity; (ii) the assumption of any award by the surviving entity or its parent or subsidiary; (iii) the substitution by the surviving entity or its parent or subsidiary of equivalent awards for any award; or (iv) settlement of any award on a per share basis for the per share of Common Stock change in control consideration (less, to the extent applicable, the exercise price), or, if the exercise price equals or exceeds such per share consideration, such sward will terminate and be canceled without consideration.

Forfeiture and Clawback

All awards granted under the 2023 Plan are subject to recoupment under any clawback policy that we are required to adopt under applicable law or listing standards. In addition, the administrator may impose such other clawback, recovery or recoupment provisions in an award agreement as the administrator determines necessary or appropriate, including without limitation to any reacquisition right regarding previously acquired shares or other cash or property. In addition, the administrator may provide in an award agreement that the recipient's rights, payments, and benefits with respect to such award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an award.

Amendment or Termination

The 2023 Plan became effective upon the Closing and awards may be granted thereunder for up to ten (10) years following the Business Combination, unless the 2023 Plan is earlier terminated by the administrator, provided that no incentive stock options may be granted after ten (10) years from the earlier of the board of directors of ROC's approval of the 2023 Plan or the effective date of the 2023 Plan. In addition, the Board will have the authority to amend, suspend, or terminate the 2023 Plan, but such action generally may not materially impair the rights of any participant without his or her written consent.

Number of Awards Granted to Employees, Consultants and Directors

The number of awards that an employee, director, or consultant may receive under the 2023 Plan is at the discretion of the administrator and therefore cannot be determined in advance. We have not previously sponsored an equity incentive plan, and, therefore, the aggregate number of shares of Common Stock which would have been received by or allocated to our NEOs; executive officers, as a group; directors who are not executive officers, as a group; and all other current employees who are not executive officers, as a group, is not determinable. Therefore, a New Plan Benefit Table is not provided.

Registration with the SEC

We expect to file a registration statement on Form S-8 registering the shares reserved for issuance under the 2023 Plan as soon as reasonably practicable after becoming eligible to use such form.

Equity Compensation Plan Information

No shares of Common Stock were covered by awards outstanding under any equity compensation plan as of the date of this prospectus.

The following table provides information about the Options under the Stock Plan as of the date of this prospectus.

	Number of Shares of Common Stock Subject to Outstanding Options under the Stock Plan(1)(2)	Weighted Average Exercise Price of Outstanding Options Under Stock Plan(1)
R. Wayne Prejean, Chief Executive Officer, Director	1,201,872	$ 3.72
David R. Johnson, Chief Financial Officer	132,375	$ 3.72
Michael W. Domino, Jr., President, DTR Division	370,264	$ 3.72
John D. “Jack” Furst, Director	57,059	$ 3.72
All other current employees	468,043	$ 5.17
Former employees and directors	114,117	$ 3.72

(1) The numbers of shares and the weighted average exercise price set forth in the table are on a post-conversion basis. Pursuant to the Merger Agreement, DTIC assumed the outstanding options under the Stock Plan as of the Closing, and each such option was converted into an option, under the 2023 Plan, to purchase shares of Common Stock with substantially the same terms as the option outstanding under the Stock Plan. The Stock Plan was terminated.

(2) For purposes of the presentation in “*Unaudited Pro Forma Condensed Combined Financial Information – Introduction*,” it is assumed that all outstanding awards under the Stock Plan were converted into Common Stock immediately prior to the Closing based on an exercise by the holders in which DTI agrees to retain shares issuable to each holder in satisfaction of such holder’s obligation to pay the applicable exercise price and any tax withholding obligations of DTI. If this were to occur, there would be no options outstanding under the Stock Plan to be assumed by DTIC.

DESCRIPTION OF SECURITIES TO BE REGISTERED

The following summary of the material terms of the Common Stock is not intended to be a complete summary of the rights and preferences of such securities. We urge you to read our Certificate of Incorporation and Bylaws in their entirety for a complete description of the rights and preferences of the Common Stock.

Authorized and Outstanding Capital Stock

Our Certificate of Incorporation authorizes the issuance of 500,000,000 shares of the Common Stock, $0.0001 par value per share and 10,000,000 shares of preferred stock, $0.0001 par value. The outstanding shares of Common Stock are duly authorized, validly issued, fully paid and non-assessable. As of July 20, 2023 there were 29,768,568 shares of Common Stock issued and outstanding and no shares of preferred stock issued or outstanding.

Voting Power

Except as otherwise required by law, our Certificate of Incorporation or as otherwise provided in any certificate of designation for any series of preferred stock, Stockholders possess all voting power for the election of directors and all other matters requiring stockholder action. Except as otherwise provided in our Certificate of Incorporation or expressly required by law, Stockholders are entitled to one (1) vote per share on matters to be voted on by Stockholders.

Except as otherwise required by law, Stockholders, as such, are not entitled to vote on any amendment that relates solely to the rights, powers, preferences (or the qualifications, limitations or restrictions thereof) or other terms of one or more outstanding series of preferred stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant our Certificate of Incorporation or pursuant to the DGCL.

Dividends

Subject to applicable law and the rights and preferences of any holders of any outstanding series of preferred stock, Stockholders, as such, are entitled to the payment of dividends on the Common Stock when, as and if declared by the Board in accordance with applicable law.

Liquidation, Dissolution and Winding Up

Subject to the rights and preferences of any holders of any shares of any outstanding series of preferred stock, in the event of any liquidation, dissolution or winding up of DTIC, whether voluntary or involuntary, the funds and assets of DTIC that may be legally distributed to Stockholders will be distributed among the holders of the then outstanding Common Stock *pro rata* in accordance with the number of shares of Common Stock held by each holder.

Preemptive or Other Rights

Subject to the preferential rights of any other class or series of stock, all shares of Common Stock have equal dividend, distribution, liquidation and other rights, and have no preference or appraisal rights, except for any appraisal rights provided by the DGCL. Furthermore, holders of Common Stock have no preemptive rights and there are no conversion, sinking fund or redemption rights, or rights to subscribe for any of our securities. The voting, dividend, liquidation, and other rights and powers of the Common Stock are subject to and qualified by the rights, powers and preferences of any series of preferred stock as may be designated by the Board and outstanding from time to time.

Election of Directors

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

Preferred Stock

Our Certificate of Incorporation provides that shares of preferred stock may be issued from time to time in one or more series. The Board is authorized to fix the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of any series of preferred stock, including, without limitation, authority to fix by resolution the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series and the number of shares constituting any such series and the designation thereof, or any of the foregoing. The Board can, without Stockholder approval, issue preferred stock with voting and other rights that could adversely affect the voting power and other rights of the holders of Common Stock and could have anti-takeover effects. The ability of the Board to issue preferred stock without Stockholder approval could have the effect of delaying, deferring or preventing a change of control of us or the removal of existing management.

We have no preferred stock outstanding at the date hereof.

Transfer Agent

The transfer agent for the Common Stock is Continental. We have agreed to indemnify Continental in its role as transfer agent, its agents and each of its stockholders, directors, officers and employees against all liabilities, including judgments, costs and reasonable counsel fees that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence, willful misconduct or bad faith of the indemnified person or entity.

Certain Anti-Takeover Provisions of Delaware Law, our Certificate of Incorporation and Bylaws

Section 203 of the DGCL

We have not opted out of Section 203 of the DGCL in our Certificate of Incorporation. This statute prevents us, under certain circumstances, from engaging in a “business combination” with:

- a stockholder who owns 10% or more of our outstanding voting stock (otherwise known as an “interested stockholder”);
- an affiliate of an interested stockholder; or
- an associate of an interested stockholder, for three years following the date that the stockholder became an interest stockholder.

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

- the Board approves the transaction that made the stockholder an “interested stockholder,” prior to the date of the transaction;
- after the completion of the transaction that resulted in the stockholder becoming an interested stockholder, that stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, other than statutorily excluded shares of Common Stock; or

- on or subsequent to the date of the transaction, the business combination is approved by the Board and authorized at a meeting of our stockholders, and not by written consent, by an affirmative vote of at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

Under certain circumstances, declining to opt out of Section 203 of the DGCL will make it more difficult for a person who would be an "interested stockholder" to effect various business combinations with us for a three-year period. This may encourage companies interested in acquiring us to negotiate in advance with the Board because the stockholder approval requirement would be avoided if the Board approves the acquisition which results in the stockholder becoming an interested stockholder. This may also have the effect of preventing changes in the Board and may make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

Classified Board of Directors

Our Certificate of Incorporation provides that the Board is divided into three classes of directors, with the classes to be as nearly equal in number as possible, and with each director serving a three-year term. As a result, approximately one-third of the Board is elected each year. The classification of directors has the effect of making it more difficult for stockholders to change the composition of the Board.

Authorized but Unissued Shares

The authorized but unissued shares of Common Stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the listing standards of the Nasdaq. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of our authorized but unissued and unreserved shares of Common Stock and preferred stock could make it more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Written Consent by Stockholders

Under our Certificate of Incorporation, subject to the rights of holders of preferred stock, any action required or permitted to be taken by the Stockholders must be effected at an annual or special meeting of Stockholders and may not be taken by written consent in lieu of a meeting.

Special Meeting of Stockholders

Under our Certificate of Incorporation, subject to the terms of any series of preferred stock, special meetings of Stockholders may be called only by the Board, the chairperson of the Board, the Chief Executive Officer, or the President, and may not be called by any other person or persons. Only such business shall be considered at a special meeting of Stockholders as shall have been stated in the notice for such meeting.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Under our Certificate of Incorporation, advance notice of Stockholder nominations for the election of directors and of business proposed to be brought by Stockholders before any meeting of the Stockholders must be given in the manner provided in our Bylaws.

Amendment of Certificate of Incorporation or Bylaws

Our Bylaws may be amended or repealed by the Board or by the affirmative vote of the holders of at least 66 2/3% of the total voting power of all of the shares of our capital stock entitled to vote in the election of directors, voting as one class. The affirmative vote of the holders of at least 66 2/3% of the total voting power of all the then outstanding shares of Common Stock entitled to vote thereon, voting together as a single class, is required to amend certain provisions of our Certificate of Incorporation.

Board Vacancies

Subject to the special rights of the holders of one or more outstanding series of preferred stock to elect directors, except as otherwise provided by law, any vacancies on the Board and any newly created directorships resulting from any increase in the number of directors are filled exclusively by the affirmative vote of a majority of the directors then in office, even though less than a quorum, or by a sole remaining director (other than any directors elected by the separate vote of one or more outstanding series of preferred stock), and are not filled by the Stockholders. Any director appointed in accordance with the preceding sentence holds office until the expiration of the term to which such director shall have been appointed or until his or her earlier death, resignation, retirement, disqualification, or removal.

Exclusive Forum

Unless DTIC consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court in Delaware or the federal district court for the District of Delaware) is, to the fullest extent permitted by law, the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of DTIC, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, stockholder, officer or other employee of DTIC to DTIC or Stockholders, (c) any action arising pursuant to any provision of the DGCL or our Certificate of Incorporation or Bylaws (as either may be amended from time to time) or (d) any action asserting a claim governed by the internal affairs doctrine, except for, as to each of (a) through (d) above, any claim as to which such court determines that there is an indispensable party not subject to the jurisdiction of such court (and the indispensable party does not consent to the personal jurisdiction of such court within 10 days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than such court or for which such court does not have subject matter jurisdiction.

Unless DTIC consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act against any person in connection with any offering of DTIC securities, including, without limitation and for the avoidance of doubt, any auditor, underwriter, expert, control person, or other defendant.

There is uncertainty as to whether a court would enforce the exclusive forum provision of our Certificate of Incorporation. Holders of Common Stock cannot waive compliance with federal securities laws and the rules and regulations promulgated thereunder. The exclusive forum provision of our Certificate of Incorporation does not apply to actions arising under the Exchange Act.

Limitation on Liability and Indemnification of Directors and Officers

Our Certificate of Incorporation provides that our directors and officers will be indemnified and advanced expenses by us to the fullest extent authorized or permitted by the DGCL as it now exists or may in the future be amended. No director or officer of DTIC has any personal liability to DTIC or its Stockholders for monetary damages for any breach of fiduciary duty as a director or officer, as applicable, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or hereafter may be amended.

Our Bylaws also permit us to purchase and maintain insurance on behalf of any officer, director, employee or agent of us for any liability arising out of his or her status as such, regardless of whether the DGCL would permit indemnification.

These provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder’s investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, the insurance and the indemnity agreements are necessary to attract and retain talented and experienced directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Rule 144

Pursuant to Rule 144, a person who has beneficially owned restricted shares of Common Stock for at least six months would be entitled to sell such shares provided that (a) such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding, a sale and (b) we are subject to the Exchange Act periodic reporting requirements for at least three months before the sale and have filed all required reports under Section 13 or 15(d) of the Exchange Act during the 12 months (or such shorter period as we were required to file reports) preceding the sale.

Persons who have beneficially owned restricted shares of Common Stock for at least six months but who are our affiliates at the time of, or at any time during the three months preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the total number of shares of such securities then-outstanding; or
- the average weekly reported trading volume of such securities during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales by our affiliates under Rule 144 are also limited by manner of sale provisions and notice requirements and to the availability of current public information about us.

Restrictions on Use of Rule 144 by Shell Companies or Former Shell Companies

Rule 144 is not available for the resale of securities initially issued by shell companies (other than business combination related shell companies) or issuers that have been at any time previously a shell company. However, Rule 144 also includes an important exception to this prohibition if the following conditions are met:

- the issuer of the securities that was formerly a shell company has ceased to be a shell company;
- the issuer of the securities is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act;
- the issuer of the securities has filed all Exchange Act reports and materials required to be filed, as applicable, during the preceding 12 months (or such shorter period that the issuer was required to file such reports and materials), other than Current Reports on Form 8-K; and
- at least one year has elapsed from the time that the issuer filed current Form 10 type information with the SEC reflecting its status as an entity that is not a shell company.

As a result, it is likely that pursuant to Rule 144, our insiders will be able to sell their shares of Common Stock freely without registration one year after the Closing Date assuming they are not an affiliate of ours at that time.

Listing of Securities

The Common Stock is currently listed on the Nasdaq under the symbol “DTI”.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to us regarding the beneficial ownership of the Common Stock as of July 20, 2023 by:

- each person who is the beneficial owner of more than 5% of the outstanding shares of the Common Stock;
- each of our named executive officers and directors; and
- all of our named executive officers and directors as a group.

Beneficial ownership is determined according to the rules of the SEC, which generally provide that a person has beneficial ownership of a security if he, she or it possesses sole or shared voting or investment power over that security, including options, warrants and rights that are currently exercisable or exercisable within 60 days.

The beneficial ownership of the Common Stock is based on 29,768,568 shares of Common Stock issued and outstanding as of July 20, 2023.

Name of Beneficial Owner	Number of shares of Common Stock Beneficially Owned	Percentage of shares of outstanding Common Stock
Greater than 5% Stockholders:		
HHEP-Directional, L.P.(1)	15,928,111	53.5
ROC Energy Holdings, LLC(2)	6,273,397	21.1
***Named Executive Officers and Directors*:(3)**		
R. Wayne Prejean(4)	1,640,401	5.3
David R. Johnson(5)	178,022	*
Michael W. Domino, Jr.(6)	1,840,812	6.1
Thomas O. Hicks(7)	16,481,336	55.4
Curtis L. Crofford	75,000	*
John D. “Jack” Furst(8)	175,311	*
Eric C. Neuman	—	—
Thomas M. “Roe” Patterson	—	—
C. Richard Vermillion(9)	399,944	1.3
All directors and named executive officers as a group (9 individuals)	20,790,826	65.9

* Less than 1%.

(1) The business address of HHEP-Directional, L.P. is 2200 Ross Avenue, 50th Floor, Dallas, Texas 75201.

(2) ROC Holdings is the record holder of the shares of Common Stock reported herein. FP SPAC 2 is the general partner of ROC Holdings and has voting and dispositive power over the shares of Common Stock held by ROC Holdings. FP SPAC 2 is controlled by Joseph Drysdale, Jeff Brownlow and Matt Mathison, each of whom is a Managing Partner of Fifth Partners, LLC. Consequently, such persons may be deemed the beneficial owner of the shares of Common Stock held by ROC Holdings and have voting and dispositive control over such securities. Such persons disclaim beneficial ownership of any shares of Common Stock other than to the extent each may have a pecuniary interest therein, directly or indirectly. The business address of ROC Holdings is 16400 Dallas Parkway, Dallas, Texas 75248.

(3) Unless otherwise noted, the business address of each of the following individuals is 3701 Briarpark Drive, Suite 150, Houston, Texas 77042.

(4) Includes 1,201,872 shares of Common Stock subject to Options held by Mr. Prejean and 438,529 shares of Common Stock owned by RobJon. Mr. Prejean disclaims any beneficial ownership of any shares of Common Stock held by RobJon, other than his pecuniary interest therein.

(5) Includes 132,375 shares of Common Stock subject to Options held by Mr. Johnson.
(6) Includes 370,264 shares of Common Stock subject to Options held by Mr. Domino.
(7) Includes 553,225 shares of Common Stock owned by Mr. Hicks directly and 15,928,111 shares owned by HHEP. Mr. Hicks disclaims any beneficial ownership of any shares of Common Stock held by HHEP, other than his pecuniary interest therein.
(8) Includes 57,059 shares of Common Stock subject to Options held by Mr. Furst directly and 118,252 shares of Common Stock owned by Oak Stream Investors II, Ltd. ("Oak Stream"). Mr. Furst disclaims any beneficial ownership of any shares of Common Stock held by Oak Stream, other than his pecuniary interest therein.
(9) Includes 399,944 shares of Common Stock owned by MV Partners I LP ("MV Partners"). Mr. Vermillion disclaims any beneficial ownership of any shares of Common Stock held by MV Partners, other than his pecuniary interest therein.

SELLING STOCKHOLDERS

This prospectus relates to the resale by the Selling Stockholders from time to time of up to an aggregate of 26,990,264 shares of Common Stock, consisting of up to an aggregate of (i) 2,560,396 shares of Common Stock issued to ROC Holdings in connection with the PIPE Financing at a purchase price of $10.10 per share, (ii) 409,901 shares of Common Stock issued to FP SPAC 2 in connection with the FP SPAC Note Conversion at a purchase price of $10.10 per share, (iii) up to 2,427,500 Founder Shares, which were issued to ROC Holdings at a purchase price of $0.006 per share, (iv) 2,042,181 shares of Common Stock issued to certain Selling Stockholders pursuant to the Exchange Agreements, which were issued to the Exchangors in lieu of an aggregate of $10,804,618 that would have otherwise been payable to them as consideration under the Merger Agreement and at a price of $5.29 per share, (v) 875,600 shares of Common Stock issued to ROC Holdings in exchange for ROC Rights and shares of ROC Common Stock issued to it in connection with a private placement at a purchase price of $10.00 per share, (vi) 1,761,570 shares of Common Stock issuable upon exercise of certain outstanding Options, having an exercise price of $3.72 per share, held by certain of the Selling Stockholders and (vii) 16,913,116 shares of Common Stock issued in connection with the Business Combination at an implied equity consideration value of $10.10 per share.

The Selling Stockholders may from time to time offer and sell any or all of the securities set forth below pursuant to this prospectus and any accompanying prospectus supplement. When we refer to the “Selling Stockholders” in this prospectus, we mean the persons listed in the tables below and their permitted transferees who later come to hold any of the Selling Stockholders’ interest in the Common Stock in accordance with the terms of the Registration Rights Agreement or any other agreements governing the registration rights applicable to such Selling Stockholder’s shares of Common Stock.

The following table sets forth, based on written representations from the Selling Stockholders, on or about July 20, 2023, the names of the Selling Stockholders, the aggregate number of shares of Common Stock beneficially owned, the aggregate number of shares of Common Stock that the Selling Stockholders may offer pursuant to this prospectus and the number of shares of Common Stock beneficially owned by the Selling Stockholders after the sale of the securities offered hereby. The percentage of beneficial ownership after the offered securities are sold is calculated based on 29,768,568 shares of Common Stock outstanding as of July 20, 2023.

Beneficial ownership is determined according to the rules of the SEC, which generally provide that a person has beneficial ownership of a security if he, she or it possesses sole or shared voting or investment power over that security, including options, warrants and rights that are currently exercisable or exercisable within 60 days.

We cannot advise you as to whether the Selling Stockholders will in fact sell any or all of the shares of Common Stock held by them. In addition, the Selling Stockholders may sell, transfer or otherwise dispose of, at any time and from time to time, the Common Stock in transactions exempt from the registration requirements of the Securities Act after the date of this prospectus. For purposes of these tables, we have assumed that the Selling Stockholders will have sold all of the securities covered by this prospectus upon the completion of the offering and that no other purchases or sales of our securities by the Selling Stockholders will have occurred.

The Selling Stockholder information for each additional Selling Stockholder, if any, will be set forth by prospectus supplement to the extent required prior to the time of any offer or sale of such Selling Stockholder’s securities pursuant to this prospectus. Any prospectus supplement may add, update, substitute, or change the information contained in this prospectus, including the identity of each Selling Stockholder and the number of securities registered on its behalf. A Selling Stockholder may sell or otherwise transfer all, some or none of such securities in this offering. See "*Plan of Distribution*."

Selling Stockholder	Number of Shares of Common Stock Beneficially Owned Prior to the Offering	Number of Shares of Common Stock Being Offered	Beneficial Ownership of Common Stock After the Offering	
			Number of Shares	%
Aldo Rodriguez(1)	242,862	10,468	232,394	*
Ashley Lane(2)	201,495	28,351	173,144	*
CFH Ventures, Ltd.(3)	36,350	36,350	—	—
Charles E. Crass(4)	61,308	1,890	59,418	*
Curtis L. Crofford(5)	75,000	75,000	—	—
David R. Johnson(6)	178,022	178,022	—	—
HHEP-Directional, L.P.(7)	15,928,111	15,928,111	—	—
FP SPAC 2, LLC (8)	409,901	409,901	—	—
Hicks Holdings Operating LLC(9)	262,429	262,429	—	—
John D. "Jack" Furst(10)	57,059	57,059	—	
MHH Ventures, Ltd.(11)	36,350	3,444	32,906	*
Michael W. Domino, Jr.(12)	1,840,812	1,840,812	—	—
MV Partners I LP(13)	399,944	399,944	—	—
Oak Stream Investors II, Ltd.(14)	118,252	118,252	—	—
R. Wayne Prejean(15)	1,201,872	1,201,872	—	
RBH Ventures, Ltd.(16)	36,350	3,444	32,906	*
RobJon Holdings, L.P.(17)	438,529	438,529	—	—
ROC Energy Holdings, LLC(18)	5,738,496	5,738,496	—	—
Thomas O. Hicks(19)	16,481,336	16,481,336	—	—
TOH, Jr. Ventures, Ltd.(20)	36,350	3,444	32,906	*
WCH Ventures, Ltd.(21)	36,350	36,350	—	—

* Less than 1%.

(1) The business address of Aldo Rodriguez is 3701 Briarpark Drive, Suite 150, Houston, Texas 77042. Mr. Rodriguez is Vice President, Sales and Corporate Development of DTI. Prior to the Business Combination, Mr. Rodriguez had served in the same role for Legacy DTI.

(2) The business address of Ashley Lane is 3701 Briarpark Drive, Suite 150, Houston, Texas 77042. Mr. Lane is Vice President, International Business Development of DTI. Prior to the consummation of the Business Combination, Mr. Lane had served in the same role for Legacy DTI.

(3) The business address of CFH Ventures, Ltd. is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201. The trustee of CFH Ventures, Ltd. is Thomas O. Hicks.

(4) The business address of Charles E. Crass is 2710 Valley Manor Dr., Kingwood, Texas 77339.

(5) The business address of Curtis L. Crofford is 3701 Briarpark Drive, Suite 150, Houston, Texas 77042. Mr. Crofford is a member of the Board. Prior to the consummation of the Business Combination, Mr. Crofford had been a member of the board of directors of DTIH since 2012.

(6) The business address of David R. Johnson is 3701 Briarpark Drive, Suite 150, Houston, Texas 77042. Mr. Johnson is DTI's Chief Financial Officer. Prior to the consummation of the Business Combination, Mr. Johnson had served in the same role for Legacy DTI.

(7) The business address of HHEP is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201. HHEP is DTIC's majority stockholder.

(8) The business address of FP SPAC is 16400 Dallas Parkway, Dallas, Texas 75248. FP SPAC 2 is the general partner of ROC Holdings.

(9) Hicks Holdings Operating LLC's business address is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201. Hicks Holdings Operating LLC is the Monitor under the Monitoring and Oversight Agreement.

(10) The business address of John D. "Jack" Furst is 2591 Lakeside Parkway, Suite 100, Flower Mound, Texas 75022. Mr. Furst is a member of the Board. Prior to the consummation of the Business Combination, Mr. Furst had been a member of the board of directors of DTIH since 2012.

(11) The business address of MHH Ventures, Ltd. is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201.

(12) The business address of Michael W. Domino, Jr. is 3701 Briarpark Drive Suite 150, Houston, Texas 77042. Mr. Domino is DTI's President, DTR Division. Prior to the Business Combination, Mr. Domino had served in the same role for Legacy DTI.

(13) The business address of MV Partners I LP is 4605 Post Oak Place Drive, Suite 202, Houston, Texas 77964. MV Partners I LP's general partner is MV Partners, Inc. The chairman of the board of directors of MV Partners, Inc. is C. Richard Vermillion. Mr. Vermillion is a member of the Board. Prior to the consummation of the Business Combination, Mr. Vermillion had been a member of the board of directors of DTIH since 2016.

(14) The business address of Oak Stream Investors II, Ltd. is 2591 Lakeside Parkway, Suite 100, Flower Mound, TX 75022. Oak Stream Investors II, Ltd.'s general partner is Oak Stream Ranch Incorporated. John D. "Jack" Furst is the chairman of the board of directors of Oak Stream Ranch Incorporated. Mr. Furst is a member of the Board. Prior to the consummation of the Business Combination, Mr. Furst had been a member of the board of directors of DTIH since 2012.

(15) The business address of R. Wayne Prejean is 3701 Briarpark Drive, Suite 150, Houston, Texas 77042. Mr. Prejean is the Chief Executive Officer of DTI and is a member of the Board. Prior to the consummation of the Business Combination, Mr. Prejean had been the Chief Executive Officer of Legacy DTI since 2013.

(16) The business address of RBH Ventures, Ltd. is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201.

(17) The business address of RobJon is 3701 Briarpark Drive, Suite 150, Houston, Texas 77042. The general partner of RobJon is RobJon, L.L.C. The president, manager and sole member of RobJon, L.L.C. is R. Wayne Prejean. Mr. Prejean is the Chief Executive Officer of DTI and is a member of the Board. Prior to the consummation of the Business Combination, Mr. Prejean had been the Chief Executive Officer of Legacy DTI since 2013.

(18) The business address of ROC Holdings is 16400 Dallas Parkway, Dallas, Texas 75248. ROC Holdings was the sponsor of DTIC's predecessor, ROC. See "*Introductory Note*."

(19) The business address of Thomas O. Hicks is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201. The shares beneficially owned by Mr. Hicks include the shares owned directly by HHEP, Hicks Holdings Operating LLC, CFH Ventures, Ltd. and WCH Ventures, Ltd., which are all separately reported in this table. Mr. Hicks is the chairman of the Board. Prior to the consummation of the Business Combination, Mr. Hicks had been a member of the board of directors of DTIH since 2012.

(20) The business address of TOH, Jr. Ventures, Ltd. is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201.

(21) The business address of WCH Ventures, Ltd. is 2200 Ross Avenue, Suite 4600W, Dallas, Texas 75201. The trustee of WCH Ventures, Ltd. is Thomas O. Hicks.

CERTAIN U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following discussion is a summary of the material U.S. federal income and estate tax consequences of the ownership and disposition of Common Stock applicable to "Non U.S. Holders." It is intended as general information only, and does not purport to provide a complete analysis of all potential U.S. federal income tax considerations that may be relevant to Non-U.S. Holders. The discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury regulations, administrative pronouncements of the IRS and judicial decisions, all as in effect on the date hereof, and all of which are subject to change, possibly on a retroactive basis, and different interpretations.

As used herein, a Non U.S. Holder means a beneficial owner of Common Stock that is neither a U.S. person nor a partnership for U.S. federal income tax purposes. In this regard, a U.S. person includes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other business entity classified as a corporation under U.S. federal income tax law) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income regardless of source; or
- a trust that (A) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons, or (B) otherwise has validly elected to be treated as a U.S. domestic trust.

If a partnership (or other business entity classified as a partnership under U.S. federal income tax law) holds shares of Common Stock, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership.

This summary is limited to Non-U.S. Holders that will hold shares of Common Stock as capital assets, within the meaning of Section 1221 of the Code (*i.e.*, generally, for investment). It does not consider specific facts and circumstances that may apply to a particular Non-U.S. Holder's tax position. This summary also does not consider the Medicare tax on certain investment income, any aspect of U.S. federal tax law other than income taxation and, to the limited extent addressed herein, estate taxation, or any consequences that may arise under applicable state, local or non-U.S. tax laws. Additionally, it does not consider Non-U.S. Holders that may be subject to special tax treatment under the U.S. federal income tax laws (including banks and other financial institutions, insurance companies, dealers in securities, persons subject to the alternative minimum tax, holders of Common Stock held as part of a "straddle," "hedge," "conversion transaction" or other risk-reduction transaction, controlled foreign corporations, passive foreign investment companies, companies that accumulate earnings to avoid U.S. federal income tax, tax-exempt organizations, former U.S. citizens or residents and persons who hold or receive Common Stock as compensation).

INVESTORS CONSIDERING THE PURCHASE OF COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF OTHER FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS, AND APPLICABLE TAX TREATIES.

U.S. Trade or Business Income

For purposes of this discussion, dividend income and gain on the sale or other taxable disposition of Common Stock will be considered to be "U.S. trade or business income" if such income or gain is (i) effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States and (ii) in the case of a Non-U.S. Holder that is eligible for the benefits of an income tax treaty with the United States, attributable to a permanent establishment (or, for an individual, a fixed base) maintained by the Non-U.S. Holder in the United States. Generally, U.S. trade or business income is not subject to U.S. federal withholding tax provided the Non-U.S. Holder complies with applicable certification and disclosure requirements; instead, U.S. trade or business income is subject to U.S. federal income tax on a net income basis at regular U.S. federal income tax rates in the same manner as a U.S. person. Any U.S. trade or business income received by a Non-U.S. Holder that is a corporation also may be subject to a "branch profits tax" at a 30% rate, or at a lower rate prescribed by an applicable income tax treaty, under specific circumstances.

Dividends

Distributions of cash or property that we pay will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). A Non-U.S. Holder generally will be subject to U.S. federal withholding tax at a 30% rate, or at a reduced rate prescribed by an applicable income tax treaty, on any dividends received in respect of Common Stock. If the amount of a distribution exceeds our current and accumulated earnings and profits, such excess first will be treated as a tax-free return of capital to the extent of the Non-U.S. Holder's tax basis in the Common Stock, and thereafter will be treated as capital gain. In order to obtain a reduced rate of U.S. federal withholding tax under an applicable income tax treaty, a Non-U.S. Holder will be required to provide a properly executed IRS Form W-8BEN or W-8BEN-E (or other successor form), as applicable, certifying its entitlement to benefits under the treaty. A Non-U.S. Holder of Common Stock that is eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS. A Non-U.S. Holder should consult its own tax advisor regarding its possible entitlement to benefits under an income tax treaty.

The U.S. federal withholding tax described above does not apply to dividends that are U.S. trade or business income, as defined above, of a Non-U.S. Holder who provides a properly executed IRS Form W-8ECI, certifying that the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States.

Dispositions of Common Stock

Subject to the discussions on backup withholding and FATCA (as defined below) withholding below, Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax in respect of any gain on a sale or other disposition of Common Stock unless:

- the gain is U.S. trade or business income, as defined above;
- the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of the disposition and meets other conditions (in which case the gain would be subject to a flat 30% tax, or such reduced rate as may be specified by an applicable income tax treaty, which may be offset by certain U.S. source capital losses, provided the non-U.S holder has timely filed U.S. federal income tax returns with respect to such losses); or
- we are or have been a "U.S. real property holding corporation" (a "USRPHC") under section 897 of the Code at any time during the shorter of the five-year period ending on the date of disposition and the Non-U.S. Holder's holding period for the Common Stock.

In general, a corporation is a USRPHC if the fair market value of its "U.S. real property interests," as defined in the Code and applicable regulations, equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. If we are determined to be a USRPHC, the U.S. federal income and withholding taxes relating to interests in USRPHCs nevertheless will not apply to gains derived from the sale or other disposition of Common Stock by a Non-U.S. Holder whose shareholdings, actual and constructive, at all times during the applicable period, amount to 5% or less of the Common Stock, provided that the Common Stock is regularly traded on an established securities market. We do not believe that we currently are a USRPHC, and we do not anticipate becoming a USRPHC in the future. No assurance can be given, however, that we will not be a USRPHC, or that the Common Stock will be considered regularly traded, when a Non-U.S. Holder sells its shares of Common Stock.

U.S. Federal Estate Taxes

Shares of Common Stock owned or treated as owned by an individual who is a Non-U.S. Holder at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding Requirements

We must annually report to the IRS and to each Non-U.S. Holder any dividend income that is subject to U.S. federal withholding tax, or that is exempt from such withholding tax pursuant to an income tax treaty. Copies of these information returns also may be made available under the provisions of a specific treaty or other intergovernmental agreement to the tax authorities of the country in which the Non-U.S. Holder resides. Dividends paid on Common Stock and the payment of gross proceeds from a taxable disposition of Common Stock may be subject to additional information reporting and may also be subject to U.S. federal backup withholding (currently at a 24% rate) if such non-U.S. holder fails to comply with applicable U.S. information reporting and certification requirements. Provision of any IRS Form W-8 appropriate to the non-U.S. holder's circumstances will generally satisfy the certification requirements necessary to avoid the additional information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder will be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, if the Non-U.S. Holder provides the required information to the IRS.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act and related IRS guidance ("FATCA") impose a 30% U.S. federal withholding tax on certain payments (including dividend payments on Common Stock and, subject to the discussion of proposed Treasury regulations below, payments of gross proceeds from the sale or other disposition of Common Stock) made to certain non-U.S. entities unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied or an exemption applies. An intergovernmental agreement between the jurisdiction of a recipient and the United States may modify these rules.

As noted above, withholding under FATCA can apply to payments of gross proceeds from the sale or other disposition of Common Stock. Treasury regulations have been proposed, however, that would entirely eliminate FATCA withholding on payments of gross proceeds. Taxpayers generally may rely on these proposed Treasury regulations until the promulgation of final Treasury regulations on the matter.

THE PRECEDING DISCUSSION OF U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED, AND SHOULD NOT BE CONSTRUED, AS TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

PLAN OF DISTRIBUTION

The Selling Stockholders may offer and sell, from time to time, their respective shares of Common Stock covered by this prospectus. For purposes of this section, the term “Selling Stockholders” includes pledgees, donees, assignees and successors-in-interest selling shares of Common Stock or interests in Common Stock received after the date of this prospectus from a Selling Stockholder as a gift, pledge, partnership distribution or other transfer. The Selling Stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. Such sales may be made on one or more exchanges or in the over-the-counter market or otherwise, at prices and under terms then prevailing or at prices related to the then current market price or in negotiated transactions. The Selling Stockholders may sell their securities by one or more of, or a combination of, the following methods:

- purchases by a broker-dealer as principal and resale by such broker-dealer for its own account pursuant to this prospectus;
- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- block trades in which the broker-dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- an over-the-counter distribution in accordance with the rules of Nasdaq;
- through trading plans entered into by a Selling Stockholder pursuant to Rule 10b5-1 under the Exchange Act that are in place at the time of an offering pursuant to this prospectus and any applicable prospectus supplement hereto that provide for periodic sales of their securities on the basis of parameters described in such trading plans;
- settlement of short sales entered into after the date of this prospectus;
- distribution to members, partners or equityholders of the Selling Stockholders;
- through the writing or settlement of options or other hedging transaction, whether through an options exchange or otherwise;
- through loans or pledges, including to a broker-dealer or an affiliate thereof;
- delayed delivery arrangements;
- to or through underwriters or agents;
- in “at the market” offerings, as defined in Rule 415 under the Securities Act, at negotiated prices, at prices prevailing at the time of sale or at prices related to such prevailing market prices, including sales made directly on a national securities exchange or sales made through a market maker other than on an exchange or other similar offerings through sales agents;
- in privately negotiated transactions;
- in options transactions; and
- through a combination of any of the above methods of sale, as described below, or any other method permitted pursuant to applicable law.

In addition, any securities that qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to this prospectus.

To the extent required, this prospectus may be amended or supplemented from time to time to describe a specific plan of distribution. In connection with distributions of the securities or otherwise, the Selling Stockholders may enter into hedging transactions with broker-dealers or other financial institutions. In connection with such transactions, broker-dealers or other financial institutions may engage in short sales of the securities in the course of hedging the positions they assume with Selling Stockholders. The Selling Stockholders may also sell the securities short and redeliver the securities to close out such short positions. The Selling Stockholders may also enter into option or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealer or other financial institution of securities offered by this prospectus, which securities such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction). The Selling Stockholders may also pledge securities to a broker-dealer or other financial institution, and, upon a default, such broker-dealer or other financial institution, may effect sales of the pledged securities pursuant to this prospectus (as supplemented or amended to reflect such transaction).

A Selling Stockholder that is an entity may elect to make an in-kind distribution of Common Stock to its members, partners or equityholders pursuant to the Registration Statement by delivering a prospectus. To the extent that such distributees are not affiliates of ours, such members, partners or equityholders would thereby receive freely tradable shares of Common Stock pursuant to a distribution pursuant to the Registration Statement. To the extent such distributees are affiliates of ours (or to the extent otherwise required by law), we may file a prospectus supplement in order to permit them to use the prospectus to resell the securities acquired in the distribution.

A Selling Stockholder may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by any Selling Stockholder or borrowed from any Selling Stockholder or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from any Selling Stockholder in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and will be identified in the applicable prospectus supplement (or a post-effective amendment). In addition, any Selling Stockholder may otherwise loan or pledge securities to a financial institution or other third party that in turn may sell the securities short using this prospectus. Such financial institution or other third party may transfer its economic short position to investors in our securities or in connection with a concurrent offering of other securities.

In effecting sales, broker-dealers or agents engaged by the Selling Stockholders may arrange for other broker-dealers to participate. Broker-dealers or agents may receive commissions, discounts or concessions from the Selling Stockholders in amounts to be negotiated immediately prior to the sale.

In offering the securities covered by this prospectus, the Selling Stockholders and any broker-dealers who execute sales for the Selling Stockholders may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. Any profits realized by the Selling Stockholders and the compensation of any broker-dealer may be deemed to be underwriting discounts and commissions.

In order to comply with the securities laws of certain states, if applicable, the securities must be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

We have advised the Selling Stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of securities in the market and to the activities of the Selling Stockholders and their affiliates. In addition, we will make copies of this prospectus available to the Selling Stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The Selling Stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the securities against certain liabilities, including liabilities arising under the Securities Act.

At the time a particular offer of securities is made, if required, a prospectus supplement will be distributed that will set forth the number of securities being offered and the terms of the offering, including the name of any underwriter, dealer or agent, the purchase price paid by any underwriter, any discount, commission and other item constituting compensation, any discount, commission or concession allowed or reallowed or paid to any dealer, and the proposed selling price to the public.

Certain agents, underwriters and dealers, and their associates and affiliates, may be customers of, have borrowing relationships with, engage in other transactions with, or perform services, including investment banking services, for us or one or more of our respective affiliates and/or the Selling Stockholders or one or more of its respective affiliates in the ordinary course of business for which they receive compensation.

We have agreed to indemnify the Selling Stockholders party to the Registration Rights Agreement, the Subscription Agreements and the Exchange Agreements against certain civil liabilities, including certain liabilities under the Securities Act, relating to the registration of the shares of Common Stock offered by them pursuant to this prospectus, and such Selling Stockholders will be entitled to contribution from us with respect to those liabilities. The Selling Stockholders party to the Registration Rights Agreement, the Subscription Agreements and the Exchange Agreements will indemnify us against certain civil liabilities, including liabilities under the Securities Act, and we will be entitled to contribution from such Selling Stockholders with respect to those liabilities. In addition, we or the Selling Stockholders party to the Registration Rights Agreement, the Subscription Agreements and the Exchange Agreements may provide agents and underwriters with indemnification against civil liabilities, including liabilities under the Securities Act, or contribution with respect to payments that the agents or underwriters may make with respect to those liabilities. For additional information regarding the rights and obligations under the Registration Rights Agreement, the Subscription Agreements and the Exchange Agreements, see “*Certain Relationships and Related Party Transactions*” and “*Introductory Note*.”

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by Bracewell LLP, Houston, Texas. Any underwriters or agents will be advised about other issues relating to the offering by counsel to be named in the applicable prospectus supplement.

EXPERTS

The financial statements of DTIH as of December 31, 2022 and 2021, and for each of the two years in the period ended December 31, 2022 included in this prospectus, have been audited by Weaver and Tidwell LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein. Such financial statements are included in reliance on their report given on their authority as experts in accounting and auditing.

The financial statements of ROC as of December 31, 2022 and 2021 for the year ended December 31, 2022 and for the period from September 2, 2021 (inception) to December 31, 2021 have been audited by WithumSmith+Brown PC, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph relating to substantial doubt about the ability of ROC to continue as a going concern as described in Note 1 to the financial statements), appearing elsewhere in this prospectus, and are included in reliance on the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of Common Stock. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to our company and the Common Stock, reference is made to the Registration Statement and the exhibits and any schedules filed therewith. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the Registration Statement. Each of these statements is qualified in all respects by this reference.

You can read our SEC filings, including the registration statement, over the internet at the SEC's website at www.sec.gov.

We are subject to the information reporting requirements of the Exchange Act and we are required to file reports, proxy statements and other information with the SEC. These reports, proxy statements, and other information are available for inspection and copying at the SEC's website referred to above. You may request a copy of this prospectus by contacting us at: Drilling Tools International Corporation at 3701 Briarpark Dr., Suite 150, Houston, TX 77042. We also maintain a website at drillingtools.com, at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on or accessible through our website is not a part of this prospectus, and the inclusion of our website address in this prospectus is an inactive textual reference only.

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DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)	March 31, 2023 (unaudited)	December 31, 2022
ASSETS		
Current assets		
Cash	$ 820	$ 2,352
Accounts receivable, net	30,339	28,998
Inventories, net	4,723	3,281
Prepaid expenses and other current assets	3,665	4,381
Investment - equity securities, at fair value	1,110	1,143
Total current assets	40,657	40,155
Property, plant and equipment, net	49,175	44,154
Operating lease right-of-use asset	20,257	20,037
Intangible assets, net	251	263
Deferred financing costs, net	207	226
Deposits and other long-term assets	386	383
Total assets	$ 110,933	$ 105,218
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 13,046	$ 7,281
Accrued expenses and other current liabilities	7,611	7,299
Current portion of operating lease liabilities	3,537	3,311
Revolving line of credit	10,896	18,349
Total current liabilities	35,090	36,240
Operating lease liabilities, less current portion	16,739	16,691
Deferred tax liabilities, net	4,301	3,185
Total liabilities	56,130	56,116
Commitments and contingencies (See Note 13)		
Redeemable convertible preferred stock		
Series A redeemable convertible preferred stock, par value $0.01; 30,000,000 shares authorized, 20,370,377 shares issued and outstanding at March 31, 2023 and December 31, 2022	18,192	17,878
Shareholders' equity		
Common stock, par value $0.01; 65,000,000 shares authorized, 53,175,028 shares issued at March 31, 2023 and December 31, 2022 and 52,363,872 shares outstanding at March 31, 2023 and December 31, 2022	532	532
Additional paid-in-capital	52,476	52,790
Accumulated deficit	(15,353)	(21,054)
Less treasury stock, at cost; 811,156 shares at March 31, 2023 and December 31, 2022	(933)	(933)
Accumulated other comprehensive loss	(111)	(111)
Total shareholders' equity	36,611	31,224
Total liabilities, redeemable convertible preferred stock and shareholders' equity	$ 110,933	$ 105,218

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

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DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(unaudited)

(In thousands, except share and per share amounts)	Three Months ended March 31, 2023	2022
Revenue, net:		
Tool rental	$ 32,276	$ 20,417
Product sale	8,523	5,560
Total revenue, net	40,799	25,977
Operating cost and expenses:		
Cost of tool rental revenue	8,137	6,315
Cost of product sale revenue	1,303	1,151
Selling, general, and administrative expense	18,423	12,235
Depreciation and amortization expense	5,015	5,076
Total operating costs and expenses	32,878	24,777
Operating income (loss)	7,921	1,200
Other (expense) income:		
Interest income (expense)	(573)	216
Gain on sale of property	69	5
Unrealized gain (loss) on equity securities	(33)	410
Other income (expense)	40	(69)
Total other (expense) income, net	(497)	562
Income before income tax (expense)	7,424	1,762
Income tax (expense)	(1,723)	(429)
Net income	$ 5,701	$ 1,333
Basic earnings per share	$ 0.10	$ 0.02
Diluted earnings per share	$ 0.07	$ 0.02
Basic weighted-average common shares outstanding	52,363,872	52,363,872
Diluted weighted-average common shares outstanding	77,145,236	77,145,236
Comprehensive income:		
Net income	$ 5,701	$ 1,333
Foreign currency translation adjustment, net of tax	—	(75)
Net comprehensive income	$ 5,701	$ 1,258

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

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DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY
(unaudited)

	Redeemable Convertible Preferred Stock		Common Stock		Treasury Stock					
(In thousands, except share and per share amounts)	Shares	Par Value $0.01 Per Share	Shares	Par Value $0.01 Per Share	Shares	Cost	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE, December 31, 2021	20,370,377	$ 16,689	53,175,028	$ 532	(811,156)	$(933)	$ 53,979	$ (42,134)	$ (284)	$ 11,160
Accretion of redeemable convertible preferred stock to redemption value		294					(294)			(294)
Foreign currency translation adjustment, net of tax									(75)	(75)
Net income								1,333		1,333
BALANCE, March 31, 2022	20,370,377	$ 16,983	53,175,028	$ 532	(811,156)	$(933)	$ 53,685	$ (40,801)	$ (359)	$ 12,124

	Redeemable Convertible Preferred Stock		Common Stock		Treasury Stock					
(In thousands, except share and per share amounts)	Shares	Par Value $0.01 Per Share	Shares	Par Value $0.01 Per Share	Shares	Cost	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE, December 31, 2022	20,370,377	$ 17,878	53,175,028	$ 532	(811,156)	$(933)	$ 52,790	$ (21,054)	$ (111)	$ 31,224
Accretion of redeemable convertible preferred stock to redemption value		314					(314)			(314)
Foreign currency translation adjustment, net of tax									—	—
Net income								5,701		5,701
BALANCE, March 31, 2023	20,370,377	$ 18,192	53,175,028	$ 532	(811,156)	$(933)	$ 52,476	$ (15,353)	$ (111)	$ 36,611

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

DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)	Three months ending March 31, 2023	2022
Cash flows from operating activities:		
Net income	$ 5,701	$ 1,333
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	5,015	5,076
Amortization of deferred financing costs	19	55
Amortization of debt discount	—	17
Amortization of operating leases	(220)	910
Bad debt expense	334	56
Deferred tax expense (benefit)	1,116	160
Gain on sale of property	(69)	(5)
Unrealized (gain) loss on equity securities	33	(410)
Unrealized (gain) loss on interest rate swap	105	(711)
Gross profit from sale of lost-in-hole equipment	(4,535)	(2,270)
Changes in operating assets and liabilities:		
Accounts receivable	(1,675)	(790)
Prepaid expenses and other current assets	713	89
Inventories, net	(1,442)	(1,338)
Operating lease liabilities	274	(933)
Accounts payable	5,765	(132)
Accrued expenses	207	903
Net cash from operating activities	11,341	2,010
Cash flows from investing activities:		
Proceeds from sale of property	80	5
Purchase of property, plant and equipment	(10,815)	(3,566)
Proceeds from sale of lost-in-hole equipment	5,315	2,851
Net cash from investing activities	(5,420)	(710)
Cash flows from financing activities:		
Proceeds from revolving line of credit	34,043	21,164
Payments on revolving line of credit	(41,496)	(23,695)
Payments to capital leases	—	(6)
Net cash from financing activities	(7,453)	(2,537)
Effect of Changes in Foreign Exchange Rate	—	(75)
Net Change in Cash	(1,532)	(1,312)
Cash at Beginning of Year	2,352	52
Cash at End of Year	$ 820	$ (1,260)
Supplemental cash flow information:		
Cash paid for interest	$ 444	$ 436
Non-cash investing and financing activities:		
ROU assets obtained in exchange for lease liabilities	$ 2,516	$ 149
Undeclared dividends	$ 314	$ 294

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

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Drilling Tools International Holdings, Inc. (the “Company”) is a Delaware corporation formed January 2012. The Company manufactures, rents, inspects, and refurbishes downhole drilling tools primarily to companies in the oil and natural gas industry for bottom hole assemblies used in onshore and offshore horizontal and directional drilling. The Company’s United States (“U.S.”) operations have locations in Texas, California, Louisiana, Oklahoma, Pennsylvania, North Dakota, New Mexico, Utah, and Wyoming. The Company’s international operations are located in Canada. Operations outside the U.S. are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws and possible limitations on foreign investment. The Company does not engage in hedging activities to mitigate its exposure to fluctuations in foreign currency exchange rates.

On February 13, 2023, the Company entered into a merger agreement (the “Merger Agreement”) with ROC Energy Acquisition Corp (“ROC”), a special purpose acquisition company, and ROC Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of ROC (“Merger Sub”). Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company with the Company surviving the merger (the “Merger”). As a result of the Merger, the Company will become a wholly-owned subsidiary of ROC, with the stockholders of the Company becoming stockholders of ROC. The transaction will be a combination of cash and equity consideration.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained within these interim consolidated financial statements comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended for interim consolidated financial statements and are adequate to make the information presented not misleading. The interim consolidated financial statements included herein reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2022 included elsewhere in this prospectus. The consolidated statement of operations and comprehensive income for the three months ended March 31, 2023 is not necessarily indicative of the results to be anticipated for the entire year ended December 31, 2023 or thereafter. All references to March 31, 2023 and 2022 in the notes to the interim consolidated financial statements are unaudited.

COVID-19 Related Credits and Relief

As a response to the COVID-19 outbreak, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) provided an Employee Retention Credit (“ERC”) which is a refundable tax credit against certain employment taxes equal to 50% of qualified wages paid, up to $10,000 per employee annually for wages paid. Additional relief provisions were passed by the United States government, which extended and expanded the qualified wage caps on these credits to 70% of qualified wages paid, up to $10,000 per employee per quarter, through September 30, 2021. In November 2021, the Infrastructure Investment and Jobs Act was signed into law and ended the employee retention credit early, making wages paid after December 31, 2021, ineligible for the credit.

ERC benefits of $4.3 million were included in selling, general, administrative expense as an offset to the related compensation expenses in the consolidated statements of operations and comprehensive income for the period ended December 31, 2022. ERC benefits receivable of $2.1 million were included in prepaid expenses and other current assets in the accompanying consolidated balance sheet as of December 31, 2022. The Company received all ERC benefits receivables in January 2023, resulting in the ERC benefits receivable balance to be nil as of March 31, 2023.

Laws and regulations concerning government programs, including the ERC, are complex and subject to varying interpretations. Claims made under these programs may also be subject to retroactive audit and review. While the Company does not believe there is a basis for estimation of an audit or recapture risk at this time, there can be no assurance that regulatory authorities will not challenge the Company's claim to the ERC in a future period.

Emerging Growth Company

Section 102(b)(1) of the Jumpstart Our Business Startups Act ("JOBS Act") exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard, until such time the Company is no longer considered to be an emerging growth company. At times, the Company may elect to early adopt a new or revised standard. As such, the Company's financial statements may not be comparable to companies that comply with public company effective dates.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the Company's consolidated financial statements and accompanying notes as of the date of the consolidated financial statements. These estimates and assumptions are based on current facts, historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Estimates are used for, but not limited to, unbilled accounts receivable, allowance for doubtful accounts, write-down for excess and obsolete inventories, asset lives for property and equipment, fair value of derivatives, and impairment of tangible and intangible assets. Actual results may differ materially and adversely from these estimates. In the current macroeconomic and business environment affected by COVID-19, the Russia-Ukraine conflict and inflationary pressures, these estimates require increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, these estimates may change materially in future periods.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Drilling Tools Services, Inc., Drilling Tools International, Inc., Reamco, Inc., Downhole Inspection Solutions, LLC, Premium Tools LLC, Slick Tools International, LLC (formerly, Stinger Oil Tools, LLC), Data Automation Technology LLC, and Drilling Tools International Corporation (Canada). All intercompany accounts and transactions have been eliminated on consolidation.

Foreign Currency Translation and Transactions

The Company has determined that the functional and reporting currency for its operations across the globe is the functional currency of the Company's international subsidiaries. Accordingly, all foreign balance sheet accounts have been translated into U.S. dollars using the rate of exchange at the respective balance sheet date. Components of the consolidated statements of operations and comprehensive income have been translated at the average rates for the year of the reporting period. Translation gains and losses are recorded in accumulated other comprehensive income as a component of stockholders' equity. Gains or losses arising from currency exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are included in the consolidated statements of operations and comprehensive income. For the period ended March 31, 2023 and 2022, the aggregate foreign currency translation included in the consolidated statements of operations and comprehensive income totaled approximately nil and $0.1 million in loss, respectively.

Revenue Recognition

The Company recognizes revenue in accordance with Topic 842 (which addresses lease accounting) and Topic 606 (which addresses revenue from contracts with customers). The Company derives its revenue from two revenue types, tool rental services and product sales.

Tool Rental Services

Tool rental services consist of rental services, inspection services, and repair services. Tool rental services are accounted for under Topic 842.

Owned tool rentals represent the most significant revenue type and are governed by the Company's standard rental contract. The Company accounts for such rentals as operating leases. The lease terms are included in the contracts, and the determination of whether the Company's contracts contain leases generally does not require significant assumptions or judgements. The Company's lease revenues do not include material amounts of variable payments. Owned tool rentals represent revenue from renting tools that the Company owns. The Company does not generally provide an option for the lessee to purchase the rented equipment at the end of the lease.

The Company recognizes revenues from renting tools on a straight-line basis. The Company's rental contract periods are daily, monthly, per well, or based on footage. As part of this straight-line methodology, when the equipment is returned, the Company recognizes as incremental revenue the excess, if any, between the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the drilling tool was out on rent, over the cumulative amount of revenue recognized to date. In any given accounting period, the Company will have customers return the drilling tool and be contractually required to pay the Company more than the cumulative amount of revenue recognized to date under the straight-line methodology.

The Company records the amounts billed to customers in excess of recognizable revenue as deferred revenue on its consolidated balance sheet.

As noted above, the Company is unsure of when the customer will return rented drilling tools. As such, the Company does not know how much the customer will owe the Company upon return of the tool and cannot provide a maturity analysis of future lease payments. The Company's drilling tools are generally rented for short periods of time (significantly less than a year). Lessees do not provide residual value guarantees on rented equipment.

The Company expects to derive significant future benefits from its drilling tools following the end of the rental term. The Company's rentals are generally short-term in nature, and its tools are typically rented for the majority of the time that the Company owns them.

Product Sales

Product sales consist of charges for rented tools that are damaged beyond repair, charges for lost-in-hole, and charges for lost-in-transit while in the care, custody or control of the Company's customers, and other charges for made to order product sales. Product sales are accounted for under Topic 606.

Revenue is recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To determine revenue recognition for its arrangements with customers, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the revenue standard. The transaction price is measured as consideration specified in a contract with a customer and excludes any sales incentives and taxes or other amounts collected on behalf of third parties. As each of the Company's contracts with customers contain a single performance obligation to provide a product sale, the Company does not have any performance obligations requiring allocation of transaction prices.

The performance obligation for made to order product sales is satisfied and revenue is recognized at a point in time when control of the asset transfers to the customer, which typically occurs upon delivery of the product or when the product is made available to the customer for pickup at the Company's shipping dock. Additionally, pursuant to the contractual terms with the Company's customers, the customer must notify the Company of, and purchase from the Company, any rented tools that are damaged beyond repair, lost-in-hole, or lost-in-transit while in the care, custody or control of the Company's customers. Revenue is recognized for these products at a point in time upon the customer's notification to the Company of the occurrence of one of these noted events.

The Company does not have any revenue expected to be recognized in the future related to remaining performance obligations or contracts with variable consideration related to undelivered performance obligations. There was no revenue recognized in the current period from performance obligations satisfied in previous periods.

Revenue per geographic location

Revenue generated was concentrated within the United States. For the period ended March 31, 2023 and 2022, the revenue generated within the United States was $36.6 million and $ 23.5 million, respectively, or 90% of total revenues, respectively. For the period ended March 31, 2023 and 2022, the revenue generated outside of the United States, in Canada, was $4.2 million and $2.5 million, respectively, or 10% of total revenues, respectively.

Contract Assets and Contract Liabilities

Contract assets represent the Company's rights to consideration for work completed but not billed. As of March 31, 2023 and December 31, 2022, the Company had contract assets of $5.8 million and $4.8 million, respectively. Contract assets were recorded in accounts receivable, net in the accompanying consolidated balance sheets.

Contract liabilities consist of fees invoiced or paid by the Company's customers for which the associated services have not been performed and revenue has not been recognized based on the Company's revenue recognition criteria described above. As of March 31, 2023 and December 31, 2022, the Company did not have any material contract liabilities. All deferred revenue were expected to be recognized during the following 12 months, and they were recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company did not have any cash equivalents as of March 31, 2023 and December 31, 2022.

Accounts Receivable, net

The Company's accounts receivable consists principally of uncollateralized amounts billed to customers. These receivables are generally due within 30 to 60 days of the period in which the corresponding sales or rentals occur and do not bear interest. They are recorded at net realizable value less an allowance for doubtful accounts and are classified as account receivable, net on the consolidated balance sheets.

Allowance for Doubtful Accounts

The Company adopted ASU 2016-13, *Financial Instruments - Credit Losses*, on December 31, 2022, which was retroactively applied as of the first day of fiscal year 2022, as further described within the section below titled *Recently Adopted Accounting Pronouncements*. This accounting standard requires companies to measure expected credit losses on financial instruments based on the total estimated amount to be collected over the lifetime of the instrument. Prior to the adoption of this accounting standard, the Company recorded incurred loss reserves against receivable balances based on current and historical information.

Expected credit losses for uncollectible receivable balances consider both current conditions and reasonable and supportable forecasts of future conditions. Current conditions considered include pre-defined aging criteria, as well as specified events that indicate the balance due is not collectible. Reasonable and supportable forecasts used in determining the probability of future collection consider publicly available macroeconomic data and whether future credit losses are expected to differ from historical losses.

The Company is not party to any off-balance sheet arrangements that would require an allowance for credit losses in accordance with this accounting standard.

As of March 31, 2023 and December 31, 2022, the allowance for doubtful accounts totaled $1.7 million and $1.5 million, respectively.

Inventories, net

Inventories are stated at the lower of cost or net realizable value. Cost is determined by using the specific identification method. Inventory that is obsolete or in excess of forecasted usage is written down to its net realizable value based on assumptions regarding future demand and market conditions. Inventory write-downs are charged to operating costs and establish a new cost basis for the inventory. Inventory includes raw material and finished goods.

Property, Plant and Equipment, net

Property, plant and equipment purchased by the Company are recorded at cost less accumulated depreciation. Depreciation is recorded using the straight-line method based on the estimated useful lives of the depreciable property or, for leasehold improvements, the remaining term of the lease, whichever is shorter. Assets not yet placed in use are not depreciated.

Property, plant and equipment acquired as part of a business acquisition is recorded at acquisition date fair value with subsequent additions at cost.

The cost of refurbishments and renewals are capitalized when the value of the property, plant or equipment is enhanced for an extended period. Expenditures to maintain and repair property, plant and equipment, which do not improve or extend the life of the related assets, are charged to operations when incurred. When property, plant and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations.

Leases

The Company adopted ASC 842, *Leases* ("ASC 842") as of January 1, 2022 using the modified retrospective transition approach, with no restatement of prior periods or cumulative adjustments to retained earnings. Upon adoption, the Company elected the package of transition practical expedients, which allowed it to carry forward prior conclusions related to whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases and initial direct costs for existing leases. The Company elected the use-of-hindsight to reassess lease term. The Company elected not to recognize leases with an initial term of 12 months or less within the consolidated balance sheets and to recognize those lease payments on a straight-line basis in the consolidated statements of operation over the lease term. The new lease accounting standard also provides practical expedients for an entity's ongoing accounting. The Company elected the practical expedient to not separate lease and non-lease components for all leases.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and current operating lease liabilities and operating lease liabilities, net of current portion on the consolidated balance sheets. The Company recognizes lease expense for its operating leases on a straight-line basis over the term of the lease.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from a lease. ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease ROU assets also include the impact of any lease incentives. An amendment to a lease is assessed to determine if it represents a lease modification or a separate contract. Lease modifications are reassessed as of the effective date of the modification using an incremental borrowing rate based on the information available at the commencement date. For modified leases the Company also reassess the lease classification as of the effective date of the modification.

The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate, because the interest rate implicit in the Company's leases is not readily determinable. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

The Company's lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option in the measurement of its ROU assets and liabilities. The Company considers contractual-based factors such as the nature and terms of the renewal or termination, asset-based factors such as physical location of the asset and entity-based factors such as the importance of the leased asset to the Company's operations to determine the lease term. The Company generally uses the base, non-cancelable, lease term when determining the ROU assets and lease liabilities. The right-of-use asset is tested for impairment in accordance with Accounting Standards Codification Topic 360, *Property, Plant, and Equipment*.

Lessor Accounting

Our leased equipment primarily consists of rental tools and equipment. Our agreements with our customers for rental equipment contain an operating lease component under ASC 842 because (i) there are identified assets, (ii) the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use and (iii) the customer directs the use of the identified assets throughout the period of use.

Our lease agreement contract periods are daily, monthly, per well or based on footage. Lease revenue is recognized on a straight-line basis based on these rates. We do not provide an option for the lessee to purchase the rented tools at the end of the lease and the lessees do not provide residual value guarantees on the rented assets.

We recognized operating lease revenue within “tool rentals” on the consolidated statements of operations and comprehensive income.

Intangible Assets

Intangible assets with finite useful lives include customer relationships, trade name, patents, non-compete agreements and a supply agreement. These intangible assets are amortized either on a straight-line basis over the asset’s estimated useful life or on a basis that reflects the pattern in which the economic benefits of the intangible are realized.

Accounting for Impairment of Long-lived Asset

Long-lived assets with finite lives include property, plant and equipment and acquired intangible assets. The Company evaluates long-lived assets, including acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds these estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group.

For the period ended March 31, 2023 and 2022, management determined that there was no impairment with regard to their property, plant, and equipment or intangible assets.

Investments - Equity Securities

Equity securities are stated at fair value. Unrealized gains and losses are reflected in the consolidated statements of operations and comprehensive income. The Company periodically reviews the securities for other than temporary declines in fair value below cost and more frequently when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of the period ended March 31, 2023 and 2022, the Company believes the cost of the securities was recoverable in all material respects.

Redeemable Convertible Preferred Stock

The Company’s Series A redeemable convertible preferred stock (“Series A”), which represents the Company’s sole class of redeemable convertible preferred stock issued to date, was established on December 28, 2015. Upon establishment of the Series A, the Company issued 20,370,377 shares of Series A for $0.54 per share resulting in aggregate proceeds of $11.0 million.

The Company records shares of its redeemable convertible preferred stock at their respective fair values on the dates of issuance. The Company classifies its redeemable convertible preferred stock outside of permanent equity in mezzanine equity on its consolidated balance sheets as it is redeemable at a fixed date. In accordance with ASC 480-10-S99-3A, the Company recognizes changes in the redemption value of its redeemable convertible preferred stock immediately as they occur and adjusts the carrying amount to redemption value at the end of each reporting period. The Company records accretion of its redeemable convertible preferred stock as a reduction to additional paid-in capital as the Company has an accumulated deficit.

Dividend Rights

Each holder of Series A is entitled to receive cumulative dividends payable at the rate of 7% annually, payable in kind. The dividends accumulate and compound quarterly at the stated dividend rate to the extent they are not paid.

Liquidation Rights

Upon the liquidation, dissolution or winding up of the Company's business, after provision for payment of all debts and liabilities of the Company, any remaining assets of the Company shall be distributed first to the holders of the Series A and then pro rata to the holders of common stock. Each holder of Series A shall be entitled to receive, in full before any distributions or payments out of the assets of the Company, an amount equal to the Series A stated value of $0.54 per share along with an amount equal to all accumulated and unpaid dividends as of the date of payment. As of March 31, 2023 and as of December 31, 2022, the liquidation preference of the redeemable convertible preferred stock was approximately $18.2 million and $17.9 million, respectively.

Redemption

The Company must redeem all outstanding shares of Series A on the earlier of the seventh anniversary, as amended, of the issuance of the shares, or subject to compliance with the Company's credit agreement, such earlier date as is determined by the election of holders of at least two-thirds of the outstanding shares of Series A, or the consummation of a firm commitment underwritten public offering by the Company. The redemption price is payable in cash equal to the original purchase price plus accumulated and unpaid dividends.

Conversion Rights

At any time before redemption, each Series A share is convertible into common stock at the option of the holder at its stated value of $0.54 per share, subject to adjustment for stock splits, stock dividends, combinations of shares, and similar recapitalization transactions.

Voting Rights

Each holder of Series A has a right to vote with a number of votes equal to the number of shares of common stock issuable upon conversion of such holder's Series A at the time such shares are voted. Holders of Series A shall vote together with the holders of common stock (and of any other class or series that may similarly be entitled to vote with the holders of common stock) as a single class on all matters on which holders of common stock are entitled to vote.

Cost of Revenue

The Company recorded all operating costs associated with its product sales and tool rental revenue streams in cost of product sale revenue and cost of tool rental revenue, respectively, in the consolidated statements of operations and comprehensive income. All indirect operating costs, including labor, freight, contract labor and others, are included in selling, general, administrative in the consolidated statements of operations and comprehensive income.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation—Stock Compensation* ("ASC 718"). ASC 718 requires that the cost of awards of equity instruments offered in exchange for employee services, including employee stock options and restricted stock awards, be measured based on the grant-date fair value of the award. The Company adopted FASB ASU No. 2016-09, Compensation – Stock

Compensation ("Topic 718"): Improvements to Employee Share-Based Payment Accounting, on February 1, 2019. This ASU involves several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the accompanying consolidated statements of cash flows. The adoption did not have a material impact on the accompanying consolidated financial statements of the Company. The Company determines the fair value of stock options granted using the Black-Scholes-Merton option-pricing model ("Black-Scholes model") and recognizes the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period, net of estimated forfeitures. Because the Company's common stock is not yet publicly traded, the Company must estimate the fair value of its common stock. The Board of Directors considers numerous objective and subjective factors to determine the fair value of the Company's common stock at each meeting in which awards are approved. The factors considered include, but are not limited to: (i) the results of contemporaneous independent third-party valuations of the Company's common stock; (ii) the prices, rights, preferences, and privileges of the Company's Redeemable Convertible Preferred Stock relative to those of its common stock; (iii) the lack of marketability of the Company's common stock; (iv) actual operating and financial results; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions; and (vii) precedent transactions involving the Company's shares. The Company did not grant stock options during the year ended December 31, 2022 or during the three months ended March 31, 2023.

Earnings Per Share

Basic earnings per share is computed by dividing the net income by the weighted-average number of common shares outstanding for the period. Diluted earnings is computed by adjusting net income to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted earnings is computed by dividing the diluted net income by the weighted-average number of common shares outstanding for the period, including potential dilutive common stock. For the purposes of this calculation, outstanding stock options and redeemable convertible preferred stock are considered potential dilutive common stock and are excluded from the computation of net loss per share if their effect is anti-dilutive.

The Company's redeemable convertible preferred stock does not contractually entitle its holders to participate in profits or losses. As such, it is not treated as a participating security in periods of net income or net loss.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and liabilities.

The Company is subject to state income taxes in various jurisdictions.

The Company follows guidance issued by the FASB in accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits and upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. The Company has no uncertain tax positions at March 31, 2023 and December 31, 2022. The Company believes there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within twelve months of the reporting date.

The Company records income tax related interest and penalties, if applicable, as a component of the provision for income tax expense. However, there were no amounts recognized relating to interest and penalties in the consolidated statements of operations and comprehensive income for the period ending March 31, 2023 and 2022.

Derivative Financial Instruments

From time to time, the Company may enter into derivative instruments to manage exposure to interest rate fluctuations. During 2016, the Company entered into an interest swap agreement with respect to amounts outstanding under its revolving line of credit.

This arrangement was designed to manage exposure to interest rate fluctuations by effectively exchanging existing obligations to pay interest based on floating rates for obligations to pay interest based on a fixed rate. These derivatives are marked-to-market at the end of each quarter and the realized/unrealized gain or loss is recorded as interest expense. For the period ended March 31, 2023 and 2022, the Company recognized an unrealized loss due to the change in fair value of its interest rate swap of approximately $0.1 million and an unrealized gain of $0.7 million, respectively in its consolidated statements of operations and comprehensive income.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels:

Level 1 – Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 – Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other observable inputs directly or indirectly related to the assets or liabilities being measured.

Level 3 – Valuation inputs are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Asset and liabilities measured at fair value are summarized as follows (in thousands):

	Assets at Fair Value as of March 31, 2023			
	Level 1	Level 2	Level 3	Total
Investments, equity securities	$ 1,110	$ —	$ —	$ 1,110
Interest rate swap	$ —	$ 371	$ —	$ 371
Total assets at fair value	**$ 1,110**	**$ 371**	**$ —**	**$ 1,481**

	Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Investments, equity securities	$ 1,143	$ —	$ —	$ 1,143
Interest rate swap	$ —	$ 476	$ —	$ 476
Total assets at fair value	**$ 1,143**	**$ 476**	**$ —**	**$ 1,619**

The Company’s interest rate swap is a pay-fixed, receive-variable interest rate swap based on LIBOR swap rate. The LIBOR swap rate is observable at commonly quoted intervals for the full term of the swap and therefore is considered a Level 2 item. For interest rate swaps in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset. The impact of the Company’s creditworthiness has also been factored into the fair value measurement of the interest rate swap in a liability position. For the period ended March 31, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent.

As of March 31, 2023 and December 31, 2022, the interest rate swap is included in prepaid expenses and other current assets on the consolidated balance sheets.

As of March 31, 2023 and December 31, 2022, the Company did not have any Level 3 assets or liabilities.

Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash, accounts receivable, accounts payable, and long-term debt. The carrying amount of such instruments approximates fair value due to their short-term nature. The carrying value of long-term debt approximates fair value because of the market interest rate of the debt.

Concentration of Credit Risk and Other Risks and Uncertainties

The Company’s customer concentration may impact its overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions affecting the oil and gas industry.

During the three months ended March 31, 2023, the Company generated approximately 31.0% of its revenue from two customers. During the three months ended March 31, 2022, the Company generated approximately 29.1% of its revenue from two customers. Amounts due from these customers included in accounts receivable at March 31, 2023 and December 31, 2022 were approximately $7.6 million and $8.6 million, respectively.

During the three months ended March 31, 2023, the Company had one vendor that represented approximately 11% of its purchases. Amounts due to this vendor included in accounts payable at March 31, 2023 and December 31, 2022 were approximately $3.4 million and $0.9 million, respectively.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. The Company maintains accounts in federally insured financial institutions in excess of federally insured limits. Management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which these deposits are held and of the money market funds in which these investments are made. The Company holds marketable securities with high credit ratings.

Operating Segment

Operating segments are identified as components of an enterprise about which discrete financial information is available for evaluation by the chief operating decision-maker ("CODM") in deciding resource allocation and assessing performance. The Company's Chief Executive Officer and Chief Financial Officer work together as the CODM. The Company's CODM reviews financial information presented on a consolidated basis for the purposes of making operations decisions, allocating resources and evaluating financial performance. Consequently, the Company has determined it operates in one operating and reportable segment

Recently Issued Accounting Pronouncements Not Yet Adopted

No new accounting pronouncements issued or effective during the three months ended March 31, 2023 had, or are expected to have, a material impact on the Company's consolidated financial statements.

NOTE 2 – INVESTMENTS – EQUITY SECURITIES

The following table shows the cost and fair value of the Company's investments in equity securities (in thousands):

	Cost	Unrealized Gain	Fair Value
March 31, 2023	$999	$ 111	$1,110

	Cost	Unrealized Gain	Fair Value
December 31, 2022	$999	$ 144	$1,143

Unrealized holding loss on equity securities for the three months ended March 31, 2023 was approximately $33 thousand. Unrealized holding gain on equity securities for the three months ended March 31, 2022 was approximately $0.4 million.

NOTE 3 – BALANCE SHEET DETAILS - CURRENT ASSETS AND CURRENT LIABILITIES

Inventories, net

The following table shows the components of inventories, net (in thousands):

	March 31, 2023	December 31, 2022
Raw materials	$ 4,808	$ 3,377
Finished goods	116	115
Total inventories	**4,924**	**3,492**
Allowance for obsolete inventory	(201)	(211)
Inventories, net	**$ 4,723**	**$ 3,281**

Prepaid expenses and other current assets

The following table shows the components of prepaid expenses and other current assets (in thousands):

	March 31, 2023	December 31, 2022
Prepaid expenses:		
ERC benefits receivable	$ —	$ 2,117
Deposits on inventory	1,394	680
Prepaid insurance	129	358
Prepaid rent	408	381
Prepaid equipment	1,269	179
Prepaid other	94	173
Other current assets:		
Interest rate swap asset	$ 371	$ 476
Other	—	17
Total	**$ 3,665**	**$ 4,381**

Accrued expenses and other current liabilities

The following table shows the components of accrued expenses and other current liabilities (in thousands):

	March 31, 2023	December 31, 2022
Accrued expenses:		
Accrued compensation and related benefits	$ 4,197	$ 3,392
Accrued insurance	331	525
Accrued professional services	724	509
Accrued interest	67	62
Accrued property taxes	337	41
Accrued purchase orders	153	—
Other	44	38
Other current liabilities:		
Income tax payable	$ 783	$ 1,780
Sales tax payable	672	587
Unbilled lost-in-hole revenue	288	282
Deferred revenue	15	83
Total accrued expenses and other current liabilities	**$ 7,611**	**$ 7,299**

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT, NET

The following table shows the component of property, plant and equipment, net (in thousands):

	Estimated Useful Lives (in Years)	March 31, 2023	December 31, 2022
Rental tools and equipment	5-10	167,500	160,973
Buildings and improvements	5-40	5,873	5,781
Office furniture, fixtures and equipment	3-5	2,190	2,101
Transportation and equipment	3-5	796	827
Construction in progress		222	9
Total property, plant and equipment		**176,581**	**169,691**
Less: accumulated deprecation		(127,406)	(125,537)
Property, plant and equipment, net		**$ 49,175**	**$ 44,154**

Total depreciation expense for the three months ended March 31, 2023 and 2022 was approximately $5.0 million and $5.1 million, respectively. The Company has not acquired any property, plant and equipment under capital leases.

Property, plant and equipment, net, were concentrated within the United States. As of March 31, 2023 and December 31, 2022, property, plant and equipment, net held within the United States was $47.1 million and $41.8 million, or 96% and 95% of total property, plant and equipment, respectively. As of March 31, 2023 and December 31, 2022, property, plant and equipment, net held outside of the United States, in Canada, was $2.0 million and $2.3 million, or 4% and 5% of total property, plant and equipment, respectively.

NOTE 5 – INTANGIBLE ASSETS, NET

The following table shows the components of intangible assets, net (in thousands):

	Useful Lives (in Years)	March 31, 2023	December 31, 2022
Trade Name	10-13	$ 1,280	$ 1,280
Technology	13	270	270
Total intangible assets		**1,550**	**1,550**
Less: accumulated amortization		(1,299)	(1,287)
Intangible assets, net		**$ 251**	**$ 263**

Total amortization expense for the three months ended March 31, 2023 and 2022 was approximately $12 thousand and $0.1 million, respectively.

NOTE 6 – REVOLVING CREDIT FACILITY

In December 2015, the Company entered into a credit facility with a bank. The facility provides for a revolving line of credit in the original amount of $48.0 million, which is $60.0 million, as amended, at December 31, 2022. For the year ended December 31, 2022 the interest on the amount drawn was based on SOFR or the bank's base lending rate plus applicable margin (approximately 7.42% at December 31, 2022). For the three months ended March 31, 2023, the interest on the amount drawn was based on SOFR or the bank's base lending rate plus applicable margin (approximately 8.34% at March 31, 2023). The credit facility is collateralized by substantially all the assets of the Company and matures December 31, 2025.

The Company is subject to various restrictive covenants associated with these borrowings including, but not limited to, a fixed charge ratio, and a minimum amount of undrawn availability. At March 31, 2023, the Company was in compliance with these covenants.

NOTE 7 – NOTES PAYABLE, NET

Notes payable, net consisted of the unsecured promissory note, net of discount. The unsecured promissory note was paid off in full as of December 31, 2022.

On October 31, 2018, in conjunction with an acquisition, the Company entered into an unsecured promissory note with the seller in the amount of $5.5 million. Periodic payments on this note are due as follows, $1.5 million on February 1, 2019; $1.0 million annually on October 31 beginning in 2019, and through 2022. There is no stated interest rate in the agreement; therefore, management imputed an interest rate of 5.2% and recorded a discount of $0.5 million on the note and will accrete the discount to interest expense over the term of the note. The effective interest rate on the note is 10.91%. The note matured and was paid in full, including the unamortized discount, on October 31, 2022.

As of March 31, 2023, there are no future minimum payments related to notes payable, net.

NOTE 8 – INCOME TAXES

The Company recorded income tax expense on the consolidated statements of operation and comprehensive income of $1.7 million and $0.4 million for the three months ended March 31, 2023 and 2022, respectively.

The Company calculates its tax provision using the discreet quarter methodology. The Company’s effective tax rate for the three months ended March 31, 2023 and 2022 were provisions of 23.2% and 24.3%, respectively. Such rates differed from the Federal Statutory rate of 21.0% primarily due to the state taxes, foreign income taxes on the Company’s international operations and state income taxes. and permanent differences.

The Company records deferred tax assets and liabilities for the future tax benefit or expense that will result from differences between the carrying value of its assets for income tax purposes and for financial reporting purposes, as well as for operating loss and tax credit carryovers. A valuation allowance is recorded to bring the net deferred tax assets to a level that is more likely than not to be realized in the foreseeable future. This level will be estimated based on a number of factors, especially the amount of net deferred tax assets of the Company that are actually expected to be realized, for tax purposes, in the foreseeable future. There was no change to the valuation allowance during the three months ended March 31, 2023 and 2022.

NOTE 9 – SHARE-BASED COMPENSATION

The Company’s 2012 Nonqualified Stock Option Plan (the Plan) permitted the grant of share options to its employees for up to 4,555,779 shares of common stock. On September 1, 2013, the Company amended the Plan to permit the grant of share options to its employees for up to 13,000,000 shares of common stock. Under the Plan, option awards are generally granted with an exercise price equal to the market price for the Company’s stock at the date of grant; those option awards generally vest over three years of continuous service with one-third vesting on the first, second, and third anniversaries of the option’s grant date. Those awards which contain performance conditions vest upon satisfaction of such performance conditions. Certain option awards provide for conditional or accelerated vesting if there is a change in control, as defined in the Plan.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatilities are based on comparable public company data. The Company uses future estimated employee termination and forfeiture rates of the options within the valuation model. The expected term of options granted is derived using the “plain vanilla” method due to the lack of history and volume of option activity at the Company. The risk-free rate is based on the approximate U.S. Treasury yield rate in effect at the time of grant. The Company’s calculation of share price involves the use of different valuation techniques, including a combination of an income and market approach.

Determination of the fair value is a matter of judgment and often involves the use of estimates and assumptions. During the three months ended March 31, 2023 and the year ended December 31, 2022 there were no options granted, exercised or forfeited, respectively.

Non-vested shares at March 31, 2023 and December 31, 2022 totaled 2,340,000, respectively, which consist of performance shares, for which the performance conditions have not been satisfied at March 31, 2023 and December 31, 2022, respectively.

For the three months ended March 31, 2023 and 2022, there was no share-based compensation expense charged to operating costs and expenses, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2023 and 2022, management fees paid to a shareholder were approximately $0.2 million and $0.1 million, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income.

For the three months ended March 31, 2023 and 2022, the Company paid rent expense to a shareholder of approximately $13 thousand, respectively, relating to the lease of a building. Future minimum lease payments related to this lease are included in the future minimum lease schedule in Note 11.

NOTE 11 – LEASES

The Company adopted ASC Topic 842 on January 1, 2022 using the modified retrospective approach. Comparative information has not been restated and continues to be reported under ASC Topic 840, *Leases*, which was the accounting standard in effect for those periods.

The Company leases various facilities and vehicles under non-cancelable operating lease agreements. As of March 31, 2023, all of the Company’s leases were operating leases.

For the three months ended March 31, 2023, the components of the Company’s lease expense were as follows (in thousands):

	Three Months ended March 31, 2023
Operating Lease Cost	$ 1,518
Short-term Lease Cost	30
Variable Lease Cost	84
Sublease Income	(46)
Total Lease Cost	**$ 1,587**

Supplemental balance sheet information related to leases was as follows (in thousands):

	Three Months ended March 31, 2023
Weighted-average remaining lease term (in years)	7.07
Weighted average discount rate	5.64%

	Three Months ended March 31, 2023
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 2,516
Cash paid for amounts included in the measurement of lease liabilities	1,352

Future undiscounted cash flows for each of the next five years and thereafter and reconciliation to the lease liabilities recognized on the balance sheet as of March 31, 2023 were as follows (in thousands):

2023	$ 3,510
2024	4,136
2025	3,739
2026	3,362
2027	2,354
Thereafter	7,477
Total lease payments	$24,578
Less: imputed interest	(4,302)
Present value of lease liabilities	$20,276

The Company entered into a lease agreement for general office space, the Southcreek Lease, in Houston, Texas on November 1, 2021. The lease requires a Standby Letter of Credit (LOC) of approximately $0.3 million that expires April 2023.

There are no minimum fixed lease payments that are to be earned over the years as the weighted average remaining lease term is 7.07 years.

For the three months ended March 31, 2023 and 2022, tool rental revenue was approximately $32.3 million and $20.4 million, respectively. Due to the short term nature of the contracts, no maturity table is presented.

NOTE 12 – EMPLOYEE BENEFITS

The Company has a defined contribution plan that complies with Section 401(k) of the Internal Revenue Code. All employees are auto enrolled at a 3% contribution, unless they opt out, beginning on the first plan entry date following six months of service. Plan entry dates are the first day of January and July. In March of 2020, the Company suspended any employee contribution match effective immediately and through the end of 2021. The match was reinstated on January 1, 2022. For 2022, the Company matched employee contributions 150% of the first 3% of employee contributions, not to exceed $2 thousand per participant per calendar year. Employees vest in employer contributions over six years. The contribution is limited to the maximum contribution allowed under the Internal Revenue Service Regulations. The total expense for the three months ended March 31, 2023 and 2022 was approximately $0.2 million, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company maintains operating leases for various facilities and vehicles. See note 11, Leases, for further information.

Litigation

From time to time, the Company may become involved in various legal proceedings in the ordinary course of its business and may be subject to third-party infringement claims.

In the normal course of business, the Company may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that the Company's products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the Company's limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim.

As of March 31, 2023 and December 31, 2022, the Company has not been subject to any pending litigation claims.

Management Fee

The Company is required to pay a monthly management fee to a shareholder. The fee is based upon a percentage of the Company's trailing twelve months, earnings before interest, taxes and accumulated depreciation amount, as defined in the management agreement.

NOTE 14 – EARNINGS PER SHARE

Basic earnings per share is computed using the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed using the weighted-average number of common shares outstanding for the period plus dilutive potential common shares, including performance share awards, using the treasury stock method. Performance share awards are included based on the number of shares that would be issued as if the end of the reporting period was the end of the performance period and the result was dilutive.

The following table sets forth the computation of the Company's basic and diluted net earnings per share for the three months ended March 31, 2023 and 2022 (in thousands except share and per share data):

	Three Months Ended March 31, 2023	2022
Numerator:		
Net income (loss)	$ 5,701	$ 1,333
Less: Redeemable convertible preferred stock dividends	(314)	(294)
Net income (loss) attributable to common shareholders — basic	$ 5,387	$ 1,039
Add: Redeemable convertible preferred stock dividends	314	294
Net income (loss) attributable to common shareholders — diluted	$ 5,701	$ 1,333
Denominator		
Weighted-average common shares used in computing earnings (net loss) per share — basic	52,363,872	52,363,872
Weighted-average effect of potentially dilutive securities:		
Effect of potentially dilutive stock options	4,410,987	4,410,987
Effect of potentially dilutive redeemable convertible preferred stock	20,370,377	20,370,377
Weighted-average common shares outstanding — diluted	77,145,236	77,145,236
Earnings (net loss) per share — basic	$ 0.10	0.02
Earnings (net loss) per share — diluted	$ 0.07	0.02

As of March 31, 2023 and March 31, 2022, the Company's potentially dilutive securities were redeemable convertible preferred stock and options to purchase common stock. Based on the amounts outstanding as of the three months ended March 31, 2023 and March 31, 2022, the Company excluded the following potential common shares from the computation of diluted net loss per share because including them would have had an anti-dilutive effect:

	Three Months ended March 31, 2023	2022
Performance-based options outstanding	2,340,000	2,340,000
Time-based options outstanding	614,000	614,000
Total	2,954,000	2,954,000

NOTE 15 – SUBSEQUENT EVENTS

The Company has evaluated all events occurring through June 26, 2023, the date on which these consolidated financial statements were issued, and during which time, nothing has occurred outside the normal course of business operation that would require disclosure.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of
Drilling Tools International Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Drilling Tools International Holdings, Inc. and its subsidiaries (collectively, "the Company") as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive income, changes in redeemable convertible preferred stock and shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Drilling Tools International Holdings, Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Oklahoma City, Oklahoma
March 31, 2023

We have served as the Company's auditor since 2022.

Weaver and Tidwell, L.L.P.
499 West Sheridan Avenue, Suite 2450 | Oklahoma City, Ok 73102
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DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	December 31, 2022	December 31, 2021
ASSETS		
Current assets		
Cash	$ 2,352	$ 52
Accounts receivable, net	28,998	20,037
Inventories, net	3,281	2,341
Prepaid expenses and other current assets	4,381	905
Investment – equity securities, at fair value	1,143	909
Total current assets	40,155	24,244
Property, plant and equipment, net	44,154	44,392
Operating lease right-of-use asset	20,037	—
Intangible assets, net	263	402
Deferred financing costs, net	226	69
Deposits and other long-term assets	383	400
Total assets	$ 105,218	$ 69,507
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 7,281	$ 8,262
Accrued expenses and other current liabilities	7,299	3,914
Notes payable, net	—	942
Current portion of operating lease liabilities	3,311	—
Revolving line of credit	18,349	26,425
Total current liabilities	36,240	39,543
Operating lease liabilities, less current portion	16,691	—
Deferred tax liabilities, net	3,185	2,105
Other long-term liabilities	—	10
Total liabilities	56,116	41,658
Commitments and contingencies (See Note 13)		
Redeemable convertible preferred stock		
Series A redeemable convertible preferred stock, par value $0.01; 30,000,000 shares authorized; 20,370,377 shares issued and outstanding at December 31, 2022 and December 31, 2021	17,878	16,689
Shareholders' equity		
Common stock, par value $0.01; 65,000,000 shares authorized; 53,175,028 shares issued at December 31, 2022 and December 31, 2021; and 52,363,872 shares outstanding at December 31, 2022 and December 31, 2021	532	532
Additional paid-in-capital	52,790	53,979
Accumulated deficit	(21,054)	(42,134)
Less: treasury stock, at cost; 811,156 shares at December 31, 2022 and December 31, 2021	(933)	(933)
Accumulated other comprehensive loss	(111)	(284)
Total shareholders' equity	31,224	11,160
Total liabilities, redeemable convertible preferred stock and shareholders' equity	$ 105,218	$ 69,507

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

DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except share and per share data)	Year ended December 31, 2022	Year ended December 31, 2021
Revenue, net:		
Tool Rental	$ 99,018	$ 59,287
Product sale	30,538	18,092
Total revenue, net	129,556	77,379
Costs and expenses:		
Cost of tool rental revenue	27,581	19,941
Cost of product sale revenue	5,423	3,688
Selling, general, and administrative expense	51,566	38,309
Depreciation and amortization expense	19,709	21,718
Total costs and expenses	104,279	83,656
Income (loss) from operations	25,277	(6,277)
Other (expense) income:		
Interest expense	(477)	(1,229)
Gain on sale of property	127	899
Unrealized gain on equity securities	234	157
Gain on forgiveness of PPP loan	—	8,575
Other expense	(384)	(233)
Total other (expense) income, net	(500)	8,169
Income before income taxes	24,777	1,892
Provision for (benefit from) income taxes	(3,697)	209
Net income	$ 21,080	$ 2,101
Basic earnings per share	$ 0.38	$ 0.02
Diluted earnings per share	$ 0.27	$ 0.04
Basic weighted-average common shares outstanding	52,363,872	52,363,872
Diluted weighted-average common shares outstanding	77,145,236	56,915,932
Comprehensive income:		
Net income	$ 21,080	$ 2,101
Foreign currency translation adjustment, net of tax	173	(59)
Net comprehensive income	$ 21,253	$ 2,042

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

DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY

(In thousands, except share and per share data)	Redeemable Convertible Preferred Stock		Common Stock		Treasury Stock					
	Shares	Par Value $0.01 Per Share	Shares	Par Value $0.01 Per Share	Shares	Cost	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE, December 31, 2020	20,370,377	$ 15,570	53,175,028	$ 532	(811,156)	$(933)	$ 55,066	$ (44,235)	$ (225)	$ 10,205
Share-based compensation							32			32
Accretion of redeemable convertible preferred stock to redemption value		1,119					(1,119)			(1,119)
Foreign currency translation adjustment, net of tax									(59)	(59)
Net income								2,101		2,101
BALANCE, December 31, 2021	20,370,377	$ 16,689	53,175,028	$ 532	(811,156)	$(933)	$ 53,979	$ (42,134)	$ (284)	$ 11,160
Accretion of redeemable convertible preferred stock to redemption value		1,189					(1,189)			(1,189)
Foreign currency translation adjustment, net of tax									173	173
Net income								21,080		21,080
BALANCE, December 31, 2022	20,370,377	$ 17,878	53,175,028	$ 532	(811,156)	$(933)	$ 52,790	$ (21,054)	$ (111)	$ 31,224

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

DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year ending December 31, 2022	2021
Cash flows from operating activities:		
Net income	$ 21,080	$ 2,101
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	19,709	21,718
Amortization of deferred financing costs	94	197
Amortization of debt discount	58	70
Amortization of operating leases	(3,768)	—
Bad debt expense	307	307
Deferred tax expense (benefit)	1,080	(1,341)
Gain on forgiveness of PPP loan	—	(8,575)
Gain on sale of property	(127)	(899)
Unrealized gain on equity securities	(234)	(157)
Unrealized gain on interest rate swap	(1,423)	(913)
Gross profit from sale of lost-in-hole equipment	(16,813)	(7,855)
Share-based compensation expense	—	32
Changes in operating assets and liabilities:		
Accounts receivable	(9,268)	(9,351)
Prepaid expenses and other current assets	(3,459)	(113)
Inventories	(940)	648
Operating lease liabilities	3,733	—
Accounts payable	(981)	3,080
Accrued expenses	4,808	557
Net cash from operating activities	13,856	(494)
Cash flows from investing activities:		
Proceeds from sale of property	1,042	4,972
Purchase of property, plant and equipment	(23,753)	(11,387)
Proceeds from sale of lost-in-hole equipment	20,319	9,753
Net cash from investing activities	(2,392)	3,338
Cash flows from financing activities:		
Net decrease in revolving credit facility	(8,076)	(842)
Payments of deferred financing costs	(251)	(152)
Proceeds from PPP loan	—	2,000
Payments on long-term debt	(1,000)	(3,874)
Payments to capital leases	(10)	—
Net cash from financing activities	(9,337)	(2,868)
Effect of Changes in Foreign Exchange Rate	173	(59)
Net Change in Cash	2,300	(83)
Cash at Beginning of Year	52	135
Cash at End of Year	$ 2,352	$ 52
Supplemental cash flow information:		
Cash paid for interest	$ 340	$ 1,928
Cash paid for income taxes	$ 723	$ 422
Non-cash investing and financing activities:		
ROU assets obtained in exchange for lease liabilities	$ 9,451	$ —
Undeclared dividends	$ 1,189	$ 1,119
PPP loan forgiveness	$ —	$ 8,575

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Drilling Tools International Holdings, Inc. (the “Company”) is a Delaware corporation formed January 2012. The Company manufactures, rents, inspects, and refurbishes downhole drilling tools primarily to companies in the oil and natural gas industry for bottom hole assemblies used in onshore and offshore horizontal and directional drilling. The Company’s United States (“U.S.”) operations have locations in Texas, California, Louisiana, Oklahoma, Pennsylvania, North Dakota, New Mexico, Utah, and Wyoming. The Company’s international operations are located in Canada. Operations outside the U.S. are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws and possible limitations on foreign investment. The Company does not engage in hedging activities to mitigate its exposure to fluctuations in foreign currency exchange rates.

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as set forth by the Financial Accounting Standards Board (FASB) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). References to US GAAP issued by the FASB in these notes to the accompanying consolidated financial statements are to the FASB Accounting Standards Codifications (“ASC”) and Accounting Standards Update (“ASUs”)

COVID-19 Related Credits and Relief

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted in response to COVID-19. On April 11, 2020 and March 15, 2021, the Company received proceeds from two separate loans pursuant to the Paycheck Protection Program of the CARES Act (the “PPP Loan”) in the amounts of $6.6 million and $2.0 million, respectively. The April 2020 PPP loan and the March 2021 PPP loan and related accrued interest were forgiven by the U.S. Small Business Administration (“SBA”) on July 27, 2021 and December 30, 2021, respectively.

There is no guidance in U.S. GAAP that specifically addresses the accounting by a business entity that obtains a forgivable loan from a government entity. Notwithstanding the absence of specific guidance in U.S. GAAP and given the significant uncertainties related to whether many entities that received loans are qualified for a PPP Loan and would meet the conditions for loan forgiveness, the Company accounted for the PPP Loan as debt in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 470, *Debt*. Based upon the guidance in ASC 470, the Company recorded a liability for the total amount of the loan upon receipt of the proceeds. Upon confirmation from the SBA that the PPP Loan was forgiven in full, and the PPP Loan had been canceled, the Company reversed the liability and related accrued interest and recorded a gain on forgiveness of the PPP Loan in its consolidated statements of operations and comprehensive income.

In December 2020, the Consolidated Appropriations Act (the “Appropriations Act”) was signed into law to further address the ongoing impacts of COVID-19. The Appropriations Act introduced several additional potential credits and benefits for employers to consider applying for, including, but not limited to, the ability for employers who have previously obtained a PPP Loan to qualify for Employee Retention Credits (“ERC”) potentially also, initially created as part of the CARES Act. The ERC provided a per employee credit to eligible businesses based on a percentage of qualified wages and health insurance benefits paid to employees. The benefit was provided as a refundable payroll tax credit claimed quarterly as a reduction to payroll taxes or cash refunds. The initial credit available was equal to 50% of qualified wages paid to employees during a quarter, capped at $10,000 of qualified wages per employee through December 31, 2021. In March 2021, the American Rescue Plan of 2021 was enacted to, amongst other things, extend and expand ERC benefits through December 31, 2021. In accordance with these additional relief provisions, the tax credit was increased to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee was set at $10,000 of qualified wages per quarter. In November 2021, the Infrastructure Investment and Jobs Act was signed into law and ended the employee retention credit early, making wages paid after December 31, 2021, ineligible for the credit.

The Company qualified for certain ERC benefits during the year ended December 31, 2022. As there is no guidance in U.S. GAAP that specifically addresses the accounting for the receipt of government assistance similar to the ERC, the Company considered two primary approaches in accounting for the ERC. The first was as government grants, by reference to ASC 958-605, *Not-for-Profit-Entities Revenue Recognition*, and the other by reference to IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. With reference to IAS 20, the Company considered the following: (1) Under this model, the Company would not recognize government assistance until reasonably sure any conditions attached to the assistance would be met, and the Company would in fact receive the funds. (2) Once the Company was reasonably certain the conditions were met, the Company would then record the earnings impact of the grants over the periods in which the Company recognizes the costs the grants are intended to pay for. These costs should be recognized as expenses. (3) The funds could be recorded as other income or as an offset to related qualifying expenses. Because the ERC was intended to reimburse the Company for actual costs incurred (i.e., related qualifying expenses) during the given period or quarter, the Company determined that it was appropriate to account for these credits as an offset to the related qualifying payroll expenses recorded in selling, general, administrative expenses in the Company's consolidated statements of operations and comprehensive income for the year ended December 31, 2022.

ERC benefits of $4.3 million were included in selling, general, administrative expense as an offset to the related compensation expenses in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2022. The Company did not record any ERC benefits for the year ended December 31, 2021.

ERC benefits receivable of $2.1 million were included in prepaid expenses and other current assets in the accompanying consolidated balance sheets as of December 31, 2022. The Company did not record any ERC benefit receivable as of December 31, 2021.

The Company has also applied the guidance in Accounting Standards Update ("ASU") 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* retrospectively to the ERC in its financial reporting for the year ended December 31, 2021.

Laws and regulations concerning government programs, including the ERC and PPP Loan, are complex and subject to varying interpretations. Claims made under these programs may also be subject to retroactive audit and review. While the Company does not believe there is a basis for estimation of an audit or recapture risk at this time, there can be no assurance that regulatory authorities will not challenge the Company's claim to the ERC or PPP Loan in a future period.

Emerging Growth Company

Section 102(b)(1) of the Jumpstart Our Business Startups Act ("JOBS Act") exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard, until such time the Company is no longer considered to be an emerging growth company. At times, the Company may elect to early adopt a new or revised standard. As such, the Company's financial statements may not be comparable to companies that comply with public company effective dates.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the Company's consolidated financial statements and accompanying notes as of the date of the consolidated financial statements. These estimates and assumptions are based on current facts, historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Estimates are used for, but not limited to, unbilled accounts receivable, allowance for doubtful accounts, write-down for excess and obsolete inventories, asset lives for property and equipment, fair value of derivatives, and impairment of tangible and intangible assets. Actual results may differ materially and adversely from these estimates. In the current macroeconomic and business environment affected by COVID-19, the Russia-Ukraine conflict and inflationary pressures, these estimates require increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, these estimates may change materially in future periods.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Drilling Tools Services, Inc., Drilling Tools International, Inc., Reamco, Inc., Downhole Inspection Solutions, LLC, Premium Tools LLC, Slick Tools International, LLC (formerly, Stinger Oil Tools, LLC), Data Automation Technology LLC, and Drilling Tools International Corporation (Canada). All intercompany accounts and transactions have been eliminated on consolidation.

Foreign Currency Translation and Transactions

The Company has determined that the functional and reporting currency for its operations across the globe is the functional currency of the Company's international subsidiaries. Accordingly, all foreign balance sheet accounts have been translated into U.S. dollars using the rate of exchange at the respective balance sheet date. Components of the consolidated statements of operations and comprehensive income have been translated at the average rates for the year of the reporting period. Translation gains and losses are recorded in accumulated other comprehensive income as a component of stockholders' equity. Gains or losses arising from currency exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are included in the consolidated statements of operations and comprehensive income. For the year ended December 31, 2022 and 2021, the aggregate foreign currency translation included in the consolidated statements of operations and comprehensive income totaled approximately $0.2 million in gains and $0.1 million in loss, respectively.

Revenue Recognition

The Company recognizes revenue in accordance with Topic 606 (which addresses revenue from contracts with customers). The Company derives its revenue from two revenue types, tool rental services and product sales.

Tool Rental Services

Tool rental services consist of rental services, inspection services, and repair services. Tool rental services are accounted for under Topic 842.

Owned tool rentals represent the most significant revenue type and are governed by the Company's standard rental contract. The Company accounts for such rentals as operating leases. The lease terms are included in the contracts, and the determination of whether the Company's contracts contain leases generally does not require significant assumptions or judgements. The Company's lease revenues do not include material amounts of variable payments. Owned tool rentals represent revenue from renting tools that the Company owns. The Company does not generally provide an option for the lessee to purchase the rented equipment at the end of the lease.

The Company recognizes revenues from renting tools on a straight-line basis. The Company's rental contract periods are daily, monthly, per well, or based on footage. As part of this straight-line methodology, when the equipment is returned, the Company recognizes as incremental revenue the excess, if any, between the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the drilling tool was out on rent, over the cumulative amount of revenue recognized to date. In any given accounting period, the Company will have customers return the drilling tool and be contractually required to pay the Company more than the cumulative amount of revenue recognized to date under the straight-line methodology.

The Company records the amounts billed to customers in excess of recognizable revenue as deferred revenue on its consolidated balance sheet.

As noted above, the Company is unsure of when the customer will return rented drilling tools. As such, the Company does not know how much the customer will owe the Company upon return of the tool and cannot provide a maturity analysis of future lease payments. The Company's drilling tools are generally rented for short periods of time (significantly less than a year). Lessees do not provide residual value guarantees on rented equipment.

The Company expects to derive significant future benefits from its drilling tools following the end of the rental term. The Company's rentals are generally short-term in nature, and its tools are typically rented for the majority of the time that the Company owns them.

Product Sales

Product sales consist of charges for rented tools that are damaged beyond repair, charges for lost-in-hole, and charges for lost-in-transit while in the care, custody or control of the Company's customers, and other charges for made to order product sales. Product sales are accounted for under Topic 606.

Revenue is recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To determine revenue recognition for its arrangements with customers, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the revenue standard. The transaction price is measured as consideration specified in a contract with a customer and excludes any sales incentives and taxes or other amounts collected on behalf of third parties. As each of the Company's contracts with customers contain a single performance obligation to provide a product sale, the Company does not have any performance obligations requiring allocation of transaction prices.

The performance obligation for made to order product sales is satisfied and revenue is recognized at a point in time when control of the asset transfers to the customer, which typically occurs upon delivery of the product or when the product is made available to the customer for pickup at the Company's shipping dock. Additionally, pursuant to the contractual terms with the Company's customers, the customer must notify the Company of, and purchase from the Company, any rented tools that are damaged beyond repair, lost-in-hole, or lost-in-transit while in the care, custody or control of the Company's customers. Revenue is recognized for these products at a point in time upon the customer's notification to the Company of the occurrence of one of these noted events.

The Company does not have any revenue expected to be recognized in the future related to remaining performance obligations or contracts with variable consideration related to undelivered performance obligations. There was no revenue recognized in the current period from performance obligations satisfied in previous periods.

Revenue per geographic location

Revenue generated was concentrated within the United States. For the year ended December 31, 2022 and 2021, the revenue generated within the United States was $118.3 million and $ 71 million, respectively, or 91% and 92% of total revenues, respectively. For the year ended December 31, 2022 and 2021, the revenue generated outside of the United States, in Canada, was $11.3 million and $6.4 million, respectively, or 9% and 8% of total revenues, respectively.

Contract Assets and Contract Liabilities

Contract assets represent the Company's rights to consideration for work completed but not billed. As of December 31, 2022 and 2021, the Company had contract assets of $4.8 million and $3.0 million, respectively. Contract assets were recorded in accounts receivable, net in the accompanying consolidated balance sheets.

Contract liabilities consist of fees invoiced or paid by the Company's customers for which the associated services have not been performed and revenue has not been recognized based on the Company's revenue recognition criteria described above. As of December 31, 2022 and 2021, the Company did not have any material contract liabilities. All deferred revenue were expected to be recognized during the following 12 months, and they were recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company did not have any cash equivalents as of December 31, 2022 and 2021.

Accounts Receivable, net

The Company's accounts receivable consists principally of uncollateralized amounts billed to customers. These receivables are generally due within 30 to 60 days of the period in which the corresponding sales or rentals occur and do not bear interest. They are recorded at net realizable value less an allowance for doubtful accounts and are classified as account receivable, net on the consolidated balance sheets.

Allowance for Doubtful Accounts

The Company adopted ASU 2016-13, *Financial Instruments — Credit Losses*, on December 31, 2022, which was retroactively applied as of the first day of fiscal year 2022, as further described within the section below titled *Recently Adopted Accounting Pronouncements*. This accounting standard requires companies to measure expected credit losses on financial instruments based on the total estimated amount to be collected over the lifetime of the instrument. Prior to the adoption of this accounting standard, the Company recorded incurred loss reserves against receivable balances based on current and historical information.

Expected credit losses for uncollectible receivable balances consider both current conditions and reasonable and supportable forecasts of future conditions. Current conditions considered include pre-defined aging criteria, as well as specified events that indicate the balance due is not collectible. Reasonable and supportable forecasts used in determining the probability of future collection consider publicly available macroeconomic data and whether future credit losses are expected to differ from historical losses.

The Company is not party to any off-balance sheet arrangements that would require an allowance for credit losses in accordance with this accounting standard.

The changes in the allowance for uncollectible receivables for the year ended December 31, 2022 were as follows (in thousands):

Allowance for doubtful accounts	
Balance at December 31, 2020	$(1,116)
Addition during the period	(544)
Utilization of allowance for doubtful accounts	438
Balance at December 31, 2021	(1,222)
Cumulative effect adjustment upon adoption of ASU 2016-13	—
Addition during the period	(336)
Utilization of allowance for doubtful accounts	60
Balance at December 31, 2022	$(1,498)

Inventories, net

Inventories are stated at the lower of cost or net realizable value. Cost is determined by using the specific identification method. Inventory that is obsolete or in excess of forecasted usage is written down to its net realizable value based on assumptions regarding future demand and market conditions. Inventory write-downs are charged to operating costs and establish a new cost basis for the inventory. Inventory includes raw material and finished goods.

Property, Plant and Equipment, net

Property, plant and equipment purchased by the Company are recorded at cost less accumulated depreciation. Depreciation is recorded using the straight-line method based on the estimated useful lives of the depreciable property or, for leasehold improvements, the remaining term of the lease, whichever is shorter. Assets not yet placed in use are not depreciated.

Property, plant and equipment acquired as part of a business acquisition is recorded at acquisition date fair value with subsequent additions at cost.

The cost of refurbishments and renewals are capitalized when the value of the property, plant or equipment is enhanced for an extended period. Expenditures to maintain and repair property, plant and equipment, which do not improve or extend the life of the related assets, are charged to operations when incurred. When property, plant and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations.

Leases

The Company adopted ASC 842, *Leases* (“ASC 842”) as of January 1, 2022. ASC 842 was adopted using the modified retrospective transition approach, with no restatement of prior periods or cumulative adjustments to retained earnings. Upon adoption, the Company elected the package of transition practical expedients, which allowed it to carry forward prior conclusions related to whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases and initial direct costs for existing leases. The Company elected the use-of-hindsight to reassess lease term. The Company elected not to recognize leases with an initial term of 12 months or less within the consolidated balance sheets and to recognize those lease payments on a straight-line basis in the consolidated statements of operation over the lease term. The new lease accounting standard also provides practical expedients for an entity’s ongoing accounting. The Company elected the practical expedient to not separate lease and non- lease components for all leases.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and current operating lease liabilities and operating lease liabilities, net of current portion on the consolidated balance sheets. The Company recognizes lease expense for its operating leases on a straight-line basis over the term of the lease.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from a lease. ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease ROU assets also include the impact of any lease incentives. An amendment to a lease is assessed to determine if it represents a lease modification or a separate contract. Lease modifications are reassessed as of the effective date of the modification using an incremental borrowing rate based on the information available at the commencement date. For modified leases the Company also reassess the lease classification as of the effective date of the modification.

The interest rate used to determine the present value of the future lease payments is the Company’s incremental borrowing rate, because the interest rate implicit in the Company’s leases is not readily determinable. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

The Company’s lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option in the measurement of its ROU assets and liabilities. The Company considers contractual-based factors such as the nature and terms of the renewal or termination, asset-based factors such as physical location of the asset and entity-based factors such as the importance of the leased asset to the Company’s operations to determine the lease term. The Company generally uses the base, non-cancelable, lease term when determining the ROU assets and lease liabilities. The right-of-use asset is tested for impairment in accordance with Accounting Standards Codification Topic 360, Property, Plant, and Equipment.

Lessor Accounting

Our leased equipment primarily consists of rental tools and equipment. Our agreements with our customers for rental equipment contain an operating lease component under ASC 842 because (i) there are identified assets, (ii) the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use and (iii) the customer directs the use of the identified assets throughout the period of use.

Our lease agreements have contract terms based on hourly, daily, weekly or monthly rates. Lease revenue is recognized on a straight-line basis based on these rates. We do not provide an option for the lessee to purchase the rented tools at the end of the lease and the lessees do not provide residual value guarantees on the rented assets.

We recognized operating lease revenue within "Tool rentals" on the consolidated statements of operations and comprehensive income.

Intangible Assets

Intangible assets with finite useful lives include customer relationships, trade name, patents, non-compete agreements and a supply agreement. These intangible assets are amortized either on a straight-line basis over the asset's estimated useful life or on a basis that reflects the pattern in which the economic benefits of the intangible are realized.

Accounting for Impairment of Long-lived Asset

Long-lived assets with finite lives include property, plant and equipment and acquired intangible assets. The Company evaluates long-lived assets, including acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds these estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group.

For the year ended December 31, 2022 and 2021, management determined that there was no impairment with regard to their property, plant, and equipment or intangible assets.

Investments — Equity Securities

Equity securities are stated at fair value. Unrealized gains and losses are reflected in the consolidated statements of operations and comprehensive income. The Company periodically reviews the securities for other than temporary declines in fair value below cost and more frequently when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of the year ended December 31, 2022 and 2021, the Company believes the cost of the securities was recoverable in all material respects.

Redeemable Convertible Preferred Stock

The Company's Series A redeemable convertible preferred stock ("Series A"), which represents the Company's sole class of redeemable convertible preferred stock issued to date, was established on December 28, 2015. Upon establishment of the Series A, the Company issued 20,370,377 shares of Series A for $0.54 per share resulting in aggregate proceeds of $11.0 million.

The Company records shares of its redeemable convertible preferred stock at their respective fair values on the dates of issuance. The Company classifies its redeemable convertible preferred stock outside of permanent equity in mezzanine equity on its consolidated balance sheets as it is redeemable at a fixed date. In accordance with ASC 480-10-S99-3A, the Company recognizes changes in the redemption value of its redeemable convertible preferred stock immediately as they occur and adjusts the carrying amount to redemption value at the end of each reporting period. The Company records accretion of its redeemable convertible preferred stock as a reduction to additional paid-in capital as the Company has an accumulated deficit.

Dividend Rights

Each holder of Series A is entitled to receive cumulative dividends payable at the rate of 7% annually, payable in kind. The dividends accumulate and compound quarterly at the stated dividend rate to the extent they are not paid.

Liquidation Rights

Upon the liquidation, dissolution or winding up of the Company's business, after provision for payment of all debts and liabilities of the Company, any remaining assets of the Company shall be distributed first to the holders of the Series A and then pro rata to the holders of common stock. Each holder of Series A shall be entitled to receive, in full before any distributions or payments out of the assets of the Company, an amount equal to the Series A stated value of $0.54 per share along with an amount equal to all accumulated and unpaid dividends as of the date of payment. As of December 31, 2022 and as of December 31, 2021, the liquidation preference of the redeemable convertible preferred stock was approximately $17.9 million and $16.7 million, respectively.

Redemption

The Company must redeem all outstanding shares of Series A on the earlier of the seventh anniversary, as amended, of the issuance of the shares, or subject to compliance with the Company's credit agreement, such earlier date as is determined by the election of holders of at least two-thirds of the outstanding shares of Series A, or the consummation of a firm commitment underwritten public offering by the Company. The redemption price is payable in cash equal to the original purchase price plus accumulated and unpaid dividends.

Conversion Rights

At any time before redemption, each Series A share is convertible into common stock at the option of the holder at its stated value of $0.54 per share, subject to adjustment for stock splits, stock dividends, combinations of shares, and similar recapitalization transactions.

Voting Rights

Each holder of Series A has a right to vote with a number of votes equal to the number of shares of common stock issuable upon conversion of such holder's Series A at the time such shares are voted. Holders of Series A shall vote together with the holders of common stock (and of any other class or series that may similarly be entitled to vote with the holders of common stock) as a single class on all matters on which holders of common stock are entitled to vote.

Cost of Revenue

The Company recorded all operating costs associated with its product sales and tool rental revenue streams in cost of product sale revenue and cost of tool rental revenue, respectively, in the consolidated statements of operations and comprehensive income. All indirect operating costs, including labor, freight, contract labor and others, are included in selling, general, administrative in the consolidated statements of operations and comprehensive income.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation — Stock Compensation* ("ASC 718"). ASC 718 requires that the cost of awards of equity instruments offered in exchange for employee services, including employee stock options and restricted stock awards, be measured based on the grant-date fair value of the award. The Company adopted FASB ASU No. 2016-09, Compensation — Stock Compensation ("Topic 718"): Improvements to Employee Share-Based Payment Accounting, on February 1, 2019. This ASU involves several aspects of the accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the accompanying consolidated statements of cash flows. The adoption did not have a material impact on the accompanying consolidated financial statements of the Company. The Company determines the fair value of stock options granted using the Black-Scholes-Merton option-pricing model ("Black-Scholes model") and recognizes the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period, net of estimated forfeitures. Because the Company's common stock is not yet publicly traded, the Company must estimate the fair value of its common stock. The Board of Directors considers numerous objective and subjective factors to determine the fair value of the Company's common stock at each meeting in which awards are approved. The factors considered include, but are not limited to: (i) the results of contemporaneous independent third-party valuations of the Company's common stock; (ii) the prices, rights, preferences, and privileges of the Company's Redeemable Convertible Preferred Stock relative to those of its common stock; (iii) the lack of marketability of the Company's common stock; (iv) actual operating and financial results; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions; and (vii) precedent transactions involving the Company's shares. The Company did not grant stock options in financial year 2021 or 2022.

Earnings Per Share

Basic earnings per share is computed by dividing the net income by the weighted-average number of common shares outstanding for the period. Diluted earnings is computed by adjusting net income to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted earnings is computed by dividing the diluted net income by the weighted-average number of common shares outstanding for the period, including potential dilutive common stock. For the purposes of this calculation, outstanding stock options and redeemable convertible preferred stock are considered potential dilutive common stock and are excluded from the computation of net loss per share if their effect is anti-dilutive.

The Company's redeemable convertible preferred stock does not contractually entitle its holders to participate in profits or losses. As such, it is not treated as a participating security in periods of net income or net loss.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and liabilities.

The Company is subject to state income taxes in various jurisdictions.

The Company follows guidance issued by the FASB in accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits and upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. The Company has no uncertain tax positions at December 31, 2022 and December 31, 2021. The Company believes there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within twelve months of the reporting date.

The Company records income tax related interest and penalties, if applicable, as a component of the provision for income tax expense. However, there were no amounts recognized relating to interest and penalties in the consolidated statements of operations and comprehensive income for the year ended December 31, 2022 and 2021.

Derivative Financial Instruments

From time to time, the Company may enter into derivative instruments to manage exposure to interest rate fluctuations. During 2016, the Company entered into an interest swap agreement with respect to amounts outstanding under its revolving line of credit.

This arrangement was designed to manage exposure to interest rate fluctuations by effectively exchanging existing obligations to pay interest based on floating rates for obligations to pay interest based on a fixed rate. These derivatives are marked-to-market at the end of each quarter and the realized/unrealized gain or loss is recorded as interest expense. For the year ended December 31, 2022 and 2021, the Company recognized an unrealized gain due to the change in fair value of its interest rate swap of approximately $1.4 million and $0.9 million, respectively in its consolidated statements of operations and comprehensive income.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels:

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

Level 2 — Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other observable inputs directly or indirectly related to the assets or liabilities being measured.

Level 3 — Valuation inputs are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Asset and liabilities measured at fair value are summarized as follows (in thousands):

	Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Investments, equity securities	$ 1,143	$ —	$ —	$ 1,143
Interest rate swap	$ —	$ 476	$ —	$ 476
Total assets at fair value	**$ 1,143**	**$ 476**	**$ —**	**$ 1,619**

	Assets and Liabilities at Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Investments, equity securities	$ 909	$ —	$ —	$ 909
Total assets at fair value	**$ 909**	**$ —**	**$ —**	**$ 909**
Interest rate swap	$ —	$ (947)	$ —	$ (947)
Total liabilities at fair value	**$ —**	**$ (947)**	**$ —**	**$ (947)**

The Company's interest rate swap is a pay-fixed, receive-variable interest rate swap based on LIBOR swap rate. The LIBOR swap rate is observable at commonly quoted intervals for the full term of the swap and therefore is considered a Level 2 item. For interest rate swaps in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset. The impact of the Company's creditworthiness has also been factored into the fair value measurement of the interest rate swap in a liability position. For the year ended December 31, 2022 and 2021, the application of valuation techniques applied to similar assets and liabilities has been consistent.

As of December 31, 2022, the interest rate swap is included in prepaid expenses and other current assets on the consolidated balance sheet. At December 31, 2021, the interest rate swap is included in accrued expenses and other current liabilities on the consolidated balance sheet.

As of December 31, 2022 and December 31, 2021, the Company did not have any Level 3 assets or liabilities.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, accounts receivable, accounts payable, and long-term debt. The carrying amount of such instruments approximates fair value due to their short- term nature. The carrying value of long-term debt approximates fair value because of the market interest rate of the debt.

Concentration of Credit Risk and Other Risks and Uncertainties

The Company's customer concentration may impact its overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions affecting the oil and gas industry.

During the year ended December 31, 2022, the Company generated approximately 28% of its revenue from two customers. Amounts due from these customers included in accounts receivable at December 31, 2022 were approximately $8.6 million.

During the year ended December 31, 2022, the Company had one vendor that represented approximately 12% of its purchases. Amounts due to this vendor included in accounts payable at December 31, 2022 were approximately $0.9 million.

During the year ended December 31, 2021, the Company generated approximately 18% of its revenue from one customer. Amounts due from this customer included in accounts receivable at December 31, 2021 were approximately $4.2 million.

During the year ended December 31, 2021, the Company had one vendor that represented approximately 16% of its purchases. Amounts due to this vendor included in accounts payable at December 31, 2021 were approximately $1.5 million.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. The Company maintains accounts in federally insured financial institutions in excess of federally insured limits. Management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which these deposits are held and of the money market funds in which these investments are made. The Company holds marketable securities with high credit ratings.

Operating Segment

Operating segments are identified as components of an enterprise about which discrete financial information is available for evaluation by the chief operating decision-maker ("CODM") in deciding resource allocation and assessing performance. The Company's Chief Executive Officer and Chief Financial Officer work together as the CODM. The Company's CODM reviews financial information presented on a consolidated basis for the purposes of making operations decisions, allocating resources and evaluating financial performance. Consequently, the Company has determined it operates in one operating and reportable segment

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to improve financial reporting and disclosures about leasing transactions. This ASU requires companies that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases, for substantially all leases. The recognition, measurement and presentation of expense and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or operating lease; both types of leases will be recognized on the balance sheet. This ASU also requires disclosures to help financial statement users to better understand the amount, timing and uncertainty of cash flows arising from leases. The new lease standard was adopted by the Company on its effective date of January 1, 2022. The Company used the optional transition method set forth in ASU 2018-11 that allows entities to elect not to recast their comparative periods in transition.

In addition, the Company elected the transition package of practical expedients permitted within the standard, which allowed it to carry forward the historical lease classification for arrangements that commenced prior to the effective date. As a result of the adoption of ASU 2016-02 on January 1, 2022, the Company recorded both operating lease assets of $16.3 million and operating lease liabilities of $16.3 million. The adoption of ASU 2016-02 had an immaterial impact on the Company's consolidated statements of operations and comprehensive income and consolidated statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses*, which requires entities to estimate all expected credit losses for financial assets measured at amortized cost basis, including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The Company adopted this guidance using the modified retrospective adoption method on December 31, 2022, which was retroactively applied as of the first day of fiscal year 2022. The adoption of this accounting standard did not have a material impact to the Company's consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance: Disclosures by Business Entities about Government Assistance*, which aims to provide increased transparency by requiring business entities to disclose information about certain types of governmental assistance they receive in the notes to the financial statements. The disclosures include information around the nature of the assistance, the related accounting policies used to account for government assistance, the effect of government assistance on the entity's financial statements, and any significant terms and conditions of the agreements, including commitments and contingencies. The new guidance does not apply to transactions that a business accounts for under the income tax, revenue recognition, gain contingency or debt rules. The guidance in ASU 2021-10 was effective for financial statements of all entities for annual periods beginning after December 15, 2021. The Company has early adopted this guidance retrospectively, applying it to all transactions within the scope of the amendments reflected in its consolidated financial statements as of December 31, 2021 and for the financial statements for the year ending December 31, 2022. As the Company's accounting for ERC benefits was in accordance with this guidance, the impact of adoption was limited to disclosures relating to these transactions.

Recently Issued Accounting Pronouncements Not Yet Adopted

No other new accounting pronouncements issued or effective during 2022 had, or are expected to have, a material impact on the Company's consolidated financial statements.

NOTE 2 — INVESTMENTS — EQUITY SECURITIES

The following table shows the cost and fair value of the Company's investments in equity securities (in thousands):

	Cost	Unrealized Gain	Fair Value
December 31, 2022	$999	$ 144	$1,143

	Cost	Unrealized Loss	Fair Value
December 31, 2021	$999	$ (90)	$ 909

Unrealized holding gains (losses) on equity securities for the years ended December 31, 2022 and 2021 were approximately $0.1 million, respectively.

NOTE 3 — BALANCE SHEET DETAILS — CURRENT ASSETS AND CURRENT LIABILITIES

Inventories, net

The following table shows the components of inventory (in thousands):

	December 31, 2022	December 31, 2021
Raw materials	$ 3,377	$ 2,285
Finished goods	115	130
Total inventories	**3,492**	**2,415**
Allowance for obsolete inventory	(211)	(74)
Inventories, net	**$ 3,281**	**$ 2,341**

Inventory write-downs for the years ended December 31, 2022 and 2021 were $44 thousand and $0.4 million, respectively and are recorded within cost of tool rental revenue in the consolidated statements of operations and comprehensive income.

Prepaid expenses and other current assets

The following table shows the components of prepaid expenses and other current assets (in thousands):

	December 31, 2022	December 31, 2021
Prepaid expenses:		
ERC benefits receivable	$ 2,117	$ —
Deposits on inventory	680	—
Prepaid income tax	—	—
Prepaid insurance	358	252
Prepaid rent	381	336
Prepaid equipment	179	155
Prepaid other	173	150
Other current assets:		
Interest rate swap asset	$ 476	$ —
Other	17	12
Total	**$ 4,381**	**$ 905**

The following table shows the components of prepaid expenses and other current assets (in thousands):

Accrued expenses and other current liabilities

The following table shows the components of accrued expenses and other current liabilities (in thousands):

	December 31, 2022	December 31, 2021
Accrued expenses:		
Accrued compensation and related benefits	$ 3,392	$ 952
Accrued insurance	525	301
Accrued professional services	509	61
Accrued interest	62	74
Accrued property taxes	41	35
Other	38	48
Other current liabilities:		
Income tax payable	$ 1,780	$ 895
Sales tax payable	587	422
Unbilled lost-in-hole revenue	282	116
Deferred revenue	83	63
Interest rate swap liability	—	947
Total accrued expenses and other current liabilities	**$ 7,299**	**$ 3,914**

NOTE 4 — PROPERTY, PLANT AND EQUIPMENT, NET

The following table shows the component of property, plant and equipment, net (in thousands):

	Estimated Useful Lives (in Years)	December 31, 2022	December 31, 2021
Land	—	$ —	$ 898
Rental tools and equipment	5 – 10	160,973	152,986
Buildings and improvements	5 – 40	5,781	5,177
Office furniture, fixtures and equipment	3 – 5	2,101	1,869
Transportation and equipment	3 – 5	827	947
Construction in progress		9	166
Total property, plant and equipment		**169,691**	**162,043**
Less: accumulated deprecation		(125,537)	(117,651)
Property, plant and equipment, net		**$ 44,154**	**$ 44,392**

Total depreciation expense for the year ended December 31, 2022 and 2021 was approximately $19.6 million and $20.6 million, respectively. The Company has not acquired any property, plant and equipment under capital leases.

Property, plant and equipment, net, were concentrated within the United States. As of December 31, 2022 and 2021 property, plant and equipment, net held within the United States was $41.8 million and $42.1 million, respectively, or 95% of total property, plant and equipment, net for both periods. As of December 31, 2022 and 2021 property, plant and equipment, net held outside of the United States, in Canada, was $2.3 million, or 5% of total property, plant and equipment net for both periods.

NOTE 5 — INTANGIBLE ASSETS, NET

The following table shows the components of intangible assets, net (in thousands):

	Useful Lives (in Years)	December 31, 2022	December 31, 2021
Trade Name	10 – 13	$ 1,280	$ 1,280
Technology	13	270	270
Total intangible assets		**1,550**	**1,550**
Less: accumulated amortization		(1,287)	(1,148)
Intangible assets, net		**$ 263**	**$ 402**

Total amortization expense for the year ended December 31, 2022 and 2021 was approximately $0.1 million and $1.1 million, respectively.

NOTE 6 — REVOLVING CREDIT FACILITY

In December 2015, the Company entered into a credit facility with a bank. The facility provides for a revolving line of credit in the original amount of $48.0 million, which is $60.0 million, as amended, at December 31, 2022. For the year ended December 31, 2021 the interest on the amount drawn was based on LIBOR or the bank's base lending rate plus applicable margin (approximately 4.1% at December 31, 2021). For the year ended December 31, 2022 the interest on the amount drawn was based on SOFR or the bank's base lending rate plus applicable margin (approximately 7.42% at December 31, 2022). The credit facility is collateralized by substantially all the assets of the Company and matures December 31, 2025.

On April 23, 2018, the Company entered into an amendment and joinder to the credit agreement. This amendment waived certain events of default under the credit agreement, changed the borrowing capacity under the credit facility and created a term loan of approximately $7.0 million which is collateralized by the assets of Premium Tools LLC.

On December 3, 2018, the Company entered into an amendment to the credit agreement. This amendment changed the borrowing capacity under the credit agreement and increased the amount of permitted capital expenditures from $15.0 million to $20.0 million for the year ended 2019, and $22.0 million for subsequent years.

On April 30, 2020, the Company entered into an amendment to the credit agreement. This amendment modified certain defined terms in the agreement and waived the excess cash flow payment for the year ended December 31, 2019.

On March 31, 2021, the Company entered an amendment to the credit agreement. This amendment waived certain events of default under the credit agreement and modified certain financial covenants, including, the minimum undrawn availability, fixed charge coverage ratio, leverage ratio and minimum EBITDA. The amendment also reduced the amount available under the revolving credit facility from to the current $50.0 million and reduced the maximum available borrowings under the entire credit agreement to $57.0 million.

On June 29, 2021, the Company entered into an amendment to the credit agreement. This amendment waived certain events of default under the credit agreement by modifying certain terms including waiving
the requirement for the prepayment related to the excess cash flows, as defined, for December 31, 2020 that was due in 2021. Additionally, the amendment modified the repayment schedule of the term loan entered in April 2018.

On April 25, 2022, the Company entered into an amendment to the credit agreement. This amendment modified certain covenants to extend certain financial reporting deadlines.

On September 13, 2022, the Company extended the maturity date of the revolving line of credit from December 31, 2022 to December 31, 2025. As of December 31, 2022, amounts outstanding under the revolving line of credit have been classified as current liabilities despite the maturity date extension. Amounts outstanding have been classified as current liabilities because the agreement for the revolving line of credit, as amended on September 13, 2022, includes a subjective acceleration clause and a lockbox requirement.

The Company is subject to various restrictive covenants associated with these borrowings including, but not limited to, a fixed charge ratio, and a minimum amount of undrawn availability. At December 31, 2022, the Company was in compliance with these covenants.

NOTE 7 — NOTES PAYABLE, NET

Notes payable, net consisted of the unsecured promissory notes, net of discount amounting to $0.9 million as of December 31, 2021. The unsecured promissory notes were paid off in full as of December 31, 2022.

On October 31, 2018, in conjunction with an acquisition, the Company entered into an unsecured promissory note with the seller in the amount of $5.5 million. Periodic payments on this note are due as follows, $1.5 million on February 1, 2019; $1.0 million annually on October 31 beginning in 2019, and through 2022. There is no stated interest rate in the agreement; therefore, management imputed an interest rate of 5.2% and recorded a discount of $0.5 million on the note and will accrete the discount to interest expense over the term of the note. The effective interest rate on the note is 10.91%. At December 31, 2021, the outstanding balance, net of the unamortized discount of $58 thousand, was $0.9 million. The note matured and was paid in full, including the unamortized discount, on October 31, 2022.

On April 23, 2018, the Company entered into a term loan with a financial institution. At December 31, 2020, the interest rate on the term loan was 4.65%. Periodic payments on this note are due monthly in the amount of $0.1 million commencing on July 23, 2018 with the balance due on the maturity date. Originally, the term loan matured on April 22, 2022. In conjunction with the eighth amendment, starting July 1, 2021, the monthly payments were increased to $0.4 million and continued until the loan was paid off in December 2021. This note was collateralized by the assets of Premium Tools LLC. Under the original terms of the credit facility, the Company was obligated to prepay the term loan based upon the excess cash flow calculation, as defined in the agreement. This requirement was waived for 2019 and 2020 in the eighth amendment. This loan balance was paid off in full as of December 31, 2021.

As of December 31, 2022, there are no future minimum payments related to notes payable, net.

NOTE 8 — INCOME TAXES

For the years ended December 31, 2022, and 2021, income from continuing operations before taxes consisted of amounts related to U.S. operations and income associated with the Company's foreign operations predominantly in Canada. The geographical breakdown of the Company's income before expense from income taxes was as follows (in thousands):

	Year Ended December 31,	
	2022	2021
Domestic	$19,093	$1,790
International	5,683	102
Profits before benefit from income taxes	**$24,777**	**$1,892**

Income tax expense attributable to income from continuing operations consists of (in thousands):

	Year Ended December 31,	
	2022	2021
Current provisions for income taxes:		
Federal	$ 702	$ 302
Foreign	1,444	489
State	472	53
Total current	2,618	844
Deferred tax expense (benefit):		
Federal	574	(642)
Foreign	488	(149)
State	18	(262)
Total deferred expense (benefit)	1,080	(1,053)
Total provision for (benefit from) income taxes	**$ 3,697**	**$ (209)**

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Tax rate reconciliation

The following table presents a reconciliation of the federal statutory rate to the Company's effective tax rate:

	Year Ended December 31,	
	2022	2021
U.S. federal tax benefit at statutory rate	21.0%	21.0%
State income taxes, net of federal benefit	2.1%	(3.7)%
PPP loan forgiveness	0.0%	(95.2)%
Permanent differences	2.0%	1.7%
Foreign rate differential	0.5%	0.3%
Valuation allowance	(2.1)%	(3.5)%
Other	(9.0)%	68.4%
Effective tax rate	**14.5%**	**(11.0)%**

The effective tax rate impact of the other category for the year ended December 31, 2022, is primarily made up of tax basis balance sheet adjustments resulting in a decrease of 10.6% or $2.6 million. The effective tax rate impact of the other category for the year ended December 31, 2021 is primarily made up of the impact of changes in foreign and state tax rates of 12.1% or $0.2 million, return to provision adjustments of 24.7% or $0.5 million and tax basis balance sheet adjustments of 31.6% or $0.6 million.

Significant components of deferred taxes

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2022 and 2021 are presented below (in thousands):

	Year Ended December 31,	
	2022	2021
Deferred tax assets		
Net operating loss carryforward	$ 3,378	$ 5,594
Allowance for doubtful accounts	323	287
Share-based compensation	941	952
Bonus accrual	599	175
Inventory	53	373
Intangible assets	1,152	1,316
Federal credits	—	27
Other	140	3
Gross deferred tax assets	6,587	8,727
Valuation allowance	—	(526)
Net deferred tax assets	6,587	8,201
Deferred tax liabilities		
Depreciation on property, plant and equipment	(8,958)	(10,383)
Other	(814)	78
Net deferred tax liabilities	(9,771)	(10,305)
Net deferred tax assets (liabilities)	**$ (3,185)**	**$ (2,104)**

At December 31, 2022 and 2021, the Company had federal net operating loss carryforwards of approximately $15.1 million and $25.4 million, respectively, and state and local net operating loss carryforwards of approximately $9.8 million and $10.6 million as of December 31, 2022 and 2021, respectively, which expire at various dates.

The utilization of the Company's net operating losses may be subject to a limitation due to the "change in ownership provisions" under Section 382 of the Internal Revenue Code and similar state and foreign provisions. Such limitations may result in the expiration of the net operating loss carryforwards before their utilization.

The Company is subject to income taxes in the U.S. federal jurisdiction, various state jurisdictions as well as Canada. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company's tax years remain open for examination by all tax authorities since inception and carryover attributes remain open to adjustment by the U.S. and state authorities.

In evaluating the need for a valuation allowance, we have assessed all available evidence, both positive and negative, on a more likely than not threshold. We note that the Company is in a 3-year cumulative income position of $3.1 million, representing positive evidence against the need to apply a full valuation allowance against its existing deferred tax assets. We also analyzed the four sources of taxable income in accordance with ASC 740-10-30-18, taking into consideration a schedule of existing deferred tax assets and liabilities and their future reversals. Based on a scheduling period of ten years, all deferred tax assets are expected to turn against the deferred tax liabilities, eliminating the need for a valuation allowance. Accordingly, as of December 31, 2022, we have determined no valuation allowance is required.

NOTE 9 — SHARE-BASED COMPENSATION

The Company's 2012 Nonqualified Stock Option Plan (the Plan) permitted the grant of share options to its employees for up to 4,555,779 shares of common stock. On September 1, 2013, the Company amended the Plan to permit the grant of share options to its employees for up to 13,000,000 shares of common stock. Under the Plan, option awards are generally granted with an exercise price equal to the market price for the Company's stock at the date of grant; those option awards generally vest over three years of continuous service with one-third vesting on the first, second, and third anniversaries of the option's grant date. Those awards which contain performance conditions vest upon satisfaction of such performance conditions. Certain option awards provide for conditional or accelerated vesting if there is a change in control, as defined in the Plan.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatilities are based on comparable public company data. The Company uses future estimated employee termination and forfeiture rates of the options within the valuation model. The expected term of options granted is derived using the "plain vanilla" method due to the lack of history and volume of option activity at the Company. The risk-free rate is based on the approximate U.S. Treasury yield rate in effect at the time of grant. The Company's calculation of share price involves the use of different valuation techniques, including a combination of an income and market approach.

Determination of the fair value is a matter of judgment and often involves the use of estimates and assumptions. During the year ended December 31, 2022, there were no options granted, exercised or forfeited. During the year ended December 31, 2021, there were no options granted or exercised.

For the years ended December 31, 2022 and 2021, a summary of option activity under the Plan is presented below (in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
OUTSTANDING, December 31, 2020	11,227,890	$ 1.14	4.44	$ 12,032
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	300,000	$ 0.22	—	—
OUTSTANDING, December 31, 2021	10,927,890	$ 1.21	3.60	$ 11,687
UNVESTED, December 31, 2021	2,340,000	$ 0.85	5.25	$ 2,691
EXERCISABLE, December 31, 2021	8,587,890	$ 1.21	3.14	$ 8,996
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
OUTSTANDING, December 31, 2022	10,927,890	$ 1.21	2.96	$ 11,687
UNVESTED, December 31, 2022	2,340,000	$ 0.85	4.25	$ 2,691
EXERCISABLE, December 31, 2022	8,587,890	$ 1.21	2.84	$ 8,996

The aggregate intrinsic value is calculated as the difference between the exercise price and the estimated fair value of the Company's common stock as of December 31, 2022 and 2021.

Non-vested shares at December 31, 2022 totaled 2,340,000, which consist of performance shares, for which the performance conditions have not been satisfied at December 31, 2022. At December 31, 2022, there was unrecognized compensation expense of approximately $0.3 million related to non-vested share- based compensation arrangements granted under the Plan.

For the years ended December 31, 2022 and 2021, share-based compensation expense charged to operating costs and expenses was nil and approximately $32 thousand, respectively.

NOTE 10 — RELATED PARTY TRANSACTIONS

For the year ended December 31, 2022 and 2021, management fees paid to a shareholder were approximately $0.4 million and $0.3 million, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income.

For the year ended December 31, 2022 and 2021, the Company paid rent expense to a shareholder of approximately $51 thousand and $0.3 million, respectively, relating to the lease of a building. Future minimum lease payments related to this lease are included in the future minimum lease schedule in Note 11.

For the year ended December 31, 2022 and 2021, the Company paid $4 thousand and $25 thousand, respectively to a shareholder for tools.

NOTE 11 — LEASES

The Company adopted ASC Topic 842 on January 1, 2022 using the modified retrospective approach. Comparative information has not been restated and continues to be reported under ASC Topic 840, *Leases*, which was the accounting standard in effect for those periods.

The Company leases various facilities and vehicles under non-cancelable operating lease agreements. As of December 31, 2022, all of the Company's leases were operating leases.

For the year ended December 31, 2022, the components of the Company's lease expense were as follows (in thousands):

	Year ended December 31, 2022
Operating Lease Cost	$ 5,722
Short-term Lease Cost	143
Variable Lease Cost	319
Sublease Income	(183)
Total Lease Cost	**$ 6,001**

Supplemental balance sheet information related to leases was as follows (in thousands):

	Year ended December 31, 2022
Weighted-average remaining lease term (in years)	7.53
Weighted average discount rate	5.34%

	Year ended December 31, 2022
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 25,087
Cash paid for amounts included in the measurement of lease liabilities	5,003

Future undiscounted cash flows for each of the next five years and thereafter and reconciliation to the lease liabilities recognized on the balance sheet as of December 31, 2022 were as follows (in thousands):

Years Ending December 31	
2023	$ 4,265
2024	3,879
2025	3,485
2026	3,167
2027	2,178
Thereafter	7,254
Total lease payments	**$24,228**
Less: imputed interest	(4,226)
Present value of lease liabilities	**$20,002**

The Company entered into a lease agreement for general office space, the Southcreek Lease, in Houston, Texas on November 1, 2021. The lease requires a Standby Letter of Credit (LOC) of approximately $0.3 million that expires April 2023.

For the years ended December 31, 2022 and 2021, tool rental revenue was approximately $99.0 million and $59.3 million, respectively. Due to the short term nature of the contracts, no maturity table is presented. There are no minimum fixed lease payments that are to be earned over the years as the weighted average remaining lease term is 7.53 years.

NOTE 12 — EMPLOYEE BENEFITS

The Company has a defined contribution plan that complies with Section 401(k) of the Internal Revenue Code. All employees are auto enrolled at a 3% contribution, unless they opt out, beginning on the first plan entry date following six months of service. Plan entry dates are the first day of January and July. In March of 2020, the Company suspended any employee contribution match effective immediately and through the end of 2021. The match was reinstated on January 1, 2022. For 2022, the Company matched employee contributions 150% of the first 3% of employee contributions, not to exceed $2 thousand per participant per calendar year. Employees vest in employer contributions over six years. The contribution is limited to the maximum contribution allowed under the Internal Revenue Service Regulations. The total expense for the years ended December 31, 2022 and 2021 was approximately $0.4 million and nil, respectively.

NOTE 13 — COMMITMENTS AND CONTINGENCIES

The Company maintains operating leases for various facilities and vehicles. See note 11, Leases, for further information.

Litigation

From time to time, the Company may become involved in various legal proceedings in the ordinary course of its business and may be subject to third-party infringement claims.

In the normal course of business, the Company may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that the Company's products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the Company's limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim.

As of December 31, 2022 and December 31, 2021, the Company has not been subject to any pending litigation claims.

Management Fee

The Company is required to pay a monthly management fee to a shareholder. The fee is based upon a percentage of the Company's trailing twelve months, earnings before interest, taxes and accumulated depreciation amount, as defined in the management agreement.

PPP Loan

On April 11, 2020 and March 15, 2021, the Company received proceeds from two separate PPP loans of $6.6 million and $2.0 million, respectively. The April 2020 PPP loan and the March 2021 PPP loan and related accrued interest were forgiven by the SBA on July 27, 2021 and December 31, 2021, respectively. See note 1, Summary of significant accounting policies, for further information.

NOTE 14 — EARNINGS PER SHARE

Basic earnings per share is computed using the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed using the weighted-average number of common shares outstanding for the period plus dilutive potential common shares, including performance share awards, using the treasury stock method. Performance share awards are included based on the number of shares that would be issued as if the end of the reporting period was the end of the performance period and the result was dilutive.

The following table sets forth the computation of the Company's basic and diluted net earnings per share for the year ended December 31, 2022 and 2021 (in thousands except share and per share data):

	Year ended December 31, 2022	Year ended December 31, 2021
Numerator:		
Net income	$ 21,080	$ 2,101
Less: Redeemable convertible preferred stock dividends	(1,189)	(1,119)
Net income attributable to common shareholders – basic	$ 19,891	$ 982
Add: Redeemable convertible preferred stock dividends	1,189	1,119
Net income attributable to common shareholders – diluted	$ 21,080	$ 2,101
Denominator		
Weighted-average common shares used in computing earnings pershare – basic	52,363,872	52,363,872
Weighted-average effect of potentially dilutive securities:		
Effect of potentially dilutive stock options	4,410,987	4,552,060
Effect of potentially dilutive redeemable convertible preferred stock	20,370,377	—
Weighted-average common shares outstanding – diluted	77,145,236	56,915,932
Earnings per share – basic	$ 0.38	$ 0.02
Earnings per share – diluted	$ 0.27	$ 0.04

As of December 31, 2022 and December 31, 2021, the Company's potentially dilutive securities were redeemable convertible preferred stock and options to purchase common stock. Based on the amounts outstanding as of the year ended December 31, 2022 and December 31, 2021, the Company excluded the
following potential common shares from the computation of diluted net loss per share because including them would have had an anti-dilutive effect:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Performance-based options outstanding	2,340,000	2,340,000
Time-based options outstanding	614,000	614,000
Redeemable convertible preferred stock	—	20,370,377
Total	2,954,000	23,324,377

NOTE 15 — SUBSEQUENT EVENTS

The Company has evaluated all events occurring through March 31, 2023, the date on which these consolidated financial statements were issued, and during which time, nothing has occurred outside the normal course of business operation that would require disclosure, except for the following.

On February 13, 2023, the Company entered into a merger agreement (the “Merger Agreement”) with ROC Energy Acquisition Corp (“ROC”), a special purpose acquisition company, and ROC Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of ROC (“Merger Sub”). Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company with the Company surviving the merger (the “Merger”). As a result of the Merger, the Company will become a wholly-owned subsidiary of ROC, with the stockholders of the Company becoming stockholders of ROC. The transaction will be a combination of cash and equity consideration.

ROC ENERGY ACQUISITION CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current assets		
Cash	$ 7,481	$ 207,915
Prepaid insurance	127,368	170,503
Prepaid income taxes	—	4,527
Total Current Assets	134,849	382,945
Cash and marketable securities held in Trust Account	217,776,175	213,475,172
TOTAL ASSETS	**$ 217,911,024**	**$ 213,858,117**
LIABILITIES, COMMON STOCK SUBJECT TO POSSIBLE REDEMPTION, AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	$ 2,078,927	$ 482,828
Income taxes payable	545,056	—
Working Capital Loan	120,000	—
Promissory note – related party	4,140,000	2,070,000
Deferred tax liability	—	91,572
Total Liabilities	**6,883,983**	**2,644,400**
Commitments and contingencies		
Common stock subject to possible redemption; 20,700,000 shares at $10.48 and $10.30 per share redemption value at March 31, 2023 and December 31, 2022, respectively	216,976,544	213,183,552
Stockholders' Deficit		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued or outstanding at March 31, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value; 100,000,000 shares authorized; 6,151,000 shares issued and outstanding (excluding 20,700,000 shares subject to possible redemption) at March 31, 2023 and December 31, 2022	615	615
Additional paid-in capital	—	—
Accumulated deficit	(5,950,118)	(1,970,450)
Total Stockholders' Deficit	**(5,949,503)**	**(1,969,835)**
TOTAL LIABILITIES, COMMON STOCK SUBJECT TO POSSIBLE REDEMPTION, AND STOCKHOLDERS' DEFICIT	**$ 217,911,024**	**$ 213,858,117**

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

ROC ENERGY ACQUISITION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2023	**2022**
General and administrative expenses	$ 1,959,668	$ 289,327
Loss from operations	**(1,959,668)**	**(289,327)**
Other income:		
Interest earned on investments held in Trust Account	2,231,003	63,213
Other income	2,231,003	63,213
Income (loss) before provision for income taxes	271,335	(226,114)
Provision for income taxes	(458,011)	—
Net loss	**$ (186,676)**	**$ (226,114)**
Weighted average shares outstanding common stock, basic and diluted	26,851,000	26,851,000
Basic and diluted net loss per common stock	**$ (0.01)**	**$ (0.01)**

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

ROC ENERGY ACQUISITION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY
(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2023

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance - January 1, 2023	**6,151,000**	**$ 615**	**$ —**	**$(1,970,450)**	**$(1,969,835)**
Accretion of Common stock subject to redemption	—	—	—	(3,792,992)	(3,792,992)
Net loss	—	—	—	(186,676)	(186,676)
Balance - March 31, 2023 (unaudited)	**6,151,000**	**$ 615**	**$ —**	**$(5,950,118)**	**$(5,949,503)**

FOR THE THREE MONTHS ENDED MARCH 31, 2022

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance - January 1, 2022	**6,151,000**	**$ 615**	**$1,362,780**	**$ (235,380)**	**$ 1,128,015**
Net loss	—	—	—	(226,114)	(226,114)
Balance - March 31, 2022 (unaudited)	**6,151,000**	**$ 615**	**$1,362,780**	**$ (461,494)**	**$ 901,901**

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

ROC ENERGY ACQUISITION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2023	**2022**
Cash Flows from Operating Activities:		
Net loss	$ (186,676)	$ (226,114)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from investments held in Trust Account	(2,231,003)	(63,213)
Changes in operating assets and liabilities:		
Prepaid expenses	43,135	(489,137)
Prepaid income taxes	4,527	—
Accounts payable and accrued expenses	1,596,099	(13,793)
Deferred tax liability	(91,572)	—
Income taxes payable	545,056	—
Net cash used in operating activities	**(320,434)**	**(792,257)**
Cash Flows from Investing Activities:		
Investment of cash into Trust Account	(2,070,000)	—
Net cash used in investing activities	**(2,070,000)**	**—**
Cash Flows from Financing Activities:		
Payment of offering costs	—	(11,300)
Proceeds from promissory note	120,000	—
Proceeds from promissory note – related party	2,070,000	—
Net cash provided by financing activities	**2,190,000**	**(11,300)**
Net Change in Cash	**(200,434)**	**(803,557)**
Cash – Beginning of Period	207,915	1,361,137
Cash – End of period	**$ 7,481**	**$ 557,580**

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

ROC ENERGY ACQUISITION CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023
(Unaudited)

NOTE 1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

ROC Energy Acquisition Corp. is a newly incorporated blank check company incorporated as a Delaware corporation on September 2, 2021. The ROC Energy Acquisition Corp. was incorporated for the purpose of entering into a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more target businesses (the “Business Combination”).

ROC Energy Acquisition Corp. has a wholly owned subsidiary. ROC Merger Sub, Inc (“Merger Sub”), a Delaware corporation, which was formed on January 17, 2023. ROC Energy Acquisition Corp. and its subsidiary are collectively referred to as “the Company”.

As of March 31, 2023, the Company had not commenced any operations. All activity for the period from September 2, 2021 (inception) through March 31, 2023 relates to the Company’s formation and the initial public offering (“Initial Public Offering”), which is described below, and, subsequent to the Initial Public Offering, identifying a target company for a Business Combination. The Company will not generate any operating revenues until after the completion of its initial Business Combination, at the earliest. The Company generates non-operating income in the form of interest income from the proceeds derived from the Initial Public Offering. The Company has selected December 31 as its fiscal year end.

On February 13, 2023, the Company entered into an agreement and plan of merger (as it may be amended, supplemented or otherwise modified from time to time, the “Merger Agreement”) with Merger Sub, and Drilling Tools International Holdings, Inc., a Delaware corporation (“Drilling Tools”).

The registration statements for the Company’s Initial Public Offering were declared effective on December 1, 2021. On December 6, 2021, the Company consummated the Initial Public Offering of 18,000,000 units (the “Units” and, with respect to the shares of common stock included in the Units sold, the “Public Shares”), at $10.00 per Unit, generating gross proceeds of $180,000,000, which is described in Note 3. An additional $1,800,000 was funded by proceeds of the sale of Private Placement Units (as defined below) to ROC Energy Holdings, LLC which resulted in a total balance in the Trust Account of $181,800,000.

Simultaneously with the closing of the Initial Public Offering, the Company consummated the sale of 715,000 Units (each, a “Private Placement Unit”) at a price of $10.00 per Private Placement Unit in a private placement to ROC Energy Holdings, LLC, a Delaware limited liability company (the “Sponsor”), generating gross proceeds of $7,150,000, which is described in Note 4.

On December 9, 2021, the underwriters fully exercised their over-allotment option, resulting in an additional 2,700,000 Units issued for an aggregate amount of $27,000,000. In connection with the underwriters’ full exercise of their over-allotment option, the Company also consummated the sale of an additional 81,000 Private Placement Units at $10.00 per Private Placement Unit, generating total proceeds of $27,810,000. A total of $27,270,000 was deposited into the Trust Account, bringing the aggregate proceeds held in the Trust Account to $209,070,000.

Transaction costs amounted to $4,012,520, consisting of $3,600,000 of underwriting fees and $412,520 of other offering costs. In addition, cash of $1,509,600 was held outside of the Trust Account and is available for the payment of offering costs and for working capital purposes. On December 9, 2021, due to the full exercise of the overallotment option by the underwriters, additional transaction costs amounted to $540,000, consisting of cash underwriting fees. A total of $27,270,000 was deposited into the Trust Account, bringing the aggregate proceeds held in the Trust Account to $209,070,000.

ROC ENERGY ACQUISITION CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023
(Unaudited)

Following the closing of the Initial Public Offering on December 6, 2021, and the over-allotment on December 9, 2021, an amount of $209,070,000 ($10.10 per Unit) from the net proceeds of the sale of the Units in the Initial Public Offering and the sale of the Private Placement Units was placed in a trust account (the "Trust Account"), and was invested in U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), with a maturity of 185 days or less, or in money market funds meeting certain conditions under Rule 2a-7 of the Investment Company Act, as determined by the Company, until the earlier of (i) the consummation of a Business Combination or (ii) the distribution of the funds in the Trust Account to the Company's stockholders, as described below.

The Company's management has broad discretion with respect to the specific application of the net proceeds of the Initial Public Offering and the sale of Private Placement Units, although substantially all of the net proceeds are intended to be applied generally toward consummating a Business Combination. There is no assurance that the Company will be able to complete a Business Combination successfully. The Company must complete one or more initial Business Combinations with one or more operating businesses or assets with a fair market value equal to at least 80% of the net assets held in the Trust Account (as defined below) (excluding taxes payable on the interest earned on the Trust Account). The Company will only complete a Business Combination if the post-transaction company owns or acquires 50% or more of the outstanding voting securities of the target or otherwise acquires a controlling interest in the target business sufficient for it not to be required to register as an investment company under the Investment Company Act.

The Company will provide the holders of the outstanding Public Shares (the "Public Stockholders") with the opportunity to redeem all or a portion of their Public Shares upon the completion of a Business Combination either (i) in connection with a stockholder meeting called to approve the Business Combination or (ii) by means of a tender offer. The decision as to whether the Company will seek stockholder approval of a Business Combination or conduct a tender offer will be made by the Company. The Public Stockholders will be entitled to redeem their Public Shares for a pro rata portion of the amount then in the Trust Account (initially anticipated to be $10.10 per Public Share, plus any pro rata interest then in the Trust Account, net of taxes payable).

The Company will only proceed with a Business Combination if the Company has net tangible assets of at least $5,000,001 either immediately prior to or upon consummation of the Business Combination and after payment of underwriters' fees and commissions and, if the Company seeks stockholder approval, a majority of the shares voted are voted in favor of the Business Combination. If a stockholder vote is not required by applicable law or stock exchange listing requirements and the Company does not decide to hold a stockholder vote for business or other reasons, the Company will, pursuant to its Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"), conduct the redemptions pursuant to the tender offer rules of the U.S. Securities and Exchange Commission ("SEC") and file tender offer documents with the SEC prior to completing a Business Combination. If, however, stockholder approval of the transaction is required by applicable law or stock exchange listing requirements, or the Company decides to obtain stockholder approval for business or other reasons, the Company will offer to redeem shares in conjunction with a proxy solicitation pursuant to the proxy rules and not pursuant to the tender offer rules. If the Company seeks stockholder approval in connection with a Business Combination, the Sponsor has agreed to vote its Founder Shares (as defined in Note 5), Private Placement Shares (as defined in Note 4) and any Public Shares purchased during or after the Initial Public Offering in favor of approving a Business Combination. Additionally, each Public Stockholder may elect to redeem their Public Shares without voting, and if they do vote, irrespective of whether they vote for or against the proposed transaction.

If the Company seeks stockholder approval of a Business Combination and it does not conduct redemptions pursuant to the tender offer rules, the Certificate of Incorporation will provide that a Public Stockholder, together with any affiliate of such stockholder or any other person with whom such stockholder is acting in concert or as a “group” (as defined under Section 13 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), will be restricted from redeeming its shares with respect to more than an aggregate of 20% of the Public Shares, without the prior consent of the Company.

The Sponsor has agreed (a) to waive its redemption rights with respect to the Founder Shares, Private Shares and Public Shares held by it in connection with the completion of a Business Combination and (b) not to propose an amendment to the Certificate of Incorporation (i) to modify the substance or timing of the Company’s obligation to allow redemptions in connection with a Business Combination or to redeem 100% of its Public Shares if the Company does not complete a Business Combination within the Combination Period (as defined below) or (ii) with respect to any other provision relating to stockholders’ rights or pre-Business Combination activity, unless the Company provides the Public Stockholders with the opportunity to redeem their Public Shares in conjunction with any such amendment.

On December 2, 2022, the Company extended the date by which the Company has to consummate a business combination from December 6, 2022 to March 6, 2023 (the “Extension”). The Extension is the first of two three-month extensions permitted under the Company’s governing documents. On December 6, 2022, the Company issued a promissory note, as described in Note 5, in the principal amount of $2,070,000 (the “Extension Payment”) to an affiliate of the Company’s Sponsor in connection with the Extension.

On March 3, 2023, the Company extended the date by which the Company has to consummate a business combination from March 6, 2023 to June 6, 2023 (the “Second Extension”). The Second Extension is the second of two three-month extensions permitted under the Company’s governing documents. On March 2, 2023, the Company issued a promissory note in the principal amount of $2,070,000 to an affiliate of the Company’s Sponsor in connection with the Second Extension.

The Company will have until June 6, 2023 (the “Combination Period”). If the Company has not completed a Business Combination within the Combination Period, the Company will (i) cease all operations except for the purpose of winding up, (ii) as promptly as reasonably possible but not more than ten business days thereafter, redeem the Public Shares, at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including interest (net of permitted withdrawals and less up to $100,000 of interest to pay dissolution expenses), divided by the number of then outstanding Public Shares, which redemption will completely extinguish Public Stockholders’ rights as stockholders (including the right to receive further liquidating distributions, if any), and (iii) as promptly as reasonably possible following such redemption, subject to the approval of the Company’s remaining stockholders and the Company’s board of directors, dissolve and liquidate, subject in each case to the Company’s obligations under Delaware law to provide for claims of creditors and the requirements of other applicable law.

The Sponsor has agreed to waive its liquidation rights with respect to the Founder Shares and Private Shares if the Company fails to complete a Business Combination within the Combination Period. However, if the Sponsor acquires Public Shares in or after the Initial Public Offering, such Public Shares will be entitled to liquidating distributions from the Trust Account if the Company fails to complete a Business Combination within the Combination Period. In the event of such distribution, it is possible that the per share value of the assets remaining available for distribution will be less than the Initial Public Offering price per Unit ($10.00).

In order to protect the amounts held in the Trust Account, the Sponsor has agreed to be liable to the Company if and to the extent any claims by a third party (other than the Company’s independent registered public accounting

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firm) for services rendered or products sold to the Company, or a prospective target business with which the Company has discussed entering into a transaction agreement, reduce the amount of funds in the Trust Account to below the lesser of (i) $10.10 per Public Share and (ii) such lesser amount per Public Share held in the Trust Account as of the date of the liquidation of the Trust Account due to reductions in the value of trust assets, in each case net of the amount of interest which may be withdrawn to pay taxes. This liability will not apply with respect to any claims by a third party who executed a waiver of any and all rights to seek access to the Trust Account nor will it apply to any claims under the Company's indemnity of the underwriters of the Initial Public Offering against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). Moreover, in the event that an executed waiver is deemed to be unenforceable against a third party, the Sponsor will not be responsible to the extent of any liability for such third-party claims. The Company will seek to reduce the possibility that the Sponsor will have to indemnify the Trust Account due to claims of creditors by endeavoring to have all vendors, service providers (except for the Company's independent registered accounting firm), prospective target businesses and other entities with which the Company does business, execute agreements with the Company waiving any right, title, interest or claim of any kind in or to monies held in the Trust Account.

Going Concern

In connection with the Company's assessment of going concern considerations in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") Subtopic 205-40, "Presentation of Financial Statements – Going Concern," the Company has until June 6, 2023, to consummate an initial Business Combination. It is uncertain that the Company will be able to consummate an initial Business Combination by this time. If an initial Business Combination is not consummated by this date, there will be a mandatory liquidation and subsequent dissolution of the Company. Additionally, the Company may not have sufficient liquidity to fund the working capital needs of the Company through one year from the issuance of these financial statements. Management has determined that the liquidity condition and mandatory liquidation, should an initial Business Combination not occur, and potential subsequent dissolution raises substantial doubt about the Company's ability to continue as a going concern. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be required to liquidate after June 6, 2023. Management intends to consummate a business combination prior to June 6, 2023.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X of the SEC. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a complete presentation of financial position, results of operations, or cash flows. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of a normal recurring nature, which are necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the period ended December 31, 2022, as filed with the SEC on

March 21, 2023. The interim results for the three months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023 or for any future periods.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Emerging Growth Company

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

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

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the condensed consolidated financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

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Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. The Company did not have any cash equivalents as of March 31, 2023 and December 31, 2022.

Investments Held in Trust Account

The Company classifies its U.S. Treasury and equivalent securities as held to maturity in accordance with ASC 320, "Investments – Debt and Equity Securities" Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost on the accompanying condensed consolidated balance sheets and adjusted for the amortization or accretion of premiums or discounts.

Offering Costs

The Company complies with the requirements of the ASC 340-10-S99-1 and SEC Staff Accounting Bulletin ("SAB") Topic 5A — "Expenses of Offering". Offering costs consist of legal, accounting, underwriting fees and other costs incurred through the Initial Public Offering date that are directly related to the Initial Public Offering. Offering costs were charged to temporary equity upon the completion of the Initial Public Offering.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes under ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. There were no unrecognized tax benefits and no amounts accrued for interest and penalties as of March 31, 2023 and December 31, 2022. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company has been subject to income tax examinations by major taxing authorities since inception.

Common Stock Subject to Possible Redemption

The Company accounts for its common stock subject to possible redemption in accordance with the guidance in ASC Topic 480, "Distinguishing Liabilities from Equity." Common stock subject to mandatory redemption is classified as a liability instrument and is measured at fair value. Conditionally redeemable common stock (including common stock that features redemption rights that are either within the control of the holder or subject

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to redemption upon the occurrence of uncertain events not solely within the Company's control) is classified in temporary equity. At all other times, common stock is classified as stockholders' equity. The Company's Public Shares feature certain redemption rights that are considered to be outside of the Company's control and subject to occurrence of uncertain future events. Accordingly, at March 31, 2023 and December 31, 2022, the Public Shares are presented at redemption value as temporary equity, outside of the stockholders' deficit section of the Company's condensed consolidated balance sheets. The Company recognizes changes in redemption value immediately as they occur and adjusts the carrying value of the common stock subject to possible redemption to equal the redemption value at the end of each reporting period. Increases or decreases in the carrying amount of redeemable common stock are affected by charges against additional paid-in capital and accumulated deficit. This method would view the end of the reporting period as if it were also the redemption date for the security.

At March 31, 2023 and December 31, 2022, the common stock subject to possible redemption reflected in the condensed consolidated balance sheets is reconciled in the following table:

Common stock subject to possible redemption as of December 31, 2021	**$ 209,070,000**
Plus:	
Remeasurement of carrying value to redemption value	4,113,552
Common stock subject to possible redemption as of December 31, 2022	**213,183,552**
Plus:	
Remeasurement of carrying value to redemption value	3,792,992
Common stock subject to possible redemption as of March 31, 2023	**$ 216,976,544**

Net Loss per Common Share

The Company complies with the accounting and disclosure requirements of FASB ASC Topic 260, "Earnings Per Share". Net loss per share of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. Accretion associated with the redeemable shares of common stock is excluded from earnings per share as the redemption value approximates fair value.

The calculation of diluted loss per share does not consider the effect of the Rights issued in connection with the (i) Initial Public Offering, and (ii) the private placement since the exchange of the Rights is contingent upon the occurrence of future events. The Rights may be exchanged for 2,070,000 shares of common stock in the aggregate. As of March 31, 2023 and 2022, the Company did not have any dilutive securities or other contracts that could, potentially, be exercised or converted into common stock and then share in the earnings of the Company. As a result, diluted net loss per share of common stock is the same as basic net loss per share of common stock for the periods presented.

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The following table reflects the calculation of basic and diluted net loss per share of common stock (in dollars, except per share amounts):

	For the Three Months Ended March 31,	
	2023 Common Stock	2022 Common Stock
Basic and diluted net loss per common stock		
Numerator:		
Allocation of net loss	$ (186,676)	$ (226,114)
Denominator:		
Basic and diluted weighted average shares outstanding	26,851,000	26,851,000
Basic and diluted net loss per common stock	$ (0.01)	$ (0.01)

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of a cash account in a financial institution, which, at times, may exceed the Federal Deposit Insurance Corporation coverage of $250,000. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Company's financial condition, results of operations, and cash flows.

Fair Value of Financial Instruments

The fair value of the Company's assets and liabilities, which qualify as financial instruments under ASC 820, "Fair Value Measurement," approximates the carrying amounts represented in the accompanying condensed consolidated balance sheets, primarily due to their short-term nature.

Recent Accounting Standards

In June 2016, FASB issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 also requires additional disclosures regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The Company adopted ASU 2016-13 on January 1, 2023. The adoption of ASU 2016-13 did not have a material impact on its condensed consolidated financial statements.

Besides the above, the Company's management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted. would have a material effect on the accompanying condensed consolidated financial statements.

NOTE 3. INITIAL PUBLIC OFFERING

Pursuant to the Initial Public Offering, the Company sold 18,000,000 Units at a price of $10.00 per Unit. Each Unit consists of one share of common stock and one right ("Public Right"). Each right entitles the holder thereof

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to receive one-tenth (1/10) of a share of common stock upon the consummation of a Business Combination (see Note 7). On December 9, 2021, the underwriter elected to fully exercise their over-allotment option, resulting in the sale of an additional 2,700,000 Units at a price of $10.00 per Unit. The aggregate number of Units sold was 20,700,000 for a total of $207,000,000.

NOTE 4. PRIVATE PLACEMENT

Simultaneously with the closing of the Initial Public Offering, the Sponsor purchased an aggregate of 715,000 Placement Units at a price of $10.00 per Placement Unit, for an aggregate purchase price of $7,150,000, in a private placement. Each Private Placement Unit consists of a share of common stock ("Private Placement Share") and one right ("Private Placement Right"). Each Private Placement Right entitles the holder thereof to receive one-tenth (1/10) of a share of common stock upon the consummation of a Business Combination. A portion of the proceeds from the sale of the Private Placement Units were added to the net proceeds from the Initial Public Offering held in the Trust Account. On December 9, 2021, the underwriter elected to fully exercise their over-allotment option, resulting in the sale of an additional 81,000 Private Placement Units at a price of $10.00 per Unit. A portion of the proceeds from the sale of the additional Private Placement Units was added to the net proceeds from the Initial Public Offering held in the Trust Account. If the Company does not complete a Business Combination within the Combination Period, the proceeds from the sale of the Private Placement Units held in the Trust Account will be used to fund the redemption of the Public Shares (subject to the requirements of applicable law) and the Private Placement Units.

NOTE 5. RELATED PARTY TRANSACTIONS

Founder Shares

On October 7, 2021, the Sponsor paid $25,000 to cover certain offering costs of the Company in consideration for 4,312,500 shares of common stock (the "Founder Shares"). In December 2021, the Company effected a stock dividend of 0.2 shares for each share of common stock outstanding, resulting in the Sponsor holding an aggregate number of 5,175,000 Founder Shares. The Founder Shares include an aggregate of up to 675,000 shares subject to forfeiture to the extent that the underwriters' over-allotment option is not exercised in full or in part, so that the number of Founder Shares will equal 20% of the Company's issued and outstanding shares after the Initial Public Offering (assuming the Sponsor does not purchase any Public Shares in the Initial Public Offering and excluding the Representative Shares and Private Shares). As a result of the underwriters' election to fully exercise their over-allotment option on December 9, 2021, no Founder Shares are currently subject to forfeiture.

The Sponsor has agreed, subject to certain limited exceptions, not to transfer, assign or sell any of the Founder Shares until (1) with respect to 50% of the Founder Shares, the earlier of one year after the completion of a Business Combination and the date on which the closing price of the common stock equals or exceeds $12.50 per share (as adjusted for share sub-divisions, share dividends, rights issuances, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing after a Business Combination and (2) with respect to the remaining 50% of the Founder Shares, one year after the completion of a Business Combination, or earlier, in either case, if, subsequent to a Business Combination, the Company completes a liquidation, merger, share exchange or other similar transaction which results in all of the Company's stockholders having the right to exchange their common stock for cash, securities or other property.

Administrative Support Agreement

The Company entered into an agreement, commencing on December 1, 2021, through the earlier of the Company's consummation of a Business Combination and its liquidation, to pay Fifth Partners, LLC, an affiliate

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of the Sponsor, a total of $13,000 per month for general and administrative services including office space, utilities and secretarial support. For the three months ended March 31, 2023 and 2022, the Company incurred $39,000 and $39,000 in fees for these services, respectively. As of March 31, 2023 and December 31, 2022, there was $13,000 included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

Promissory Notes — Related Parties

On September 2, 2021, the Sponsor issued an unsecured promissory note to the Company (the “Promissory Note”), pursuant to which the Company could borrow up to an aggregate principal amount of $300,000. The Promissory Note was non-interest bearing and payable on the earlier of September 30, 2022 or the consummation of the Initial Public Offering. As of December 6, 2021, the Company had $135,463 outstanding under the Promissory Note. There was no amount outstanding on the Promissory Note as of March 31, 2023 and December 31, 2022. The Promissory Note is no longer available to be drawn upon.

On December 6, 2022, the Company issued a promissory note (the “Note”) in the principal amount of $2,070,000 (the “Extension Payment”) to an affiliate of the Company’s Sponsor (the “Payee”) in connection with the Extension (as defined in Note 1). The Note bears no interest and is due and payable upon the earlier to occur of (i) the date on which the Company’s initial business combination is consummated and (ii) the liquidation of the Company on or before June 6, 2023 or such later liquidation date as may be approved by the Company’s stockholders. At the election of the Payee, the unpaid principal amount of the Note may be converted into units of the Company (the “Conversion Units”) with the total Conversion Units so issued will be equal to (x) the portion of the principal amount of the Note being converted divided by (y) the conversion price of ten dollars ($10.00), rounded up to the nearest whole number of units.

On March 2, 2023, the Company issued a promissory note in the principal amount of $2,070,000 to an affiliate of the Company’s Sponsor in connection with the Second Extension. The Note bears no interest and is due and payable upon the earlier to occur of (i) the date on which the Company’s initial business combination is consummated and (ii) the liquidation of the Company on or before June 6, 2023 or such later liquidation date as may be approved by the Company’s stockholders. At the election of the Payee, the unpaid principal amount of the Note may be converted into units of the Company (the “Conversion Units”) with the total Conversion Units so issued will be equal to: (x) the portion of the principal amount of the Note being converted divided by (y) the conversion price of ten dollars ($10.00), rounded up to the nearest whole number of units.

On March 7, 2023, the Sponsor entered into a letter agreement, where the conversion option was modified to convert the unpaid principal amount of the Notes into that number of shares as prescribed by the subscription agreement terms as described below. The modification was analyzed under ASC 470, “Debt—Debt with Conversion and Other Options.” The convertible note did not require bifurcation both before and after the modification under ASC-815. The change to the conversion option is more representative of a modification of a substantive feature and not an elimination and addition of a substantive conversion feature. As such the modification does not require accounting for as a debt extinguishment.

As of March 31, 2023 and December 31, 2022, the Company has $4,140,000 and $2,070,000 outstanding balance under the Note in relation to extension funds, respectively.

Related Party Loans

In addition, in order to fund working capital deficiencies or finance transaction costs in connection with a Business Combination, the Sponsor or an affiliate of the Sponsor, or certain of the Company’s officers and

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directors may, but are not obligated to, loan the Company funds as may be required ("Working Capital Loans"). If the Company completes a Business Combination, the Company may repay the Working Capital Loans out of the proceeds of the Trust Account released to the Company. Otherwise, the Working Capital Loans may be repaid only out of funds held outside the Trust Account. In the event that a Business Combination does not close, the Company may use a portion of proceeds held outside the Trust Account to repay the Working Capital Loans but no proceeds held in the Trust Account would be used to repay the Working Capital Loans. The Working Capital Loans would either be repaid upon consummation of a Business Combination, without interest, or, at the lender's discretion, up to $1,500,000 of such Working Capital Loans may be convertible into Units upon consummation of the Business Combination at a price of $10.00 per unit. The Units would be identical to the Placement Units. Except for the foregoing, the terms of such Working Capital Loans, if any, have not been determined and no written agreements exist with respect to such loans.

On January 16, 2023, the Company issued a promissory note (the "Working Capital Loan") in the principal amount of up $800,000 to an affiliate of the Company's Sponsor (the "Payee"), for working capital. The Working Capital Loan bears no interest and is due and payable upon the earlier to occur of (i) the date on which the Company's initial business combination is consummated and (ii) the liquidation of the Company on or before March 6, 2023 (unless extended to June 6, 2023) or such later liquidation date as may be approved by the Company's stockholders. At the election of the Payee, the unpaid principal amount of the Working Capital Loan may be converted into units of the Company (the "Conversion Units") with the total Conversion Units so issued will be equal to (x) the portion of the principal amount of the Working Capital Loan being converted divided by (y) the conversion price of ten dollars ($10.00), rounded up to the nearest whole number of units. As of March 31, 2023, the Company has a $120,000 outstanding balance under the Working Capital Loan.

Subscription Agreement

The Company executed a Subscription Agreement (the "Subscription Agreement") dated March 7, 2023, with the Sponsor and its affiliates (the "Subscribers"), whereby the Subscribers, subscribed for and will purchase, and the Company will issue and sell, at the closing of the Business Combination, 1,485,149 shares of Common Stock for a total consideration $15,000,000. The Subscribers are entitled to up to an additional 2,347,419 shares of Common Stock if the share price falls below $10.10.

NOTE 6. COMMITMENTS

Risks and Uncertainties

Management continues to evaluate the impact of the COVID-19 pandemic and Russia-Ukraine war on the industry and has concluded that while it is reasonably possible that the virus and the war in Ukraine could have a negative effect on the Company's financial position, results of its operations and/or search for a target company, the specific impact is not readily determinable as of the date of these condensed consolidated financial statements. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Inflation Reduction Act of 2022

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IR Act") was signed into federal law. The IR Act provides for, among other things, a new U.S. federal 1% excise tax on certain repurchases of stock by publicly traded U.S. domestic corporations and certain U.S. domestic subsidiaries of publicly traded foreign corporations

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occurring on or after January 1, 2023. The excise tax is imposed on the repurchasing corporation itself, not its shareholders from which shares are repurchased. The amount of the excise tax is generally 1% of the fair market value of the shares repurchased at the time of the repurchase. However, for purposes of calculating the excise tax, repurchasing corporations are permitted to net the fair market value of certain new stock issuances against the fair market value of stock repurchases during the same taxable year. In addition, certain exceptions apply to the excise tax. The U.S. Department of the Treasury (the "Treasury") has been given authority to provide regulations and other guidance to carry out and prevent the abuse or avoidance of the excise tax.

Any redemption or other repurchase that occurs after December 31, 2022, in connection with a Business Combination, extension vote or otherwise, may be subject to the excise tax. Whether and to what extent the Company would be subject to the excise tax in connection with a Business Combination, extension vote or otherwise would depend on a number of factors, including (i) the fair market value of the redemptions and repurchases in connection with the Business Combination, extension or otherwise, (ii) the structure of a Business Combination, (iii) the nature and amount of any "PIPE" or other equity issuances in connection with a Business Combination (or otherwise issued not in connection with a Business Combination but issued within the same taxable year of a Business Combination) and (iv) the content of regulations and other guidance from the Treasury. In addition, because the excise tax would be payable by the Company and not by the redeeming holder, the mechanics of any required payment of the excise tax have not been determined. The foregoing could cause a reduction in the cash available on hand to complete a Business Combination and in the Company's ability to complete a Business Combination.

Registration Rights

Pursuant to a registration rights agreement entered into on December 1, 2021, the holders of the Founder Shares, Representative Shares, Placement Units (including securities contained therein) and Units (including securities contained therein) that may be issued upon conversion of Working Capital Loans and loans that may be made by the Sponsor or its designee in connection with the extension of the Combination Period are entitled to registration rights. The holders of a majority of these securities are entitled to make up to two demands that the Company register such securities. Notwithstanding anything to the contrary, the underwriters may only make a demand on one occasion and only during the 5-year period beginning on the effective date of the registration statement of which the Initial Public Offering forms a part. The holders of the majority of the Founder Shares can elect to exercise these registration rights at any time commencing three months prior to the date on which these shares of common stock are to be released from escrow. The holders of a majority of the Units or shares issued in payment of working capital loans made to the Company can elect to exercise these registration rights at any time after it consummates a Business Combination. In addition, the holders have certain "piggy-back" registration rights with respect to registration statements filed subsequent to the Company's consummation of initial Business Combination provided, however, that the underwriters may participate in a "piggy-back" registration only during the 7-year period beginning on the effective date of the registration statement of which the Initial Public Offering forms a part. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

Underwriting Agreement

The Company had granted the underwriters a 45-day option from the date of Initial Public Offering to purchase up to 2,700,000 additional Units to cover over-allotments, if any, at the Initial Public Offering price less the underwriting discounts and commissions.

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On December 9, 2021, the underwriters elected to fully exercise the over-allotment option to purchase an additional 2,700,000 Public Shares at a price of $10.00 per Public Share.

Representative Shares

The Company had issued to EarlyBirdCapital, underwriter, 180,000 representative founder (the “Representative Shares”) shares for nominal consideration, subsequently paid in October 2021. The holders of the Representative Shares have agreed not to transfer, assign or sell any such shares without the Company’s prior consent until 30 days after the completion of the Business Combination. In addition, the holders of the Representative Shares have agreed (i) to waive their redemption rights (or right to participate in any tender offer) with respect to such shares in connection with the completion of the Business Combination and (ii) to waive their rights to liquidating distributions from the Trust Account with respect to such shares if the Company fails to complete the Business Combination within the Combination Period.

The Representative Shares have been deemed compensation by Financial Industry Regulatory Authority (“FINRA”) and are therefore subject to a lock-up for a period of 180 days immediately following the date of the effectiveness of the registration statement of which the Initial Public Offering forms a part pursuant to Rule 5110I(1) of the FINRA Manual. Pursuant to FINRA Rule 5110(e)(1), these securities will not be sold during the offering, or sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the economic disposition of the securities by any person for a period of 180 days immediately following the effective date of the registration statement, except to any underwriter and selected dealer participating in the offering and their bona fide officers or partners, provided that all securities so transferred remain subject to the lockup restriction above for the remainder of the time period.

The Company have granted the holders of these shares the registration rights. In compliance with FINRA Rule 5110(g)(8), the registration rights granted to the underwriters are limited to demand and “piggy back” rights for periods of five and seven years, respectively, from the effective date of the Initial Public Offering with respect to the registration under the Securities Act and demand rights may only be exercised on one occasion.

Business Combination Marketing Agreement

The Company engaged EarlyBirdCapital as an advisor in connection with the Business Combination to assist in holding meetings with the stockholders to discuss the potential Business Combination and the target business’ attributes, introduce the Company to potential investors that are interested in purchasing securities in connection with the Business Combination, assist in obtaining stockholder approval for the Business Combination and assist with press releases and public filings in connection with the Business Combination. The Company will pay EarlyBirdCapital a cash fee for such services upon the consummation of the Business Combination in an amount equal to 3.5% of the gross proceeds of the Initial Public Offering (exclusive of any applicable finders’ fees which might become payable). In addition, the Company will pay EarlyBirdCapital a cash fee in an amount equal to 1.0% of the total consideration payable to the target in the Business Combination if EarlyBirdCapital introduces the target business with whom the Company completes the Business Combination; provided that the foregoing fee will not be paid prior to the date that is 60 days from the effective date of the registration statement, unless such payment would not be deemed underwriters’ compensation in connection with the Initial Public Offering pursuant to FINRA Rule 5110.

In connection with the Merger Agreement on February 13, 2023, the Company has amended EarlyBirdCapital’s fees under the Business Combination Marketing Agreement from (i) 3.5% of the total gross proceeds raised in the initial public offering and (ii) 1% of the total consideration of an initial business combination transaction to a flat cash fee of $2,000,000.

Merger Agreement

On February 13, 2023, the Company (after the Effective Time, "PubCo") entered into the Merger Agreement with Merger Sub, and Drilling Tools. Pursuant to the terms of the Merger Agreement, a business combination between the Company and Drilling Tools will be effected through the merger of Merger Sub with and into Drilling Tools, with Drilling Tools surviving the merger as a wholly owned subsidiary of PubCo (the "Merger," and together with the other transactions contemplated by the Merger Agreement and the other agreements contemplated thereby, the "Transactions"). The board of directors of the Company unanimously (i) approved and declared advisable the Merger Agreement and the Transactions and (ii) resolved to recommend the approval and adoption of the Merger Agreement and the Transactions by the stockholders of the Company.

The material terms and conditions of the Merger Agreement and the related ancillary agreements, including those briefly explained below, were previously disclosed in the Company's Current Report on Form 8-K filed by the Company with the SEC on February 14, 2023.

Support Agreements

In connection with the execution of the Merger Agreement, the Sponsor, entered into a support agreement with Drilling Tools and the Company (the "Sponsor Support Agreement") pursuant to which the Sponsor has agreed to vote all Subject Shares (as therein defined) beneficially owned by it in favor of the Merger. Further, pursuant to the Sponsor Support Agreement, in order to induce Drilling Tools to enter into the Merger Agreement, the Sponsor agrees to forfeit up to 50% of the Founder Shares (as therein defined) to the Company for reissuance to investors in connection with the Equity Financing and (b) to split the remainder of the Founder Shares with Drilling Tools stockholders as set forth in the Sponsor Support Agreement.

Amended and Restated Registration Rights Agreement

In connection with the Transactions, the Company and certain stockholders of each of the Company and Drilling Tools who will receive PubCo Common Stock pursuant to the Merger Agreement have entered into an amended and restated registration rights agreement ("Registration Rights Agreement"), to become effective upon the Closing.

Lock-up Agreement and Arrangements

Prior to the consummation of the Transactions, certain Drilling Tools stockholders, including all existing stockholders of Drilling Tools holding greater than 5% of its share capital, will enter into a lock-up agreement (the "Drilling Tools Stockholder Lock-up Agreement") with the Company. In addition, the Company and Sponsor intend to undertake an amendment and restatement to the Stock Escrow Agreement, dated December 1, 2021, by and among the Company, Sponsor and the escrow agent named therein (the "Escrow Agreement" and, when amended and restated, the "Amended and Restated Escrow Agreement") to align Sponsor's restrictions on transfer with respect to all shares of Common Stock it owns (which will be PubCo Common Stock after the Closing), including the Founder Shares, to those described below. Under the terms of the Drilling Tools Stockholder Lock-up Agreement, and under the terms of the Sponsor lock-up provisions to be contained in the Amended and Restated Escrow Agreement, such Drilling Tools stockholders and Sponsor, will each agree,

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subject to certain customary exceptions, that during the period that is the earlier of (i) the date that is 180 days following the Closing Date, and (ii) the date specified in a written waiver of the provisions of the Drilling Tools Stockholder Lock-up Agreement duly executed by Sponsor and the Company, not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Lock-up Shares, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such Lock-up Shares (whether any of these transactions are to be settled by delivery of any such Lock-up Shares, in cash or otherwise), publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, or engage in any "short sales" as defined in Rule 200 promulgated under Regulation SHO under the Exchange Act, or any type of direct and indirect stock pledges, forward sale contracts, options, puts, calls, swaps and similar arrangements (including on a total return basis), or sales or other transactions through non-US broker dealers or foreign regulated brokers. As used herein, "Lock-up Shares" means, (a) in the case of Drilling Tools Stockholders, those shares of PubCo Common Stock received by such Drilling Tools stockholder (the "Holder") as merger consideration in the Transactions and beneficially owned by such Drilling Tools Stockholder as specified on the signature block of the Drilling Tools Stockholder Lock-up Agreement, and (b) in the case of Sponsor, the Escrow Shares (as defined in the Escrow Agreement).

Director Nomination Agreement

In connection with the Closing, the Company and the Sponsor will enter into a director nomination agreement (the "Director Nomination Agreement") pursuant to which PubCo agrees to nominate an individual designated by the Sponsor to serve on the board of directors of the PubCo as a Class III director of PubCo, effective as of immediately after the Effective Time.

Registration Statement on Form S-4

The Company initially filed a Registration Statement on Form S-4, as amended, with the SEC on February 14, 2023 along with subsequent amendments on April 3, 2023, April 24, 2023, May 8, 2023, and May 11, 2023, in connection with the registration under the Securities Act of the shares of the Company's common stock to be issued under the Merger Agreement as the Merger Consideration. This Registration Statement was declared effective by the SEC on May 12, 2023.

NOTE 7. STOCKHOLDERS' DEFICIT

Preferred Stock — The Company is authorized to issue 1,000,000 shares of preferred stock with a par value of $0.0001 per share with such designations, voting and other rights and preferences as may be determined from time to time by the Company's board of directors. At March 31, 2023 and December 31, 2022, there were no shares of preferred stock issued or outstanding.

Common Stock — The Company is authorized to issue 100,000,000 shares of common stock with a par value of $0.0001 per share. Holders of common stock are entitled to one vote for each share. At March 31, 2023 and December 31, 2022, there were 6,151,000 shares of common stock issued and outstanding, excluding 20,700,000 shares subject to redemption, of which an aggregate of 675,000 shares are no longer subject to forfeiture due to the underwriters' over-allotment option being fully exercised, so that the number of shares of common stock will equal 20% of the Company's issued and outstanding common stock after the Initial Public Offering (excluding the Representative Shares and Private Shares).

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Holders of record of the Company's common stock are entitled to one vote for each share held on all matters to be voted on by stockholders. In connection with any vote held to approve the Company's Business Combination, the insiders, officers and directors, have agreed to vote their respective shares of common stock owned by them immediately prior to this offering, including both the Founder Shares and the Private Shares, and any Public shares acquired in the open market, in favor of the initial Business Combination.

The Company will consummate the Business Combination only if Public Stockholders do not exercise redemption rights in an amount that would cause the net tangible assets to be less than $5,000,001 either immediately prior to or upon consummation of the Business Combination and after payment of underwriters' fees and commissions and a majority of the outstanding shares of common stock voted are voted in favor of the Business Combination.

Pursuant to the Certificate of Incorporation, if the Company does not consummate the Business Combination within the Combination Period, it will (i) cease all operations except for the purpose of winding up, (ii) as promptly as reasonably possible but not more than ten business days thereafter, redeem 100% of the outstanding Public Shares, which redemption will completely extinguish Public Stockholders' rights as stockholders (including the right to receive further liquidation distributions, if any), subject to applicable law, and (iii) as promptly as reasonably possible following such redemption, subject to the approval of the remaining stockholders and the board of directors, dissolve and liquidate, subject (in the case of (ii) and (iii) above) to the Company's obligations under Delaware law to provide for claims of creditors and the requirements of other applicable law. The Company's insiders have agreed to waive their rights to share in any distribution with respect to their Founder Shares and Private Shares.

The stockholders have no redemption, pre-emptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the shares of common stock, except that Public Stockholders have the right to sell their shares to the Company in any tender offer or have their shares of common stock redeemed to cash equal to their pro rata share of the Trust Account if they vote on the proposed Business Combination and the Business Combination is completed. If the Company hold a stockholder vote to amend any provisions of the Certificate of Incorporation relating to stockholder's rights or pre-Business Combination activity (including the substance or timing within which the Company has to complete a Business Combination), the Company will provide the Public Stockholders with the opportunity to redeem their shares of common stock upon approval of any such amendment at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including interest earned on the funds held in the Trust Account and not previously released to the Company to pay the franchise and income taxes, divided by the number of then outstanding Public Shares, in connection with any such vote. In either of such events, redeeming stockholders would be paid their pro rata portion of the Trust Account promptly following consummation of the Business Combination or the approval of the amendment to the Certificate of Incorporation. If the Business Combination is not consummated or the amendment is not approved, stockholders will not be paid such amounts.

Rights — Each holder of a right will receive one-tenth (1/10) of one share of common stock upon consummation of a Business Combination, even if the holder of such right redeemed all shares held by it in connection with a Business Combination. No fractional shares will be issued upon exchange of the rights. No additional consideration will be required to be paid by a holder of rights in order to receive its additional shares upon consummation of a Business Combination as the consideration related thereto has been included in the Unit purchase price paid for by investors in the Initial Public Offering. If the Company enters into a definitive agreement for a Business Combination in which the Company will not be the surviving entity, the definitive agreement will provide for the holders of rights to receive the same per share consideration the holders of the

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common stock will receive in the transaction on an as-converted into common stock basis, and each holder of a right will be required to affirmatively convert its rights in order to receive the 1/10 of a share underlying each right (without paying any additional consideration) upon consummation of the Business Combination. The shares issuable upon exchange of the rights will be freely tradable (except to the extent held by affiliates of the Company).

If the Company is unable to complete a Business Combination within the Combination Period and the Company liquidates the funds held in the Trust Account, holders of rights will not receive any of such funds with respect to their rights, nor will they receive any distribution from the Company's assets held outside of the Trust Account with respect to such rights, and the rights will expire worthless. Further, there are no contractual penalties for failure to deliver securities to the holders of the rights upon consummation of a Business Combination. Additionally, in no event will the Company be required to net cash settle the rights. Accordingly, the rights may expire worthless.

NOTE 8. FAIR VALUE MEASUREMENTS

The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.

Level 3: Unobservable inputs based on assessment of the assumptions that market participants would use in pricing the asset or liability.

The Company classifies its U.S. Treasury and equivalent securities as held-to-maturity in accordance with ASC Topic 320, "Investments - Debt and Equity Securities." Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost on the accompanying condensed consolidated balance sheets and adjusted for the amortization or accretion of premiums or discounts.

At March 31, 2023, assets held in the Trust Account were comprised of $217,776,175 in mutual funds. During the three months ended March 31, 2023, the Company had no withdrawal of interest income from the Trust Account to pay franchise and income taxes.

At December 31, 2022, assets held in the Trust Account were comprised of $543,817 in mutual funds and $212,931,355 in U.S. Treasury securities.

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The following table presents information about the Company's assets that are measured at fair value on a recurring basis at March 31, 2023 and December 31, 2022 and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value. The gross holding gains and fair value of held-to-maturity securities at March 31, 2023 and December 31, 2022 are as follows:

	Held-To-Maturity	Level	Amortized Cost	Gross Holding Gain	Fair Value
March 31, 2023	Mutual Funds	1	$ 217,776,175	$ —	$ 217,776,175
December 31, 2022	U.S. Treasury Securities (Mature on 3/14/2023)	1	$ 212,931,355	$ 6,119	$ 212,937,474

NOTE 9. SUBSEQUENT EVENTS

The Company evaluated subsequent events and transactions that occurred after the condensed consolidated balance sheet date up to the date that the condensed consolidated financial statements were issued. Based upon this review,

other than the below, the Company did not identify any subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements.

On April 3, 2023, April 24, 2023, May 8, 2023 and May 11, 2023, the Company filed amendments to its Registration Statement on Form S-4. The Registration Statement was declared effective by the SEC on May 12, 2023.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
ROC Energy Acquisition Corp.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of ROC Energy Acquisition Corp. (the "Company") as of December 31, 2022 and 2021 and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for the year ended December 31, 2022 and for the period from September 2, 2021 (inception) through December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the year ended December 31, 2022 and the period from September 2, 2021 (inception) through December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, if the Company is unable to raise additional funds to alleviate liquidity needs and complete a business combination by June 6, 2023, then the Company will cease all operations except for the purpose of liquidating. The liquidity condition and date for mandatory liquidation and subsequent dissolution raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

/s/ WithumSmith+Brown, PC

We have served as the Company's auditor since 2021.

New York, New York
March 20, 2023
PCAOB ID Number 100

ROC ENERGY ACQUISITION CORP.
BALANCE SHEETS

	December 31, 2022	December 31, 2021
ASSETS		
Current assets		
Cash	$ 207,915	$ 1,361,137
Prepaid insurance	170,503	—
Prepaid income taxes	4,527	—
Total Current Assets	382,945	1,361,137
Cash and marketable securities held in Trust Account	213,475,172	209,086,874
TOTAL ASSETS	**$ 213,858,117**	**$ 210,448,011**
LIABILITIES, COMMON STOCK SUBJECT TO POSSIBLE REDEMPTION, AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 482,828	$ 238,696
Accrued offering costs	—	11,300
Promissory note – related party	2,070,000	—
Deferred tax liability	91,572	—
Total Liabilities	**2,644,400**	**249,996**
Commitments and contingencies		
Common stock subject to possible redemption 20,700,000 shares at $10.30 and $10.10 per share redemption value at December 31, 2022 and 2021, respectively	213,183,552	209,070,000
Stockholders' (Deficit) Equity		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.0001 par value; 100,000,000 shares authorized; 6,151,000 shares issued and outstanding (excluding 20,700,000 shares subject to possible redemption) at December 31, 2022 and 2021	615	615
Additional paid-in capital	—	1,362,780
Accumulated deficit	(1,970,450)	(235,380)
Total Stockholders' (Deficit) Equity	**(1,969,835)**	**1,128,015**
TOTAL LIABILITIES, COMMON STOCK SUBJECT TO POSSIBLE REDEMPTION, AND STOCKHOLDERS' (DEFICIT) EQUITY	**$ 213,858,117**	**$ 210,448,011**

The accompanying notes are an integral part of the financial statements.

ROC ENERGY ACQUISITION CORP.
STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2022	For the period from September 2, 2021 (inception) through December 31, 2021
General and administrative expenses	$ 1,281,902	$ 252,254
Loss from operations	**(1,281,902)**	**(252,254)**
Other income:		
Interest earned on investments held in Trust Account	2,843,649	16,874
Income before provision for income taxes	1,561,747	(235,380)
Provision for income taxes	(546,045)	—
Net income (loss)	**$ 1,015,702**	**$ (235,380)**
Weighted average shares outstanding common stock	26,851,000	9,182,858
Basic net income (loss) per common stock	**$ 0.04**	**$ (0.03)**

The accompanying notes are an integral part of the financial statements.

ROC ENERGY ACQUISITION CORP.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2022 AND
FOR THE PERIOD FROM SEPTEMBER 2, 2021 (INCEPTION)
THROUGH DECEMBER 31, 2021

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance – September 2, 2021 (inception)	—	$ —	$ —	$ —	$ —
Issuance of common stock to Sponsor	5,175,000	517	24,483	—	25,000
Issuance of Representative Shares	180,000	18	897	—	915
Sale of 796,000 Private Placement Units	796,000	80	7,959,920	—	7,960,000
Proceeds allocated to Public Rights	—	—	17,595,000	—	17,595,000
Accretion of Common stock subject to redemption	—	—	(24,217,520)	—	(24,217,520)
Net loss	—	—	—	(235,380)	(235,380)
Balance – December 31, 2021	**6,151,000**	**615**	**1,362,780**	**(235,380)**	**1,128,015**
Accretion of Common stock subject to redemption	—	—	(1,362,780)	(2,750,772)	(4,113,552)
Net income	—	—	—	1,015,702	1,015,702
Balance – December 31, 2022	**6,151,000**	**$ 615**	**$ —**	**$(1,970,450)**	**$ (1,969,835)**

The accompanying notes are an integral part of the financial statements.

ROC ENERGY ACQUISITION CORP.
STATEMENTS OF CASH FLOWS

	For the Year ended December 31, 2022	For the period from September 2, 2021 (inception) through December 31, 2021
Cash flows from operating activities:		
Net income (loss)	$ 1,015,702	$ (235,380)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Income from investments held in Trust Account	(2,843,649)	(16,874)
Changes in operating assets and liabilities:		
Prepaid expenses	(170,503)	—
Prepaid income taxes	(4,527)	—
Accounts payable and accrued expenses	244,132	239,254
Deferred tax liability	91,572	—
Net cash used in operating activities	**(1,667,273)**	**(13,000)**
Cash Flows from Investing Activities:		
Investment of cash in Trust Account	(2,070,000)	(209,070,000)
Cash withdrawn from Trust Account to pay franchise and income taxes	525,351	—
Net cash used in investing activities	**(1,544,649)**	**(209,070,000)**
Cash flows from financing activities:		
Proceeds from issuance of representative shares	—	15
Proceeds from sale of Units, net of underwriting discounts paid	—	202,860,000
Proceeds from sale of Private Placement Units	—	7,960,000
Proceeds from promissory note – related party	2,070,000	250
Repayment of promissory note – related party	—	(135,463)
Payment of offering costs	(11,300)	(240,665)
Net cash provided by financing activities	**2,058,700**	**210,444,137**
Net change in cash	**(1,153,222)**	**1,361,137**
Cash, beginning of the period	1,361,137	—
Cash, end of the period	**$ 207,915**	**$ 1,361,137**
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 459,000	$ —
Non-Cash financing activities:		
Offering costs included in accrued offering costs	$ —	$ 11,300
Offering costs paid by Sponsor in exchange for issuance of founder shares	$ —	$ 25,000
Issuance of Representative Shares	$ —	$ 900
Offering costs paid through promissory note	$ —	$ 134,655

The accompanying notes are an integral part of the financial statements.

NOTE 1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

ROC Energy Acquisition Corp. (the “Company”) is a newly incorporated blank check company incorporated as a Delaware corporation on September 2, 2021. The Company was incorporated for the purpose of entering into a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more target businesses (the “Business Combination”).

As of December 31, 2022, the Company had not commenced any operations. All activity for the period from September 2, 2021 (inception) through December 31, 2022 relates to the Company’s formation and the initial public offering (“Initial Public Offering”), which is described below, and, subsequent to the Initial Public Offering, identifying a target company for a Business Combination. The Company will not generate any operating revenues until after the completion of its initial Business Combination, at the earliest. The Company generates non-operating income in the form of interest income from the proceeds derived from the Initial Public Offering. The Company has selected December 31 as its fiscal year end.

The registration statements for the Company’s Initial Public Offering were declared effective on December 1, 2021. On December 6, 2021, the Company consummated the Initial Public Offering of 18,000,000 units (the “Units” and, with respect to the shares of common stock included in the Units sold, the “Public Shares”), at $10.00 per Unit, generating gross proceeds of $180,000,000, which is described in Note 3. An additional $1,800,000 was funded by proceeds of the sale of Private Placement Units (as defined below) to ROC Energy Holdings, LLC which resulted in a total balance in the Trust Account of $181,800,000.

Simultaneously with the closing of the Initial Public Offering, the Company consummated the sale of 715,000 Units (each, a “Private Placement Unit”) at a price of $10.00 per Private Placement Unit in a private placement to ROC Energy Holdings, LLC, a Delaware limited liability company (the “Sponsor”), generating gross proceeds of $7,150,000, which is described in Note 4.

On December 9, 2021, the underwriters fully exercised their over-allotment option, resulting in an additional 2,700,000 Units issued for an aggregate amount of $27,000,000. In connection with the underwriters’ full exercise of their over-allotment option, the Company also consummated the sale of an additional 81,000 Private Placement Units at $10.00 per Private Placement Unit, generating total proceeds of $27,810,000. A total of $27,270,000 was deposited into the Trust Account, bringing the aggregate proceeds held in the Trust Account to $209,070,000.

Transaction costs amounted to $4,012,520, consisting of $3,600,000 of underwriting fees and $412,520 of other offering costs. In addition, cash of $1,509,600 was held outside of the Trust Account and is available for the payment of offering costs and for working capital purposes. On December 9, 2021, due to the full exercise of the overallotment option by the underwriters, additional transaction costs amounted to $540,000, consisting of cash underwriting fees. A total of $27,270,000 was deposited into the Trust Account, bringing the aggregate proceeds held in the Trust Account to $209,070,000.

Following the closing of the Initial Public Offering on December 6, 2021, and the over-allotment on December 9, 2021, an amount of $209,070,000 ($10.10 per Unit) from the net proceeds of the sale of the Units in the Initial Public Offering and the sale of the Private Placement Units was placed in a trustaccount (the “Trust Account”), and was invested in U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act of 1940, as amended (the “Investment Company Act”), with a maturity of 185 days or less, or in money market funds meeting certain conditions under Rule 2a-7 of the Investment Company Act, as determined by the Company, until the earlier of (i) the consummation of a Business Combination or (ii) the distribution of the funds in the Trust Account to the Company’s stockholders, as described below.

The Company’s management has broad discretion with respect to the specific application of the net proceeds of the Initial Public Offering and the sale of Private Placement Units, although substantially all of the net proceeds are intended to be applied generally toward consummating a Business Combination. There is no assurance that the Company will be able to complete a Business Combination successfully. The Company must complete one or more initial Business Combinations with one or more operating businesses or assets with a fair market value equal to at least 80% of the net assets held in the Trust Account (as defined below) (excluding taxes payable on the interest earned on the Trust Account). The Company will only complete a Business Combination if the post-transaction company owns or acquires 50% or more of the outstanding voting securities of the target or otherwise acquires a controlling interest in the target business sufficient for it not to be required to register as an investment company under the Investment Company Act.

The Company will provide the holders of the outstanding Public Shares (the “Public Stockholders”) with the opportunity to redeem all or a portion of their Public Shares upon the completion of a Business Combination either (i) in connection with a stockholder meeting called to approve the Business Combination or (ii) by means of a tender offer. The decision as to whether the Company will seek stockholder approval of a Business Combination or conduct a tender offer will be made by the Company. The Public Stockholders will be entitled to redeem their Public Shares for a pro rata portion of the amount then in the Trust Account (initially anticipated to be $10.10 per Public Share, plus any pro rata interest then in the Trust Account, net of taxes payable).

The Company will only proceed with a Business Combination if the Company has net tangible assets of at least $5,000,001 either immediately prior to or upon consummation of the Business Combination and after payment of underwriters’ fees and commissions and, if the Company seeks stockholder approval, a majority of the shares voted are voted in favor of the Business Combination. If a stockholder vote is not required by applicable law or stock exchange listing requirements and the Company does not decide to hold a stockholder vote for business or other reasons, the Company will, pursuant to its Amended and Restated Certificate of Incorporation (the “Certificate of Incorporation”), conduct the redemptions pursuant to the tender offer rules of the U.S. Securities and Exchange Commission (“SEC”) and file tender offer documents with the SEC prior to completing a Business Combination. If, however, stockholder approval of the transaction is required by applicable law or stock exchange listing requirements, or the Company decides to obtain stockholder approval for business or other reasons, the Company will offer to redeem shares in conjunction with a proxy solicitation pursuant to the proxy rules and not pursuant to the tender offer rules. If the Company seeks stockholder approval in connection with a Business Combination, the Sponsor has agreed to vote its Founder Shares (as defined in Note 5), Private Shares (as defined in Note 4) and any Public Shares purchased during or after the Initial Public Offering in favor of approving a Business Combination. Additionally, each Public Stockholder may elect to redeem their Public Shares without voting, and if they do vote, irrespective of whether they vote for or against the proposed transaction.

If the Company seeks stockholder approval of a Business Combination and it does not conduct redemptions pursuant to the tender offer rules, the Certificate of Incorporation will provide that a Public Stockholder, together with any affiliate of such stockholder or any other person with whom such stockholder is acting in concert or as a “group” (as defined under Section 13 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), will be restricted from redeeming its shares with respect to more than an aggregate of 20% of the Public Shares, without the prior consent of the Company.

The Sponsor has agreed (a) to waive its redemption rights with respect to the Founder Shares, Private Shares and Public Shares held by it in connection with the completion of a Business Combination and (b) not to propose an amendment to the Certificate of Incorporation (i) to modify the substance or timing of the Company’s obligation to allow redemptions in connection with a Business Combination or to redeem 100% of its Public Shares if the Company does not complete a Business Combination within the Combination Period (as defined below) or (ii) with respect to any other provision relating to stockholders’ rights or pre-Business Combination activity, unless the Company provides the Public Stockholders with the opportunity to redeem their Public Shares in conjunction with any such amendment.

The Company will have until December 6, 2022, 12 months from the closing of the Initial Public Offering to complete a Business Combination (or until June 6, 2023, 18 months from the closing of the Initial Public

Offering if the Company extends the period of time to consummate a Business Combination in full) (the “Combination Period”). If the Company has not completed a Business Combination within the Combination Period, the Company will (i) cease all operations except for the purpose of winding up, (ii) as promptly as reasonably possible but not more than ten business days thereafter, redeem the Public Shares, at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including interest (net of permitted withdrawals and less up to $100,000 of interest to pay dissolution expenses), divided by the number of then outstanding Public Shares, which redemption will completely extinguish Public Stockholders’ rights as stockholders (including the right to receive further liquidating distributions, if any), and (iii) as promptly as reasonably possible following such redemption, subject to the approval of the Company’s remaining stockholders and the Company’s board of directors, dissolve and liquidate, subject in each case to the Company’s obligations under Delaware law to provide for claims of creditors and the requirements of other applicable law.

If the Company anticipates that it may not be able to consummate the Business Combination by December 6, 2022, the Company may, by resolution of its board if requested by the Sponsor, extend the period of time to consummate a Business Combination up to two times, each by an additional three months (for a total of up to 18 months or until June 6, 2023, to complete a Business Combination), subject to the Sponsor depositing additional funds into the Trust Account. Pursuant to the terms of the Certificate of Incorporation and the trust agreement entered into between the Company and Continental Stock Transfer & Trust Company, in order for the time available for the Company to consummate the Business Combination to be extended, the Sponsor or its affiliates or designees, upon five days advance notice prior to the applicable deadline, deposit $2,070,000 ($0.10 per unit), on or prior to the date of the applicable deadline, for each of the available three month extensions providing a total possible Business Combination period of 18 months at a total payment value of $4,140,000 ($0.20 per unit). Any such payments would be made in the form of non-interest bearing loans. If the Company completes the Business Combination, the Company, at the option of the Sponsor, repay such loaned amounts out of the proceeds of the Trust Account released to the Company or convert a portion or all of the total loan amount into Units at a price of $10.00 per Unit, which Units will be identical to the Private Placement Units. If the Company does not complete a Business Combination, the Company will repay such loans only from funds held outside of the Trust Account. The stockholders will not be entitled to vote or redeem their shares in connection with any such extension.

On December 2, 2022, the Company extended the date by which the Company has to consummate a business combination from December 6, 2022 to March 6, 2023 (the “Extension”). The Extension is the first of two three-month extensions permitted under the Company’s governing documents. On December 6, 2022, the Company issued a promissory note, as described in Note 5, in the principal amount of $2,070,000 (the “Extension Payment”) to an affiliate of the Company’s Sponsor in connection with the Extension.

On March 3, 2023, the Company extended the date by which the Company has to consummate a business combination from March 6, 2023 to June 6, 2023 (the “Second Extension”). The Second Extension is the second of two three-month extensions permitted under the Company’s governing documents. On March 2, 2023, the Company issued a promissory note in the principal amount of $2,070,000 to an affiliate of the Company’s Sponsor in connection with the Second Extension.

The Sponsor has agreed to waive its liquidation rights with respect to the Founder Shares and Private Shares if the Company fails to complete a Business Combination within the Combination Period. However, if the Sponsor acquires Public Shares in or after the Initial Public Offering, such Public Shares will be entitled to liquidating distributions from the Trust Account if the Company fails to complete a Business Combination within the Combination Period. In the event of such distribution, it is possible that the per share value of the assets remaining available for distribution will be less than the Initial Public Offering price per Unit ($10.00).

In order to protect the amounts held in the Trust Account, the Sponsor has agreed to be liable to the Company if and to the extent any claims by a third party (other than the Company’s independent registered public accounting firm) for services rendered or products sold to the Company, or a prospective target business with which the Company has discussed entering into a transaction agreement, reduce the amount of funds in the Trust Account to below the lesser of (i) $10.10 per Public Share and (ii) such lesser amount per Public Share held in the Trust Account as of the date of the liquidation of the Trust Account due to reductions in the value of trust assets, in each case net of the amount of interest which may be withdrawn to pay taxes. This liability will not apply with respect to any claims by a third party who executed a waiver of any and all rights to seek access to the Trust Account nor will it apply to any claims under the Company's indemnity of the underwriters of the Initial Public Offering against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). Moreover, in the event that an executed waiver is deemed to be unenforceable against a third party, the Sponsor will not be responsible to the extent of any liability for such third-party claims. The Company will seek to reduce the possibility that the Sponsor will have to indemnify the Trust Account due to claims of creditors by endeavoring to have all vendors, service providers (except for the Company's independent registered accounting firm), prospective target businesses and other entities with which the Company does business, execute agreements with the Company waiving any right, title, interest or claim of any kind in or to monies held in the Trust Account.

Going Concern

In connection with the Company's assessment of going concern considerations in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") Subtopic 205-40, "Presentation of Financial Statements — Going Concern," the Company has until June 6, 2023, to consummate an initial Business Combination. It is uncertain that the Company will be able to consummate an initial Business Combination by this time. If an initial Business Combination is not consummated by this date, there will be a mandatory liquidation and subsequent dissolution of the Company. Additionally, the Company may not have sufficient liquidity to fund the working capital needs of the Company through one year from the issuance of these financial statements. Management has determined that the liquidity condition and mandatory liquidation, should an initial Business Combination not occur, and potential subsequent dissolution raises substantial doubt about the Company's ability to continue as a going concern. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be required to liquidate after June 6, 2023.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission (the "SEC").

Emerging Growth Company

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

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

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. The Company did not have any cash equivalents as of December 31, 2022 and 2021.

Investments Held in Trust Account

The Company classifies its U.S. Treasury and equivalent securities as held to maturity in accordance with ASC 320, "Investments — Debt and Equity Securities" Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost on the accompanying balance sheets and adjusted for the amortization or accretion of premiums or discounts.

Offering Costs

The Company complies with the requirements of the ASC 340-10-S99-1 and SEC Staff Accounting Bulletin ("SAB") Topic 5A — "Expenses of Offering". Offering costs consist of legal, accounting, underwriting fees and other costs incurred through the Initial Public Offering date that are directly related to the Initial Public Offering. Offering costs were charged to temporary equity upon the completion of the Initial Public Offering.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes under ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. There were no unrecognized tax benefits and no amounts accrued for interest and penalties as of December 31, 2022 and 2021. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is subject to income tax examinations by major taxing authorities since inception.

Common Stock Subject to Possible Redemption

The Company accounts for its common stock subject to possible redemption in accordance with the guidance in ASC Topic 480, "Distinguishing Liabilities from Equity." Common stock subject to mandatory redemption is classified as a liability instrument and is measured at fair value. Conditionally redeemable common stock (including common stock that features redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) is classified in temporary equity. At all other times, common stock is classified as stockholders' equity. The Company's Public Shares feature certain redemption rights that are considered to be outside of the Company's control and subject to occurrence of uncertain future events. Accordingly, at December 31, 2022 and 2021, the Public Shares are presented at redemption value as temporary equity, outside of the stockholders' equity section of the Company's balance sheets. The Company recognizes changes in redemption value immediately as they occur and adjusts the carrying value of the common stock subject to possible redemption to equal the redemption value at the end of each reporting period. Increases or decreases in the carrying amount of redeemable common stock are affected by charges against additional paid-in capital and accumulated deficit. This method would view the end of the reporting period as if it were also the redemption date for the security.

At December 31, 2022 and 2021, the common stock subject to possible redemption reflected in the balance sheets is reconciled in the following table:

Gross proceeds	$ 207,000,000
Less:	
Proceeds allocated to Public Rights	$ (17,595,000)
Common stock issuance costs	$ (4,552,520)
Plus:	
Remeasurement of carrying value to redemption value	$ 24,217,520
Common stock subject to possible redemption, December 31, 2021	**209,070,000**
Plus:	
Remeasurement of carrying value to redemption value	4,113,552
Common stock subject to possible redemption, December 31, 2022	**$ 213,183,552**

Net Income (Loss) per Common Share

The Company complies with the accounting and disclosure requirements of FASB ASC Topic 260, "Earnings Per Share". Net income (loss) per share of common stock is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Accretion associated with the redeemable shares of common stock is excluded from earnings per share as the redemption value approximates fair value.

The calculation of diluted income (loss) per share does not consider the effect of the Rights issued in connection with the (i) Initial Public Offering, and (ii) the private placement since the exchange of the Rights is contingent upon the occurrence of future events. The Rights may be exchanged for 2,070,000 shares of common stock in the aggregate. As of December 31, 2022, the Company did not have any dilutive securities or other contracts that could, potentially, be exercised or converted into common stock and then share in the earnings of the Company. As a result, diluted net income (loss) per share of common stock is the same as basic net income (loss) per share of common stock for the periods presented.

The following table reflects the calculation of basic and diluted net income (loss) per share of common stock (in dollars, except per share amounts):

	For the Year Ended December 31, 2022 Common Stock	For The Period from September 2, 2021 (Inception) Through December 31, 2021 Common Stock
Basic and diluted net income (loss) per common share		
Numerator:		
Allocation of net income (loss) as adjusted	$ 1,015,702	$ (235,380)
Denominator:		
Basic and diluted weighted average shares outstanding	26,851,000	9,182,858
Basic and diluted net income (loss) per common share	$ 0.04	$ (0.03)

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of a cash account in a financial institution, which, at times, may exceed the Federal Deposit Insurance Corporation Coverage of $250,000. As of December 31, 2022 and 2021, the Company has not experienced losses on this account and management believes the Company is not exposed to significant risks on such account.

Fair Value of Financial Instruments

The fair value of the Company’s assets and liabilities, which qualify as financial instruments under ASC 820, “Fair Value Measurement,” approximates the carrying amounts represented in the accompanying balance sheets, primarily due to their short-term nature.

Recent Accounting Standards

In June 2016, FASB issued Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 also requires additional disclosures regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. The Company expects to adopt the provisions of this guidance on January 1, 2023. The adoption is not expected to have a material impact on the Company’s financial statements.

Besides the above, the Company’s management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted. would have a material effect on the accompanying financial statements.

NOTE 3. INITIAL PUBLIC OFFERING

Pursuant to the Initial Public Offering, the Company sold 18,000,000 Units at a price of $10.00 per Unit. Each Unit consists of one share of common stock and one right ("Public Right"). Each right entitles the holder thereof to receive one-tenth (1/10) of a share of common stock upon the consummation of a Business Combination (see Note 7). On December 9, 2021, the underwriter elected to fully exercise their over-allotment option, resulting in the sale of an additional 2,700,000 units at a price of $10.00 per Unit. The aggregate number of units sold was 20,700,000 for a total of $207,000,000.

NOTE 4. PRIVATE PLACEMENT

Simultaneously with the closing of the Initial Public Offering, the Sponsor purchased an aggregate of 715,000 Placement Units at a price of $10.00 per Placement Unit, for an aggregate purchase price of $7,150,000, in a private placement. Each Private Placement Unit consists of a share of common stock ("Private Placement Share") and one right ("Private Placement Right"). Each Private Placement Right entitles the holder thereof to receive one-tenth (1/10) of a share of common stock upon the consummation of a Business Combination. A portion of the proceeds from the sale of the Private Placement Units were added to the net proceeds from the Initial Public Offering held in the Trust Account. On December 9, 2021, the underwriter elected to fully exercise their over-allotment option, resulting in the sale of an additional 81,000 Private Placement Units at a price of $10.00 per Unit. A portion of the proceeds from the sale of the additional Private Placement Units were added to the net proceeds from the Initial Public Offering held in the Trust Account. If the Company does not complete a Business Combination within the Combination Period, the proceeds from the sale of the Private Placement Units held in the Trust Account will be used to fund the redemption of the Public Shares (subject to the requirements of applicable law) and the Private Placement Units.

NOTE 5. RELATED PARTY TRANSACTIONS

Founder Shares

On October 7, 2021, the Sponsor paid $25,000 to cover certain offering costs of the Company in consideration for 4,312,500 shares of common stock (the "Founder Shares"). In December 2021, the Company effected a stock dividend of 0.2 shares for each share of common stock outstanding, resulting in the Sponsor holding an aggregate number of 5,175,000 Founder Shares. The Founder Shares include an aggregate of up to 675,000 shares subject to forfeiture to the extent that the underwriters' over-allotment option is not exercised in full or in part, so that the number of Founder Shares will equal 20% of the Company's issued and outstanding shares after the Initial Public Offering (assuming the Sponsor does not purchase any Public Shares in the Initial Public Offering and excluding the Representative Shares and Private Shares). As a result of the underwriters' election to fully exercise their over-allotment option on December 9, 2021, no Founder Shares are currently subject to forfeiture.

The Sponsor has agreed, subject to certain limited exceptions, not to transfer, assign or sell any of the Founder Shares until (1) with respect to 50% of the Founder Shares, the earlier of one year after the completion of a Business Combination and the date on which the closing price of the common stock equals or exceeds $12.50 per share (as adjusted for share sub-divisions, share dividends, rights issuances, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing after a Business Combination and (2) with respect to the remaining 50% of the Founder Shares, one year after the completion of a Business Combination, or earlier, in either case, if, subsequent to a Business Combination, the Company completes a liquidation, merger, share exchange or other similar transaction which results in all of the Company's stockholders having the right to exchange their common stock for cash, securities or other property.

Administrative Support Agreement

The Company entered into an agreement, commencing on December 1, 2021, through the earlier of the Company's consummation of a Business Combination and its liquidation, to pay Fifth Partners, LLC, an affiliate of the Sponsor, a total of $13,000 per month for general and administrative services including office space, utilities and secretarial support. For the year ended December 31, 2022 and for the period from September 2, 2021 (inception) through December 31, 2021, the Company incurred and paid $156,000 and $13,000 in included in the accounts payable and accrued expenses in the accompanying balance sheets.

Promissory Notes — Related Parties

On September 2, 2021, the Sponsor issued an unsecured promissory note to the Company (the “Promissory Note”), pursuant to which the Company could borrow up to an aggregate principal amount of $300,000. The Promissory Note was non-interest bearing and payable on the earlier of September 30, 2022 or the consummation of the Initial Public Offering. As of December 6, 2021, the Company had $135,463 outstanding under the Promissory Note. There was no amount outstanding on the Promissory Note as of December 31, 2022 and 2021 the Promissory Note is no longer available to be drawn upon.

On December 6, 2022, the Company issued a promissory note (the “Note”) in the principal amount of $2,070,000 (the “Extension Payment”) to an affiliate of the Company’s Sponsor (the “Payee”) in connection with the Extension (as defined in Note 1). The Note bears no interest and is due and payable upon the earlier to occur of (i) the date on which the Company’s initial business combination is consummated and (ii) the liquidation of the Company on or before March 6, 2023 (unless extended to June 6, 2023) or such later liquidation date as may be approved by the Company’s stockholders. At the election of the Payee, the unpaid principal amount of the Note may be converted into units of the Company (the “Conversion Units”) with the total Conversion Units so issued will be equal to: (x) the portion of the principal amount of the Note being converted divided by (y) the conversion price of ten dollars ($10.00), rounded up to the nearest whole number of units.

Related Party Loans

In addition, in order to fund working capital deficiencies or finance transaction costs in connection with a Business Combination, the Sponsor or an affiliate of the Sponsor, or certain of the Company’s officers and directors may, but are not obligated to, loan the Company funds as may be required (“Working Capital Loans”). If the Company completes a Business Combination, the Company may repay the Working Capital Loans out of the proceeds of the Trust Account released to the Company. Otherwise, the Working Capital Loans may be repaid only out of funds held outside the Trust Account. In the event that a Business Combination does not close, the Company may use a portion of proceeds held outside the Trust Account to repay the Working Capital Loans but no proceeds held in the Trust Account would be used to repay the Working Capital Loans. The Working Capital Loans would either be repaid upon consummation of a Business Combination, without interest, or, at the lender’s discretion, up to $1,500,000 of such Working Capital Loans may be convertible into units upon consummation of the Business Combination at a price of $10.00 per unit. The units would be identical to the Placement Units. Except for the foregoing, the terms of such Working Capital Loans, if any, have not been determined and no written agreements exist with respect to such loans. As of December 31, 2022 and 2021, there were no amounts outstanding under the Working Capital Loans.

NOTE 6. COMMITMENTS

Risks and Uncertainties

Management continues to evaluate the impact of the COVID-19 pandemic and Russia-Ukraine war on the industry and has concluded that while it is reasonably possible that the virus and the war in Ukraine could have a negative effect on the Company’s financial position, results of its operations and/or search for a target company, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Inflation Reduction Act of 2022

On August 16, 2022, the Inflation Reduction Act of 2022 (the “IR Act”) was signed into federal law. The IR Act provides for, among other things, a new U.S. federal 1% excise tax on certain repurchases of stock by publicly traded U.S. domestic corporations and certain U.S. domestic subsidiaries of publicly traded foreign corporations occurring on or after January 1, 2023. The excise tax is imposed on the repurchasing corporation itself, not its shareholders from which shares are repurchased. The amount of the excise tax is generally 1% of the fair market value of the shares repurchased at the time of the repurchase. However, for purposes of calculating the excise tax, repurchasing corporations are permitted to net the fair market value of certain new stock issuances against the fair market value of stock repurchases during the same taxable year. In addition, certain exceptions apply to the excise tax. The U.S. Department of the Treasury (the “Treasury”) has been given authority to provide regulations and other guidance to carry out and prevent the abuse or avoidance of the excise tax.

Any redemption or other repurchase that occurs after December 31, 2022, in connection with a Business Combination, extension vote or otherwise, may be subject to the excise tax. Whether and to what extent the Company would be subject to the excise tax in connection with a Business Combination, extension vote or otherwise would depend on a number of factors, including (i) the fair market value of the redemptions and repurchases in connection with the Business Combination, extension or otherwise, (ii) the structure of a Business Combination, (iii) the nature and amount of any “PIPE” or other equity issuances in connection with a Business Combination (or otherwise issued not in connection with a Business Combination but issued within the same taxable year of a Business Combination) and (iv) the content of regulations and other guidance from the Treasury. In addition, because the excise tax would be payable by the Company and not by the redeeming holder, the mechanics of any required payment of the excise tax have not been determined. The foregoing could cause a reduction in the cash available on hand to complete a Business Combination and in the Company’s ability to complete a Business Combination.

Registration Rights

Pursuant to a registration rights agreement entered into on December 1, 2021, the holders of the Founder Shares, Representative Shares, Placement Units (including securities contained therein) and units (including securities contained therein) that may be issued upon conversion of Working Capital Loans, and any shares of common stock (and underlying common stock) are entitled to registration rights. The holders of a majority of these securities are entitled to make up to two demands that the Company register such securities. Notwithstanding anything to the contrary, the underwriters may only make a demand on one occasion and only during the 5-year period beginning on the effective date of the registration statement of which the Initial Public Offering forms a part. The holders of the majority of the founder shares can elect to exercise these registration rights at any time commencing three months prior to the date on which these shares of common stock are to be released from escrow. The holders of a majority of the units or shares issued in payment of working capital loans made to us can elect to exercise these registration rights at any time after we consummate a business combination. In addition, the holders have certain “piggy-back” registration rights with respect to registration statements filed subsequent to the Company’s consummation of initial business combination’ provided, however, that the underwriters may participate in a “piggy-back” registration only during the 7-year period beginning on the effective date of the registration statement of which the Initial Public Offering forms a part. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

Underwriting Agreement

The Company had granted the underwriters a 45-day option from the date of Initial Public Offering to purchase up to 2,700,000 additional Units to cover over-allotments, if any, at the Initial Public Offering price less the underwriting discounts and commissions.

On December 9, 2021, the underwriter's elected to fully exercise the over-allotment option to purchase an additional 2,700,000 Public Shares at a price of $10.00 per Public Share.

Representative Shares

The Company had issued to EarlyBirdCapital, the underwriter, 180,000 representative founder (the "Representative Shares") shares for nominal consideration, subsequently paid in October 2021. The holders of the Representative Shares have agreed not to transfer, assign or sell any such shares without the Company's prior consent until 30 days after the completion of the Business Combination. In addition, the holders of the Representative Shares have agreed (i) to waive their redemption rights (or right to participate in any tender offer) with respect to such shares in connection with the completion of the Business Combination and (ii) to waive their rights to liquidating distributions from the Trust Account with respect to such shares if the Company fails to complete the Business Combination within the Combination Period.

The Representative Shares have been deemed compensation by FINRA and are therefore subject to a lock-up for a period of 180 days immediately following the date of the effectiveness of the registration statement of which the Initial Public Offering forms a part pursuant to Rule 5110(e)(1) of the FINRA Manual. Pursuant to FINRA Rule 5110(e)(1), these securities will not be sold during the offering, or sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the economic disposition of the securities by any person for a period of 180 days immediately following the effective date of the registration statement, except to any underwriter and selected dealer participating in the offering and their bona fide officers or partners, provided that all securities so transferred remain subject to the lockup restriction above for the remainder of the time period.

The Company have granted the holders of these shares the registration rights. In compliance with FINRA Rule 5110(g)(8), the registration rights granted to the underwriters are limited to demand and "piggy back" rights for periods of five and seven years, respectively, from the effective date of the Initial Public Offering with respect to the registration under the Securities Act and demand rights may only be exercised on one occasion.

Business Combination Marketing Agreement

The Company engaged EarlyBirdCapital as an advisor in connection with the Business Combination to assist in holding meetings with the stockholders to discuss the potential Business Combination and the target business' attributes, introduce the Company to potential investors that are interested in purchasing securities in connection with the Business Combination, assist in obtaining stockholder approval for the Business Combination and assist with press releases and public filings in connection with the Business Combination. The Company will pay EarlyBirdCapital a cash fee for such services upon the consummation of the Business Combination in an amount equal to 3.5% of the gross proceeds of the Initial Public Offering (exclusive of any applicable finders' fees which might become payable). In addition, the Company will pay EarlyBirdCapital a cash fee in an amount equal to 1.0% of the total consideration payable to the target in the Business Combination if EarlyBirdCapital introduces the target business with whom the Company completes the Business Combination; provided that the foregoing fee will not be paid prior to the date that is 60 days from the effective date of the registration statement, unless such payment would not be deemed underwriters' compensation in connection with the Initial Public Offering pursuant to FINRA Rule 5110.

In connection with the Merger Agreement on February 13, 2023, the Company has amended EarlyBirdCapital's fees under the Business Combination Marketing Agreement from (i) 3.5% of the total gross proceeds raised in the initial public offering and (ii) 1% of the total consideration of an initial business combination transaction to a flat cash fee of $2,000,000 (See Note 10).

NOTE 7. STOCKHOLDERS' (DEFICIT) EQUITY

Preferred Stock — The Company is authorized to issue 1,000,000 shares of preferred stock with a par value of $0.0001 per share with such designations, voting and other rights and preferences as may be determined from time to time by the Company's board of directors. At December 31, 2022 and 2021, there were no shares of preferred stock issued or outstanding.

Common Stock — The Company is authorized to issue 100,000,000 shares of common stock with a par value of $0.0001 per share. Holders of common stock are entitled to one vote for each share. At December 31, 2022 and 2021, there were 6,151,000 shares of common stock issued and outstanding, excluding 20,700,000 shares subject to redemption, of which an aggregate of 675,000 shares are no longer subject to forfeiture due to the underwriters' over-allotment option being fully exercised, so that the number of shares of common stock will equal 20% of the Company's issued and outstanding common stock after the Initial Public Offering (assuming the Sponsor does not purchase any Public Shares in the Initial Public Offering and excluding the Representative Shares and Private Shares).

Holders of record of the Company's common stock are entitled to one vote for each share held on all matters to be voted on by stockholders. In connection with any vote held to approve the Company's initial business combination, the insiders, officers and directors, have agreed to vote their respective shares of common stock owned by them immediately prior to this offering, including both the founder shares and the Private Shares, and any shares acquired in this offering or following this offering in the open market, in favor of the Initial business combination.

The Company will consummate the Business Combination only if Public Stockholders do not exercise redemption rights in an amount that would cause the net tangible assets to be less than $5,000,001 either immediately prior to or upon consummation of the Business Combination and after payment of underwriters' fees and commissions and a majority of the outstanding shares of common stock voted are voted in favor of the Business Combination.

Pursuant to the Certificate of Incorporation, if the Company does not consummate the Business Combination within the Combination Period, it will (i) cease all operations except for the purpose of winding up, (ii) as promptly as reasonably possible but not more than ten business days thereafter, redeem 100% of the outstanding Public Shares, which redemption will completely extinguish Public Stockholders' rights as stockholders (including the right to receive further liquidation distributions, if any), subject to applicable law, and (iii) as promptly as reasonably possible following such redemption, subject to the approval of the remaining stockholders and the board of directors, dissolve and liquidate, subject (in the case of (ii) and (iii) above) to the Company's obligations under Delaware law to provide for claims of creditors and the requirements of other applicable law. The Company's insiders have agreed to waive their rights to share in any distribution with respect to their Founder Shares and Private Shares.

The stockholders have no redemption, pre-emptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the shares of common stock, except that Public Stockholders have the right to sell their shares to the Company in any tender offer or have their shares of common stock redeemed to cash equal to their pro rata share of the Trust Account if they vote on the proposed Business Combination and the Business Combination is completed. If the Company hold a stockholder vote to amend any provisions of the Certificate of Incorporation relating to stockholder's rights or pre-Business Combination activity (including the substance or timing within which the Company has to complete a Business Combination), the Company will provide the Public Stockholders with the opportunity to redeem their shares of common stock upon approval of any such amendment at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including interest earned on the funds held in the Trust Account and not previously released to the Company to pay the franchise and income taxes, divided by the number of then outstanding Public Shares, in connection with any such vote. In either of such events, redeeming stockholders would be paid their pro rata portion of the Trust Account promptly following consummation of the Business Combination or the approval of the amendment to the Certificate of Incorporation. If the Business Combination is not consummated or the amendment is not approved, stockholders will not be paid such amounts.

Rights — Each holder of a right will receive one-tenth (1/10) of one share of common stock upon consummation of a Business Combination, even if the holder of such right redeemed all shares held by it in connection with a Business Combination. No fractional shares will be issued upon exchange of the rights. No additional consideration will be required to be paid by a holder of rights in order to receive its additional shares upon consummation of a Business Combination as the consideration related thereto has been included in the Unit purchase price paid for by investors in the Initial Public Offering. If the Company enters into a definitive agreement for a Business Combination in which the Company will not be the surviving entity, the definitive agreement will provide for the holders of rights to receive the same per share consideration the holders of the common stock will receive in the transaction on an as-converted into common stock basis, and each holder of a right will be required to affirmatively convert its rights in order to receive the 1/10 of a share underlying each right (without paying any additional consideration) upon consummation of the Business Combination. The shares issuable upon exchange of the rights will be freely tradable (except to the extent held by affiliates of the Company).

If the Company is unable to complete a Business Combination within the Combination Period and the Company liquidates the funds held in the Trust Account, holders of rights will not receive any of such funds with respect to their rights, nor will they receive any distribution from the Company's assets held outside of the Trust Account with respect to such rights, and the rights will expire worthless. Further, there are no contractual penalties for failure to deliver securities to the holders of the rights upon consummation of a Business Combination. Additionally, in no event will the Company be required to net cash settle the rights. Accordingly, the rights may expire worthless.

NOTE 8. INCOME TAX

The Company did not have any significant deferred tax assets or liabilities as of December 31, 2022 and 2021.

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

	December 31, 2022	December 31, 2021
Deferred tax asset		
Net operating loss carryforward	$ —	$ 10,390
Organizational costs/Startup expenses	265,273	39,040
Unrealized gain/loss	(91,572)	—
Total deferred tax asset	173,701	49,430
Valuation allowance	(265,273)	(49,430)
Deferred tax asset, net of allowance	$ (91,572)	$ —

The income tax provision consists of the following:

	December 31, 2022	December 31, 2021
Federal		
Current	$ 454,473	$ —
Deferred	(124,271)	(49,430)
State		
Current	$ —	$ —
Deferred	—	—
Change in valuation allowance	215,843	49,430
Income tax provision	$ 546,045	$ —

As of December 31, 2022 and 2021, the Company has $0 and $49,477 of U.S. federal and state net operating loss carryovers available to offset future taxable income.

In assessing the realization of the deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all of the information available, management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance. For the year ended December 31, 2022 and for the period from September 2, 2021 (inception) through December 31, 2021, the change in the valuation allowance was $215,843 and $49,430, respectively.

A reconciliation of the federal income tax rate to the Company's effective tax rate at December 31, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Statutory federal income tax rate	21.0%	21.0%
State taxes, net of federal tax benefit	0.0%	0.0%
Change in valuation allowance	13.8%	(21.0)%
Income tax provision	34.8%	— %

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

NOTE 9. FAIR VALUE MEASUREMENTS

The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.

Level 3: Unobservable inputs based on our assessment of the assumptions that market participants would use in pricing the asset or liability.

The Company classifies its U.S. Treasury and equivalent securities as held-to-maturity in accordance with ASC Topic 320, "Investments — Debt and Equity Securities." Held to maturity securities are those securities which the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost on the accompanying balance sheets and adjusted for the amortization or accretion of premiums or discounts.

At December 31, 2022, assets held in the Trust Account were comprised of $543,817 in mutual funds and $212,931,355 in U.S. Treasury securities. During the year ended December 31, 2022, the Company withdraw $525,351 of interest income from the Trust Account for tax obligations.

At December 31, 2021, assets held in the Trust Account were comprised of $5,427 in cash and $209,081,449 in U.S. Treasury securities. During the year ended December 31, 2021, the Company did not withdraw any interest income from the Trust Account.

The following table presents information about the Company's assets that are measured at fair value on a recurring basis at December 31, 2022 and 2021 and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value. The gross holding gains and fair value of held-to-maturity securities at December 31, 2022 and 2021 are as follows:

	Held-To-Maturity	Level	Amortized Cost	Gross Holding Gain	Fair Value
December 31, 2022	U.S. Treasury Securities (Mature on 3/14/2023)	1	$ 212,931,355	$ 6,119	$ 212,937,474
December 31, 2021	U.S. Treasury Securities (Mature on 6/9/2022)	1	$ 209,081,449	$ 13,137	$ 209,094,586

NOTE 10. SUBSEQUENT EVENTS

The Company evaluated subsequent events and transactions that occurred after the balance sheet date up to the date that the financial statements were issued. Based upon this review, other than the below, the Company did not identify any subsequent events that would have required adjustment or disclosure in the financial statements.

On January 16, 2023, the Company issued a promissory note (the "Working Capital Loan") in the principal amount of up $800,000 to an affiliate of the Company's Sponsor (the "Payee"), for working capital. The Working Capital Loan bears no interest and is due and payable upon the earlier to occur of (i) the date on which the Company's initial business combination is consummated and (ii) the liquidation of the Company on or before March 6, 2023 (unless extended to June 6, 2023) or such later liquidation date as may be approved by the Company's stockholders. At the election of the Payee, the unpaid principal amount of the Working Capital Loan may be converted into units of the Company (the "Conversion Units") with the total Conversion Units so issued will be equal to: (x) the portion of the principal amount of the Working Capital Loan being converted divided by (y) the conversion price of ten dollars ($10.00), rounded up to the nearest whole number of units.

Merger Agreement

On February 13, 2023, the Company (after the Effective Time, "PubCo") entered into an agreement and plan of merger (as it may be amended, supplemented or otherwise modified from time to time, the "Merger Agreement") with ROC Merger Sub, Inc., a Delaware corporation and a direct, wholly owned subsidiary of the Company ("Merger Sub"), and Drilling Tools International Holdings, Inc., a Delaware corporation ("Drilling Tools"). Pursuant to the terms of the Merger Agreement, a business combination between the Company and Drilling Tools will be effected through the merger of Merger Sub with and into Drilling Tools, with Drilling Tools surviving the merger as a wholly owned subsidiary of PubCo (the "Merger," and together with the other transactions contemplated by the Merger Agreement and the other agreements contemplated thereby, the "Transactions"). The board of directors of the Company unanimously (i) approved and declared advisable the Merger Agreement and the Transactions and (ii) resolved to recommend the approval and adoption of the Merger Agreement and the Transactions by the stockholders of the Company.

Support Agreements

In connection with the execution of the Merger Agreement, the Sponsor, entered into a support agreement with Drilling Tools and the Company (the "Sponsor Support Agreement") pursuant to which the Sponsor has agreed to vote all Subject Shares (as therein defined) beneficially owned by it in favor of the Merger. Further, pursuant to the Sponsor Support Agreement, in order to induce Drilling Tools to enter into the Merger Agreement, the Sponsor agrees to forfeit up to 50% of the Founder Shares (as therein defined) to the Company for reissuance to investors in connection with the Equity Financing and (b) to split the remainder of the Founder Shares with Drilling Tools stockholders as set forth in the Sponsor Support Agreement.

Amended and Restated Registration Rights Agreement

In connection with the Transactions, the Company and certain stockholders of each of the Company and Drilling Tools who will receive PubCo Common Stock pursuant to the Merger Agreement have entered into an amended and restated registration rights agreement ("Registration Rights Agreement"), to become effective upon the Closing.

Lock-up Agreement and Arrangements

Prior to the consummation of the Transactions, certain Drilling Tools stockholders, including all existing stockholders of Drilling Tools holding greater than 5% of its share capital, will enter into a lock-up agreement (the "Drilling Tools Stockholder Lock-up Agreement") with the Company. In addition, the Company and Sponsor intend to undertake an amendment and restatement to the Stock Escrow Agreement, dated December 1, 2021, by and among the Company, Sponsor and the escrow agent named therein (the "Escrow Agreement" and, when amended and restated, the "Amended and Restated Escrow Agreement") to align Sponsor's restrictions on transfer with respect to all shares of Common Stock it owns (which will be PubCo Common Stock after the Closing), including the Founder Shares, to those described below. Under the terms of the Drilling Tools Stockholder Lock-up Agreement, and under the terms of the Sponsor lock-up provisions to be contained in the Amended and Restated Escrow Agreement, such Drilling Tools stockholders and Sponsor, will each agree, subject to certain customary exceptions, that during the period that is the earlier of (i) the date that is 180 days following the Closing Date, and (ii) the date specified in a written waiver of the provisions of the Drilling Tools Stockholder Lock-up Agreement duly executed by Sponsor and the Company, not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Lock-up Shares, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such Lock-up Shares (whether any of these transactions are to be settled by delivery of any such Lock-up Shares, in cash or otherwise), publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, or engage in any "short sales" as defined in Rule 200 promulgated under Regulation SHO under the Exchange Act, or any type of direct and indirect stock pledges, forward sale contracts, options, puts, calls, swaps and similar arrangements (including on a total return basis), or sales or other transactions through non-US broker dealers or foreign regulated brokers. As used herein, "Lock-up Shares" means, (a) in the case of Drilling Tools Stockholders, those shares of PubCo Common Stock received by such Drilling Tools stockholder (the "Holder") as merger consideration in the Transactions and beneficially owned by such Drilling Tools Stockholder as specified on the signature block of the Drilling Tools Stockholder Lock-up Agreement, and (b) in the case of Sponsor, the Escrow Shares (as defined in the Escrow Agreement).

Director Nomination Agreement

In connection with the Closing, the Company and the Sponsor will enter into a director nomination agreement (the "Director Nomination Agreement") pursuant to which PubCo agrees to nominate an individual designated by the Sponsor to serve on the board of directors of the PubCo as a Class III director of PubCo, effective as of immediately after the Effective Time.

The foregoing descriptions of agreements and the transactions and documents contemplated thereby are not complete and are subject to and qualified in their entirety by reference to the Merger Agreement, Sponsor Support Agreement, Drilling Tools Stockholder Support Agreement, Registration Rights Agreement, Drilling Tools Stockholder Lock-up Agreement and Director Nomination Agreement, copies of which are filed with this Current Report on Form 8-K filed on February 14, 2023.

Second Extension

On March 3, 2023, the Company extended the date by which the Company has to consummate a business combination from March 6, 2023 to June 6, 2023 (the “Second Extension”). The Second Extension is the second of two three-month extensions permitted under the Company’s governing documents. On March 2, 2023, the Company issued a promissory note in the principal amount of $2,070,000 (the “Second Extension Payment”) to an affiliate of the Company’s Sponsor in connection with the Second Extension. In connection with the Second Extension, the Sponsor has notified the Company that the Second Extension Payment (representing $0.10 per public share) was deposited into the Company’s trust account on March 6, 2023.

Amendment to the Business Combination Marketing Agreement

In connection with the Merger Agreement on February 13, 2023, the Company has amended EarlyBirdCapital’s fees under the Business Combination Marketing Agreement (See Note 6).

PART II—INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following is an estimate of the expenses (all of which are to be paid by DTIC) that we may incur in connection with the securities being registered here.

SEC registration fee	$ 12,968
Legal fees and expenses	*
Accounting fees and expenses	*
Miscellaneous	*
Total	*

* These fees are calculated based on the securities offered and the number of issuances, and accordingly cannot be defined at this time.

Item 14. Indemnification of Directors and Officers.

Section 102(b)(7) of the DGCL allows a corporation to provide in its certificate of incorporation that a director or officer of the corporation will not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director or officer, except where the director or officer breached the duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase or redemption in violation of Delaware corporate law or obtained an improper personal benefit, or where the action is by or in the right of the corporation. Our Certificate of Incorporation provides for this limitation of liability.

Section 145 of the DGCL, provides, among other things, that a Delaware corporation may indemnify any person who was, is or is threatened to be made, party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful. A Delaware corporation may indemnify any persons who were or are a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests, provided further that no indemnification is permitted in respect of any claim as to which the person has been adjudged to be liable to the corporation unless the applicable court determines that the person is, nonetheless, fairly and reasonably entitled to indemnity for such expenses which such court deems proper.

Section 145 further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the corporation would otherwise have the power to indemnify such person under Section 145.

Our Bylaws provide that we must indemnify and advance expenses to our directors and officers to the full extent authorized by the DGCL.

We have entered into indemnification agreements with each of our directors and the NEOs. Such agreements may require us, among other things, to advance expenses and otherwise indemnify our directors and the NEOs against certain liabilities that may arise by reason of their status or service as directors or executive officers, to the fullest extent permitted by law.

The indemnification rights set forth above shall not be exclusive of any other right which an indemnified person may have or hereafter acquire under any statute, any provision of our Certificate of Incorporation and Bylaws, agreement, vote of stockholders or disinterested directors or otherwise. Notwithstanding the foregoing, we shall not be obligated to indemnify or advance expenses to a director or officer in respect of a proceeding (or part thereof) initiated by such director or officer, unless such proceeding (or part thereof) was authorized by the Board.

Section 174 of the DGCL provides, among other things, that a director, who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption, may be held jointly and severally liable for such actions. A director who was either absent when the unlawful actions were approved or dissented at the time may avoid liability by causing his or her dissent to such actions to be entered in the books containing the minutes of the meetings of the Board at the time such action occurred or immediately after such director has notice of the unlawful acts.

We currently maintain and expect to continue to maintain standard policies of insurance that provide coverage (1) to our directors and officers against loss arising from claims made by reason of breach of duty or other wrongful act and (2) to us with respect to indemnification payments that we may make to such directors and officers.

These provisions may discourage Stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against our directors and officers, even though such an action, if successful, might otherwise benefit us and our Stockholders. Furthermore, a Stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against officers and directors pursuant to these indemnification provisions.

We believe that these provisions, the insurance, and the indemnity agreements are necessary to attract and retain talented and experienced officers and directors.

Certain of our non-employee directors may, through their relationships with their respective employers, be insured or indemnified against certain liabilities incurred in their capacity as members of the Board.

Item 15. Recent Sales of Unregistered Securities.

In February 2021, ROC Holdings purchased an aggregate of 4,312,500 Founder Shares for an aggregate purchase price of $25,000, or $0.006 per share. The per share purchase price of the Founder Shares was determined by dividing the amount of cash contributed to ROC by the aggregate number of Founder Shares issued. The number of Founder Shares issued was determined based on the expectation that the Founder Shares would represent 20% of the outstanding shares of ROC Common Stock after the ROC IPO. Such shares were issued in connection with ROC's organization and in reliance on the exemption provided in Section 4(a)(2) of the Securities Act.

ROC Holdings purchased from ROC 796,000 units at $10.00 per unit for a total purchase price of $7,960,000. The units were sold in a private placement that closed simultaneously with the closing of the ROC IPO. Such units were issued in reliance on the exemption provided in Section 4(a)(2) of the Securities Act.

The shares of Common Stock issued pursuant to each of the PIPE Financing, the FP SPAC Note Conversion and the Exchange Agreements were issued in reliance on the exemption provided in Section 4(a)(2) of the Securities Act. See "*Introductory Note*."

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Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits

Exhibit No.	Description
2.1†	Agreement and Plan of Merger, dated as of February 13, 2023, by and among ROC Energy Acquisition Corp., ROC Merger Sub, Inc. and Drilling Tools International Holdings, Inc. (incorporated by reference to Exhibit 2.1 to ROC Energy Acquisition Corp.'s Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on February 14, 2023).
2.2	First Amendment to the Agreement and Plan of Merger, by and among ROC Energy Acquisition Corp., ROC Merger Sub, Inc. and Drilling Tools International Holdings, Inc. (incorporated by reference to Exhibit 2.1 to ROC Energy Acquisition Corp.'s Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 9, 2023).
3.1	Second Amended and Restated Certificate of Incorporation of Drilling Tools International Corporation (incorporated by reference to Exhibit 3.1 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
3.2	Amended and Restated Bylaws of Drilling Tools International Corporation (incorporated by reference to Exhibit 3.2 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
4.1	Form of Specimen Common Stock Certificate of Drilling Tools International Corporation (incorporated by reference to Exhibit 4.1 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
5.1*	Opinion of Bracewell LLP.
10.1	Form of Subscription Agreement (incorporated by reference to Exhibit 10.13 to ROC Energy Acquisition Corp.'s Registration Statement on Form S-4 (File No. 333-269763), filed with the Securities and Exchange Commission on April 21, 2023).
10.2	Form of Amendment to the Subscription Agreement (incorporated by reference to Exhibit 10.2 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
10.3	Form of Exchange Agreement (incorporated by reference to Exhibit 10.3 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
10.4	Sponsor Support Agreement, dated as of February 13, 2023, between the Sponsor, ROC Energy Acquisition Corp. and Drilling Tools International Holdings, Inc. (incorporated by reference to Exhibit 10.16 to ROC Energy Acquisition Corp.'s Registration Statement on Form S-4 (File No. 333-269763), filed with the Securities and Exchange Commission on February 14, 2023).
10.5	First Amendment to the Sponsor Support Agreement, dated as of June 20, 2023, by and among ROC Energy Acquisition Corp., ROC Energy Holdings, LLC and Drilling Tools International Holdings, Inc. (incorporated by reference to Exhibit 10.4 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).

10.6†	Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of June 20, 2023, by and among Drilling Tools International, Inc., certain of its subsidiaries and PNC Bank, National Association (incorporated by reference to Exhibit 10.5 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
10.7	Form of Lock-up Agreement (incorporated by reference to Exhibit 10.12 to ROC Energy Acquisition Corp.'s Registration Statement on Form S-4 (File No. 333-269763), filed with the Securities and Exchange Commission on February 14, 2023).
10.8	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.7 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
10.9	Amended and Restated Registration Rights Agreement, dated as of February 13, 2023, between ROC Energy Acquisition Corp., ROC Energy Holdings, LLC, EarlyBird Capital, Inc., HHEP-Directional, L.P., RobJon Holdings, L.P. and Michael W. Domino, Jr. (incorporated by reference to Exhibit 10.18 to ROC Energy Acquisition Corp.'s Registration Statement on Form S-4 (File No. 333-269763), filed with the Securities and Exchange Commission on February 14, 2023).
10.10#	Form of 2023 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to ROC Energy Acquisition Corp.'s Registration Statement on Form S-4 (File No. 333-269763), filed with the Securities and Exchange Commission on February 14, 2023).
10.11	Monitoring and Oversight Agreement, dated as of January 27, 2012, between Directional Rentals Holdings, Inc. and Hicks Holdings Operating LLC.
10.12	First Amendment to Monitoring and Oversight Agreement, dated as of February 13, 2023, between Drilling Tools International Holdings, Inc. and Hicks Holdings Operating LLC.
10.13	Assignment and Assumption Agreement, dated as of June 20, 2023, between Drilling Tools International Holdings, Inc. and Drilling Tools International Corporation.
10.14†	R. Wayne Prejean Employment Agreement, dated September 13, 2013.
10.15†	Amendment to R. Wayne Prejean Employment Agreement, dated April 1, 2017.
10.16†	David R. Johnson Employment Agreement, dated November 27, 2017.
10.17†	Michael W. Domino, Jr. Employment Agreement, dated April 1, 2017.
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to Drilling Tools International Corporation's Current Report on Form 8-K (File No. 001-41103), filed with the Securities and Exchange Commission on June 27, 2023).
23.1	Consent of Weaver & Tidwell LLP.
23.2	Consent of WithumSmith+Brown, PC.
23.3*	Consent of Bracewell LLP (included as part of Exhibit 5.1).
24.1	Power of Attorney (included on the signature page hereto).
107	Filing Fee Table.

† Certain exhibits and schedules to this exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). DTIC agrees to furnish supplementally a copy of all omitted exhibits and schedules to the SEC upon its request.
# Indicates management contract or compensatory plan or arrangement.
* To be filed by amendment.

(b) Financial Statements. The financial statements filed as part of this registration statement are listed in the index to the financial statements immediately preceding such financial statements, which index to the financial statements is incorporated herein by reference.

Item 17. Undertakings.

We hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act.

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the “Calculation of Registration Fee” table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the Common Stock being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the Registration Statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the Registration Statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the Registration Statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the Registration Statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining our liability under the Securities Act to any purchaser in the initial distribution of the Common Stock, we undertake that in a primary offering of the Common Stock pursuant to this Registration Statement, regardless of the underwriting method used to sell the Common Stock to the purchaser, if the Common Stock is offered or sold to such purchaser by means of any of the following communications, we will be a seller to the purchaser and will be considered to offer or sell the Common Stock to such purchaser:

(i) Any preliminary prospectus or prospectus of us relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of us or used or referred to by us;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about us or the Common Stock provided by or on behalf of us; and

(iv) Any other communication that is an offer in the offering made by us to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the Common Stock, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Houston, Texas, on July 20, 2023.

DRILLING TOOLS INTERNATIONAL CORPORATION

By: /s/ R. Wayne Prejean
Name: R. Wayne Prejean
Title: Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints, jointly and severally, R. Wayne Prejean, as his attorney-in-fact, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments), and any and all registration statements filed pursuant to Rule 462 under the Securities Act of 1933, as amended, in connection with or related to the offering contemplated by this registration statement and its amendments, if any, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said registration statement. Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Name	Title	Date
/s/ R. Wayne Prejean R. Wayne Prejean	Chief Executive Officer and Director (*Principal Executive Officer*)	July 20, 2023
/s/ David R. Johnson David R. Johnson	Chief Financial Officer (*Principal Financial and Accounting Officer*)	July 20, 2023
/s/ Thomas O. Hicks Thomas O. Hicks	Chairman and Director	July 20, 2023
/s/ Curtis L. Crofford Curtis L. Crofford	Director	July 20, 2023
/s/ John D. Furst John D. Furst	Director	July 20, 2023
/s/ Eric C. Neuman Eric C. Neuman	Director	July 20, 2023
/s/ Thomas M. Patterson Thomas M. Patterson	Director	July 20, 2023
/s/ C. Richard Vermillion C. Richard Vermillion	Director	July 20, 2023

Exhibit 10.11

MONITORING AND OVERSIGHT AGREEMENT

This MONITORING AND OVERSIGHT AGREEMENT (this "Agreement") is made and entered into effective as of January 27, 2012, between Directional Rentals Holdings, Inc., a Delaware corporation (together with its successors, the "Company"), and Hicks Holdings Operating LLC, a Texas limited liability company (together with its successors, "Monitor").

WHEREAS, the Company has requested that Monitor render, and Monitor agrees to render, financial oversight and monitoring services to the Company as requested from time to time by the board of directors of the Company.

NOW, THEREFORE, in consideration of the services to be rendered by Monitor to the Company, and to evidence the obligations of the Company to Monitor and the mutual covenants herein contained, the Company hereby agrees with Monitor as follows:

1. Retention. The Company hereby acknowledges that it has retained Monitor to, and Monitor acknowledges that, subject to reasonable advance notice in order to accommodate scheduling, Monitor will, provide financial oversight and monitoring services to the Company as requested by the board of directors of the Company during the term of this Agreement.

2. Term. The term of this Agreement shall continue until the earlier to occur of (i) the tenth anniversary of the date hereof, (ii) the date on which Monitor or its successors and their respective affiliates shall cease to own beneficially, directly or indirectly, any securities of the Company or its successors or (iii) the date of the closing of the acquisition of the Company by another entity which is not affiliated with a Holder (as such term is defined in the Stockholders' Agreement among the Company's stockholders dated as of the date hereof) by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger or consolidation) that results in the transfer of fifty percent (50%) or more of the outstanding voting power of the Company; provided, however, that if the term of this Agreement ends pursuant to clause (iii), the Company shall pay Monitor an amount equal to (a) the Monitoring Fee paid or payable to Monitor in respect of the quarter that ended immediately prior to the closing of such acquisition multiplied by (b) five (5), and such payment shall be made on or before the closing of such acquisition and shall be in addition to any payments due under Sections 3 and 4 hereunder.

3. Compensation.

(a) As compensation for Monitor's services to the Company under this Agreement, the Company hereby irrevocably agrees to pay to Monitor a quarterly fee equal to the greater of (i) $62,500.00 and (ii) 0.625% of the Company's EBITDA (calculated as set forth in Section 3(c)) for the 12-month period ended three months prior to the Payment Date (as defined below) (the "Monitoring Fee"), prorated on a daily basis for any partial quarter during the term of this Agreement; provided, however, that the maximum Monitor Fee payable to Monitor for any quarter shall not exceed $187,500.00. The Monitoring Fee shall be payable on each January 1, April 1, July 1 and October 1 during the term of this Agreement (each a "Payment Date"), beginning with the first Payment Date following the date hereof. All payments shall be made by wire transfer of immediately available funds to the account identified on Exhibit A hereto (or such other account as Monitor may hereafter designate in writing).

(b) All past due payments in respect of the Monitoring Fee shall bear interest at the lesser of the highest rate of interest which may be charged under applicable law or the prime commercial lending rate per annum of JPMorgan Chase Bank or its successors (which rate is a reference rate and is not necessarily its lowest or best rate of interest actually charged to any customer) (the "Prime Rate") as in effect from time to time, plus five percent (5%), from the due date of such payment to and including the date on which payment is made to Monitor in full, including such interest accrued thereon.

(c) Except as expressly provided herein, the Company's EBITDA for any 12-month period shall be calculated by reference to the consolidated financial statements of the Company and its subsidiaries for such period, which shall be prepared in accordance with GAAP, applied consistently throughout the term of this Agreement; provided, however, that for purposes of calculating the Company's EBITDA the following expenses shall not be deducted in calculating EBITDA:

(i) extraordinary items;

(ii) equity compensation expenses incurred by the Company or its subsidiaries;

(iii) inventory reserves/write-offs except to the extent that inventory does not exist or has been deemed obsolete or unsalable by documented environmental regulations or orders; and

(iv) bad debt reserves/write-offs other than (A) those taken in accordance with GAAP from a debtor with accounts outstanding in excess of 270 days or (B) those with a debtor whose related business is in voluntary or involuntary bankruptcy or dissolution under applicable bankruptcy or similar law.

4. Reimbursement of Expenses. In addition to the compensation to be paid pursuant to Section 3(a) hereof, the Company agrees to pay or reimburse Monitor for all "Reimbursable Expenses," which shall consist of all reasonable disbursements and out-of-pocket expenses (including, without limitation, costs of travel, postage, deliveries, fees and disbursements of counsel, communications, etc., but excluding allocated overhead) incurred by Monitor or its affiliates for the account of the Company or in connection with the performance by Monitor of the services contemplated by Section 1 hereof. Promptly (but not more than 10 days) after request by or notice from Monitor, the Company shall pay Monitor, by wire transfer of immediately available funds to the account described on Exhibit A hereto (or such other account as Monitor may hereafter designate in writing), the Reimbursable Expenses for which Monitor has provided the Company invoices or reasonably detailed descriptions. All past due payments in respect of the Reimbursable Expenses shall bear interest at the lesser of the highest rate of interest which may be charged under applicable law or the Prime Rate plus five percent (5%) from the applicable Payment Date to and including the date on which such Reimbursable Expenses plus accrued interest thereon are fully paid to Monitor.

5. Indemnification. The Company shall indemnify and hold harmless each of Monitor, its affiliates, and their respective directors, officers, controlling persons (within the meaning of Section 15 of the Securities Act of 1933, as amended, or Section 20(a) of the Securities Exchange Act of 1934, as amended), if any, agents and employees (Monitor, its affiliates, and such other specified persons being collectively referred to as "Indemnified Persons," and individually as an "Indemnified Person") from and against any and all claims, liabilities, losses, damages and expenses incurred by any Indemnified Person (including those arising out of an Indemnified Person's negligence and reasonable fees and disbursements of the respective Indemnified Person's counsel) which (A) are related to or arise out of (i) actions taken or omitted to be taken (including, without limitation, any untrue statements made or any statements omitted to be made) by the Company or (ii) actions taken or omitted to be taken by an Indemnified Person with the Company's consent or in conformity with the Company's instructions or the Company's actions or omissions or (B) are otherwise related to or arise out of Monitor's engagement, and will reimburse each Indemnified Person for all reasonable costs and expenses, including, without limitation, reasonable fees and disbursements of any Indemnified Person's counsel, as they are incurred, in connection with investigating, preparing for, defending or appealing any action, formal or informal claim, investigation, inquiry or other proceeding, whether or not in connection with pending or threatened litigation, caused by or arising out of or in connection with Monitor's acting pursuant to Monitor's engagement, whether or not any Indemnified Person is named as a party thereto and whether or not any liability results therefrom. The Company will not, however, be responsible for any claims, liabilities, losses, damages or expenses pursuant to clause (B) of the preceding sentence to the extent they have resulted from Monitor's bad faith, gross negligence or willful misconduct. The Company also agrees that neither Monitor nor any other Indemnified Person shall have any liability to the Company for or in connection with such engagement except for any such liability for claims, liabilities, losses, damages or expenses incurred by the Company to the extent they have resulted from Monitor's bad faith, gross negligence or willful misconduct. The Company further agrees that it will not, without the prior written consent of Monitor, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not any Indemnified Person is an actual or potential party to such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of Monitor and each other Indemnified Person hereunder from all liability arising out of such claim, action, suit or proceeding. **THE COMPANY HEREBY ACKNOWLEDGES THAT THE FOREGOING INDEMNITY SHALL BE APPLICABLE TO ANY CLAIMS, LIABILITIES, LOSSES, DAMAGES OR EXPENSES THAT HAVE RESULTED FROM OR ARE ALLEGED TO HAVE RESULTED FROM THE ACTIVE OR PASSIVE OR THE SOLE, JOINT OR CONCURRENT ORDINARY NEGLIGENCE OF MONITOR OR ANY OTHER INDEMNIFIED PERSON, SO LONG AS SUCH CLAIMS, LIABILITIES, LOSSES, DAMAGES OR EXPENSES ARE NOT A RESULT OF BAD FAITH OR WILLFUL MISCONDUCT OF MONITOR OR SUCH OTHER INDEMNIFIED PERSON, AS APPLICABLE.**

The foregoing right to indemnity shall be in addition to any rights that Monitor and/or any other Indemnified Person may have at common law or otherwise and shall remain in full force and effect following the completion or any termination of the engagement. The Company hereby consents to personal jurisdiction and to service and venue in any court in which any claim which is subject to this Agreement is brought against Monitor or any other Indemnified Person.

It is understood that, in connection with Monitor's engagement, Monitor may also be engaged to act for the Company in one or more additional capacities, and that the terms of this engagement or any such additional engagement(s) may be embodied in one or more separate written agreements. This indemnification shall apply to the engagement specified in the first paragraph hereof as well as to any such additional engagement(s) (whether written or oral) and any modification of said engagement or such additional engagement(s) and shall remain in full force and effect following the completion or termination of said engagement or such additional engagements.

The Company further understands and agrees that if Monitor is asked to furnish the Company a financial opinion letter or act for the Company in any other formal capacity, such further action may be subject to a separate agreement containing provisions and terms to be mutually agreed upon.

6. Confidential Information. Monitor agrees not to divulge any confidential information, secret processes or trade secrets disclosed by the Company or any of its subsidiaries to Monitor in connection with the performance of the services hereunder, unless the Company consents to the divulging thereof or such information, secret processes or trade secrets are publicly available or otherwise available other than as a result of a breach of this Section 6 to Monitor without restriction or breach of any confidentiality agreement or unless required by any governmental authority or in response to any valid legal process.

7. Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Texas, excluding any choice-of-law provisions thereof. Each of the parties hereby (a) irrevocably submits to the exclusive jurisdiction of the United States Federal District Court for the Northern District of Texas, sitting in Dallas County, Texas, the United States of America, in the event such court has jurisdiction or, if such court does not have jurisdiction, to any district court sitting in Dallas County, Texas, the United States of America, for the purpose of any suit, action or proceeding arising out of or relating to this Agreement, including any claims by any Indemnified Persons for indemnity pursuant to Section 5 hereof, (b) waives, and agrees not to assert in any such suit, action or proceeding, any claim that (i) it is not personally subject to the jurisdiction of such court or of any other court to which proceedings in such court may be appealed, (ii) such suit, action or proceeding is brought in an inconvenient forum, or (iii) the venue of such suit, action or proceeding is improper and (c) expressly waives any requirement for the posting of a bond by the party bringing such suit, action or proceeding. Each of the parties consents to process being served in any such suit, action or proceeding by mailing, certified mail, return receipt requested, a copy thereof to such party at the address in effect for notices hereunder, and agrees that such services shall constitute good and sufficient service of process and notice thereof. Nothing in this Section 7 shall affect or limit any right to serve process in any other manner permitted by law.

8. Notice. For purposes of this Agreement, all notices and other communications shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Directional Rentals Holdings, Inc.
Attn: Wesley DeHaven
1125 Regional Park Drive
Houston, Texas 77060
Facsimile: (281) 645-2014

If to Monitor:

Hicks Holdings Operating LLC
Attention: Curt Crofford, Rick Neuman, Lori McCutcheon, Genee Darden
100 Crescent Court, Suite 1200
Dallas, Texas 75201
Facsimile: (214) 615-2236

9. Assignment. This Agreement and all provisions contained herein shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned (other than with respect to the rights of Monitor, which may be assigned to any one or more of its principals or affiliates) by any of the parties without the prior written consent of the other parties.

10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

11. Other Understandings. All discussions, understandings and agreements heretofore made between any of the parties hereto with respect to the subject matter hereof are merged in this Agreement, which alone fully and completely expresses the Agreement of the parties hereto. All calculations of the Monitoring Fee and Reimbursable Expenses shall be made by Monitor and, in the absence of mathematical error, shall be presumed correct.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

HICKS HOLDINGS OPERATING LLC

By: /s/ Lori K. McCutcheon
Name: Lori K. McCutcheon
Title: Vice President

DIRECTIONAL RENTALS HOLDINGS, INC.

By: /s/ Thomas O. Hicks
Name: Thomas O. Hicks
Title: President

**FIRST AMENDMENT TO
MONITORING AND OVERSIGHT AGREEMENT**

This FIRST AMENDMENT TO MONITORING AND OVERSIGHT AGREEMENT (this "Amendment") is made and entered into as of February 13, 2023, between Drilling Tools International Holdings, Inc., a Delaware corporation (f/k/a Directional Rentals Holdings, Inc., together with its successors, the "Company"), and Hicks Holdings Operating LLC, a Texas limited liability company (together with its successors, "Monitor").

WHEREAS, the Company and Monitor entered into that certain Monitoring and Oversight Agreement, dated January 27, 2012 (the "Agreement"), pursuant to which Monitor rendered financial oversight and monitoring services to the Company as requested from time to time by the board of directors of the Company;

WHEREAS, the term of the Agreement expired on January 27, 2022 (the "Expiration Date") and neither the Company nor Monitor was aware of such expiration;

WHEREAS, from and after the Expiration Date, Monitor continued to provide the financial oversight and monitoring services in accordance with the terms of the Agreement and the Company continued to pay for such services in accordance with the terms of the Agreement;

WHEREAS, the Company and Monitor desire to revive the Agreement, ratify the payments made by the Company to Monitor and amend the Agreement as set forth below to provide for the continued provision of oversight and monitoring services by Monitor to the Company.

NOW, THEREFORE, in consideration of the services rendered and to be rendered by Monitor to the Company, and to evidence the obligations of the Company to Monitor and the mutual covenants herein contained, the Company hereby agrees with Monitor as follows:

1. Revival. The Agreement is hereby revived, effective as of the Expiration Date, and will continue in full force and effect from and after such date until the term of the Agreement expires pursuant to Section 2 thereof, as amended by this Amendment, or is terminated in accordance with its terms.

2. Ratification. The provision of oversight and monitoring services by Monitor to the Company from and after the Expiration Date until the date of this Amendment and the payment by the Company to Monitor of fees in respect of such services, in each case, were provided and paid pursuant to the terms of the Agreement.

3. Amendment. Effective as of January 26, 2022, the Agreement is hereby amended as follows:

(a) Clause (i) of Section 2 is hereby deleted and replaced with:

"(i) December 31, 2027,"

(b) Section 12. The following is added as a new Section 12.

Section 12. Assumption by Acquiror. In the event that, as a result of a transaction or series of related transactions, the Company becomes a wholly owned subsidiary of another corporation, limited liability company, partnership or other entity (the "Acquiror"), then the Company shall assign to the Acquiror, and shall cause the Acquiror to assume from the Company, the Company's obligations under this Agreement, effective as of the closing of such transaction or series of related transactions, and all references to Company hereunder shall be to the Acquiror from and after the such assignment and assumption.

4. No Other Amendments. Except as modified and amended herein, the terms and provisions of the Agreement shall remain in full force and effect.

5. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

HICKS HOLDINGS OPERATING LLC

By: /s/ Thomas O. Hicks
Name: Thomas Hicks
Title: Authorized Person

DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.

By: /s/ R. Wayne Prejean
Name: R. Wayne Prejean
Title: President and Chief Executive Officer

Exhibit 10.13

<u>ASSIGNMENT AND ASSUMPTION AGREEMENT</u>

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this "**Agreement**") is made and entered into as of June 20, 2023 (the "**Effective Date**"), between Drilling Tools International Holdings, Inc., a Delaware corporation (f/k/a Directional Rentals Holdings, Inc.) ("**Assignor**"), and Drilling Tools International Corporation, a Delaware corporation (f/k/a ROC Energy Acquisition Corp.) ("**Assignee**").

RECITALS

WHEREAS, Assignor is party to that certain Monitoring and Oversight Agreement, dated as of January 27, 2012, between Assignor and Hicks Holding Operating LLC, as amended by the First Amendment thereto dated February 13, 2023 (as amended, the "**Monitoring Agreement**");

WHEREAS, Assignee acquired Assignor pursuant to a business combination consummated on June 20, 2023; and

WHEREAS, Assignor wishes to assign to Assignee, and Assignee agrees to assume from Assignor, all of Assignor's rights and obligations under the Monitoring Agreement, which is required by Section 12 of the Monitoring Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants, agreements and conditions set forth in this Agreement, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

1. **<u>Assignment by Assignor</u>**. Assignor hereby assigns to Assignee, effective as of the Effective Date, all of Assignor's rights under the Monitoring Agreement.

2. **<u>Assumption</u>.** Assignee hereby assumes and shall pay, perform and discharge, effective as of the Effective Date, all of Assignor's obligations under the Monitoring Agreement.

3. **<u>Further Assurances</u>**. The parties hereto covenant and agree to execute such further instruments and take such further action as may reasonably be required by either party to fully effectuate the terms and provisions of this Agreement and the transactions contemplated herein.

4. **<u>Survival of Provisions</u>**. The covenants and obligations contained in this Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

5. **<u>Counterparts</u>**. This Agreement may be executed by facsimile or as an attachment to electronic mail in "Portable Document Format" (PDF), or "Tagged Image File Format" (TIFF), in multiple counterparts with the same effect as if all signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

[Signatures Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ASSIGNOR:

DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.

By: /s/ R. Wayne Prejean
Name: R. Wayne Prejean
Title: President and Chief Executive Officer

ASSIGNEE:

DRILLING TOOLS INTERNATIONAL CORPORATION

By: /s/ R. Wayne Prejean
Name: R. Wayne Prejean
Title: President and Chief Executive Officer

[*Signature Page to Assignment and Assumption Agreement*]

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") dated as of September 1, 2013 (the "Effective Date") is entered into between Directional Rentals, Inc., a Louisiana corporation (the "Company"), Robert Wayne Prejean ("Employee") and, solely for purposes of Articles IV and V, Directional Rentals Holdings, Inc., a Delaware corporation ("Parent").

WITNESSETH:

WHEREAS, the Company is a wholly-owned subsidiary of Parent;

WHEREAS, the Company desires to employ Employee pursuant to the terms and conditions set forth in this Agreement, and Employee desires to be employed by the Company pursuant to such terms and conditions;

WHEREAS, contemporaneously with the execution of this Agreement, Parent and Employee are entering into a Nonqualified Stock Option Agreement (the "Option Agreement") under the Directional Rentals Holdings, Inc. 2012 Nonqualified Stock Option Plan (the "Plan") pursuant to which Employee is receiving the option to purchase [5,266,000] shares of the common stock of Parent in accordance with the terms thereof;

WHEREAS, Employee will receive during the course of his employment with the Company, Confidential Information (as defined herein); and

WHEREAS, the execution of this Agreement by Employee constitutes a material inducement to the Company and Parent to provide Confidential Information to Employee and to enter into the Option Agreement.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein, the Company, Parent and Employee agree as follows:

ARTICLE I
EMPLOYMENT AND DUTIES

1.1 Term of Employment. The Company agrees to employ Employee, and Employee agrees to be employed by the Company, subject to the terms and conditions of this Agreement, beginning as of the Effective Date and continuing until December 31, 2016 (the "Initial Term"). Employee's employment with the Company will continue for successive one-year periods after the end of the Initial Term (each such one-year period a "Renewal Term" and collectively with the Initial Term, the "Term"), subject to the terms and conditions of this Agreement, unless either party hereto has given written notice to the other party of its intent not to renew this Agreement at least sixty (60) days prior to the end of the then current Term (the "Non-Renewal Notice"). During any Renewal Term, the terms, conditions and provisions set forth in this Agreement shall remain in effect unless otherwise agreed to in writing by the parties.

1.2 Duties. Employee shall be employed by the Company as the President and Chief Executive Officer of the Company. In addition, Employee shall have such other authorities, responsibilities and duties of an executive, managerial or administrative nature as determined by the board of directors of Parent (the "Board") from time to time. Employee shall at all times comply with the reasonable policies and procedures of the Company as in effect from time to time. While employed hereunder, Employee shall devote his full time and attention during normal business hours to the business affairs of the Company and use Employee's best efforts to perform faithfully and effectively Employee's duties and responsibilities and Employee shall not engage, directly or indirectly, in any other business or businesses, whether or not similar to that of the Company, except with the prior consent of the Board, which shall not be unreasonably withheld. It shall not be a violation of the immediately preceding sentence for Employee to (i) serve on civic or charitable boards or committees or (ii) manage personal investments, in each case so long as such activities do not significantly interfere with the performance of Employee's duties and responsibilities as an employee of the Company under this Agreement. Employee acknowledges and agrees that Employee owes a fiduciary duty of loyalty to act at all times in the best interests of the Company. In keeping with such duty, Employee shall make full disclosure to the Company of all business opportunities pertaining to Company's business and shall not appropriate for Employee's own benefit business opportunities concerning the Company's business.

ARTICLE II
COMPENSATION AND BENEFITS

2.1 Base Salary.

(a) During the Term the Company shall pay Employee an annual base salary of $275,000 (as increased from time to time in accordance with Section 2.1(b), the "Base Salary"), which shall be paid in accordance with the Company's standard payroll practice or as otherwise mutually agreed in a manner that does not cause Base Salary to constitute "nonqualified deferred compensation" pursuant to Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended (the "Code"). The Base Salary may be increased from time to time in the sole discretion of the Board.

(b) The Base Salary shall automatically increase to $325,000 in any calendar year in which the Adjusted Earnings (as defined herein) for such year exceeds $25,000,000, such increase being effective as of January 1 of such year and continuing for the remainder of the Term. The Base Salary shall automatically increase to $375,000 in any calendar year in which the Adjusted Earnings for such year exceeds $30,000,000, such increase being effective as of January 1 of such year and continuing for the remainder of the Term.

As used herein, "Adjusted Earnings" means, for any period, with respect to Parent and its subsidiaries on a consolidated basis and without duplication (i) net income (as that term is determined in accordance with GAAP) for such period, plus (ii) the amount of depreciation and amortization of fixed and intangible assets deducted in determining such net income for such period, plus (iii) all Interest Expense and all fees for the use of money or the availability of money, including commitment, facility and like fees and charges upon Indebtedness, paid or accrued during such period, plus (iv) all tax liabilities paid or accrued during such period, plus (v) fees, expenses and indemnifications under the Monitoring and Oversight Agreement, dated as of January 27, 2012, between Parent and Hicks Holdings Operating LLC, and the Transaction Services Agreement, dated as of January 27, 2012, between Parent and Hicks Holdings

Operating LLC, plus (vi) fees, expenses, costs, and other charges related to the acquisitions made pursuant to that certain Stock Purchase and Contribution Agreement, dated as of January 27, 2012, by and among Parent, as Buyer, the holders identified therein and the Company relating to the acquisition and contribution of the equity interests in the Company, that certain Purchase and Contribution Agreement, dated as of January 27, 2012, by and among Parent, as Buyer, the holders identified therein and Allegiant Tool & Machine, LLC relating to the acquisition and contribution of the equity interests in Allegiant and the Asset Purchase Agreement, dated as of June 28, 2013, between the Company and Smith International, Inc. relating to the acquisition of certain assets, and the entering into the Credit Agreement, plus (vii) fees, expenses, costs and other charges related to any acquisition of a business approved by the Board, plus (viii) equity compensation expenses which do not represent a cash item in such period or any future period, plus (ix) non-cash items for impairment charges and purchase accounting charges, less (x) extraordinary non-cash items increasing such Adjusted Earnings, less (xi) the amount of all gains (or plus the amount of all losses) realized during such period upon the sale or other disposition of property or assets that are sold or otherwise disposed of outside the ordinary course of business. The Board may in its sole discretion take into account additional extraordinary, non-recurring items in determining Adjusted Earnings. The Board shall determine the Adjusted Earnings for any period and, absent manifest error that is material, such determination shall be conclusive and final.

As used herein, "Credit Agreement" means the Loan and Security Agreement, dated as of January 27, 2012, between the Company, Parent and the financial institutions named therein, and Capital One Leverage Finance Corp., as agent, as amended, amended and restated, extended, joined, supplemented and/or otherwise modified from time to time

As used herein, "GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board that are applicable to the circumstances as of the date of determination.

As used herein, "Indebtedness" has the meaning ascribed to such term in the Credit Agreement.

As used herein, "Interest Expense" means, for any period, all interest with respect to Indebtedness (including, without limitation, the interest component of Capitalized Lease Obligations (as defined in the Credit Agreement)) accrued or capitalized during such period (whether or not actually paid during such period) determined in accordance with GAAP.

2.2 Bonus.

(a) Commencing with respect to the calendar year beginning on January 1, 2014, as additional compensation for the performance of Employee's duties under this Agreement, Employee shall be eligible for an annual bonus ("Bonus") consisting of an Adjusted Earnings performance component ("Earnings Based Bonus"), a qualitative performance component ("Qualitative Bonus") and a discretionary component ("Discretionary Bonus"). Any bonus with respect to calendar year 2013 shall be determined and awarded in the sole discretion of the Board. The Board shall consider whether to grant Employee a Bonus in respect of a calendar year within one hundred twenty (120) days after the end of such calendar year. If the Board determines to grant Employee a Bonus in respect of a calendar year, then such Bonus shall be paid within thirty (30) days after such determination.

(b) The target Earnings Based Bonus for each calendar year will be 100% of the amount of the Base Salary paid in such calendar year (the "Target Earnings Based Bonus") and will be determined by reference to Adjusted Earnings actually achieved in such year ("Actual Adjusted Earnings") compared to the target Adjusted Earnings established by the Board for such year ("Target Adjusted Earnings"). If Actual Adjusted Earnings equals Target Adjusted Earnings, Employee shall receive an Earnings Based Bonus equal to the Target Earnings Based Bonus. If Actual Adjusted Earnings is less than 80% of the Target Adjusted Earnings, the Earnings Based Bonus will be zero. If Actual Adjusted Earnings equals 80% of Target Adjusted Earnings, Employee shall receive an Earnings Based Bonus equal to 50% of the Target Earnings Bonus. If Actual Adjusted Earnings equals or exceeds 110% of Target Adjusted Earnings, Employee shall receive an Earnings Based Bonus equal to 125% of the Target Earnings Bonus. For Actual Adjusted Earnings between 80% and 100% or between 100% and 110% of Target Adjusted Earnings, the amount of the Earnings Based Bonus shall be prorated in a manner consistent with the foregoing.

(c) The target Qualitative Bonus for each calendar year will be 18.75% of the amount of the Base Salary paid in such calendar year (the "Target Qualitative Bonus") and will be determined by reference to the Average Score (as defined below) for Employee's achievement of the Objectives (as defined below) in such year. At the beginning of each calendar year during the Term, the Board, with Employee's input, will establish certain qualitative objectives for Employee and/or the Company for such year (the "Objectives") and the relative weighting of each such Objective. Following the end of such year, the Board shall determine whether and the extent to which Employee and/or the Company achieved each of the Objectives, and shall assign a score for each Objective in accordance with the following:

Objective	Score
Not achieved	0
Achieved	1
Achieved and exceeded	2

Whether the Objectives have been achieved or exceeded by Employee and/or the Company and the score assigned in respect thereof shall be determined by the Board in its sole discretion. The total scores for all of the Objectives shall be averaged based on the weighting determined by the Board in establishing the Objectives (such weighted average, the "Average Score"). With respect to a calendar year during the Term, Employee shall receive a Qualitative Bonus for such year determined by multiplying (i) the Average Score by (ii) the Target Qualitative Bonus. For purposes of illustration, if the Average Score is 2.0 (the maximum possible), the Qualitative Bonus would be calculated as follows:

$$2.0 \times 18.75\% = 37.5\% \text{ of Base Salary}$$

(d) The Discretionary Bonus for each calendar year will be up to 37.5% of the amount of the Base Salary paid in such year, and shall be determined by the Board in its sole discretion based on exceptional performance by Employee in such year. The Board may take into consideration any factors that it deems appropriate in determining whether to award a Discretionary Bonus, including extraordinary actions that create significant stockholder value for the Company such as the successful completion of an accretive acquisition.

2.3 Equity Compensation. In addition to the compensation set forth in Sections 2.2 and 2.2, Employee shall be eligible to receive stock options, restricted stock awards or such other equity compensation pursuant to the policies and/or plans adopted from time to time by the Board in its sole discretion. The terms and conditions of any such stock options, restricted stock awards or other equity compensation shall be set forth in the governing documents entered into between Employee and the Company in connection therewith.

2.4 Tax Withholding. The Company may withhold from any compensation, benefits or amounts payable to Employee all amounts (including social security contributions and federal income taxes) required to be withheld pursuant to any applicable law.

2.5 Reimbursement of Business Expenses. Employee shall be reimbursed by the Company for reasonable travel, lodging, meals, customer entertainment and other expenses incurred by him in connection with performing his duties hereunder subject to, and documented in accordance with, the Company's policies in effect from time to time.

2.6 Employment Benefits. Employee shall be entitled to payment by the Company of the premium for Employee's health insurance under the Company's group health plan, four (4) weeks of vacation per year, sick pay, other paid and unpaid days off from work and other benefits made available to other executive officers of the Company (the "Benefits") pursuant to policies and/or plans adopted from time to time by the Company, which Benefits will, when appropriate, be prorated in any calendar year during which the Employee is employed for less than the entire year (with such proration to be based on the number of days in such calendar year during which he is employed by the Company). The Company shall provide Employee with a vehicle allowance of $1,000 per month and Employee shall be solely responsible for the cost of owning, operating, maintaining and insuring his vehicle. The Company shall provide Employee with a golf club membership allowance of $[●] per month and Employee shall be solely responsible for the cost of such membership. Except as otherwise specifically provided in this Agreement, Employee is not entitled to any fringe benefits, additional compensation or perquisites including, without limitation, reimbursement for personal expenses, health club membership and spousal compensation. Employee shall be responsible for payment of the premium for health insurance coverage for his spouse and dependents under the Company's group health plan. Notwithstanding anything in this Agreement to the contrary, the Company shall not by reason of this Agreement be obligated to institute, maintain or refrain from changing, amending or discontinuing, any benefit plan or program, so long as such changes are similarly applicable to employees of the Company generally.

2.7 Indemnification. The Company shall, to the fullest extent permitted by applicable law and the Company's Bylaws, indemnify, defend and hold harmless Employee from and against any and all claims, demands, losses, damages, liabilities, judgments, awards, penalties, fines, settlements, costs and expenses (including court costs and reasonable attorneys' fees) arising from any action, suit or proceeding (whether civil, criminal, administrative, arbitrative or investigative) made against Employee by any person other than the Company or Parent in connection with or related to his service of the Company regardless of whether the Term of the Agreement has expired or Employee's employment has terminated under the Agreement.

ARTICLE III
TERMINATION PRIOR TO EXPIRATION AND EFFECTS OF SUCH TERMINATION

3.1 Termination by Company. The Company shall have the right to terminate Employee's employment at any time prior to the expiration of the Term:

(a) for Cause, upon the determination by the Company that Cause exists for termination of Employee's employment (a "Termination for Cause"). As used herein, the term "Cause" means (i) Employee's gross negligence or willful misconduct in connection with the performance of Employee's duties; (ii) Employee's commission of, or plea of no contest to, a felony or a crime involving moral turpitude; (iii) Employee's willful refusal without proper legal reason to perform the duties and responsibilities required of Employee under this Agreement or to otherwise fail or refuse to abide by and comply with the Company's lawful policies and procedures (including those contained in any employment manual, as amended from time to time, made available to Employee); (iv) Employee's material breach of any material provision of this Agreement or the Stockholders' Agreement of Parent (the "Stockholders' Agreement"); (v) alcohol abuse or illegal drug use by Employee that is determined by the Board acting in good faith to materially impair Employee's ability to perform his duties and responsibilities hereunder; or (vi) Employee's engagement in any activity that constitutes a conflict of interest between Employee and the Company, without disclosure to and the consent of the Board, if such activity results or is reasonably likely to result in material damage to the Company. Prior to terminating Employee's employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.1(a), the Company shall provide Employee with a written notice of its intent to terminate his employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.1(a). Such written notice shall specify the particular act or acts or failure or failures to act that form(s) the basis for the decision to so terminate Employee's employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.1(a). If such acts or failures may reasonably be remedied or cured, and if such acts or failures have not been the subject of a previous notice under this Section 3.1(a), Employee shall have thirty (30) days following the receipt of the notice required under this Section 3.1(a) to effect that remedy or cure. Upon or after the Company's issuance of the notice of intent to terminate Employee's employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.1(a), the Company may suspend Employee with pay pending the Company's decision whether to proceed with the termination;

(b) for any reason other than Cause or a Disability Termination (a "Termination Without Cause"); or

(c) if Employee becomes unable to substantially perform, with reasonable accommodation, Employee's duties as a result of a physical or mental impairment, as determined by a physician selected by Employee and approved by the Company, for a period of 180 days in any 360 day period (a "Disability Termination").

3.2 Termination by Employee.

(a) Employee shall have the right to terminate Employee's employment at any time prior to the expiration of the Term for no reason (a "Voluntary Resignation") or for Good Reason (a "Good Reason Termination"). For purposes of this Agreement, "Good Reason" means any of the following actions if taken without Employee's prior consent:

(i) The Company's failure to pay Employee any amounts otherwise vested and due under this Agreement in accordance with this Agreement;

(ii) A reduction in the then current base salary or title of Employee;

(iii) A material reduction in the authority, duties or responsibilities of Employee;

(iv) The Company's requirement that Employee report to any person other than the Board;

(v) The failure of any successor or assignee to all or substantially all of the assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place;

(vi) The Company's requirement that Employee relocate to any place other than the Houston, Texas greater metropolitan area; or

(vii) Any material breach by the Company of this Agreement.

Any termination of employment by Employee that is not a Good Reason Termination shall constitute a Voluntary Resignation.

(b) To exercise his right to terminate for Good Reason, Employee must provide written notice to the Company within thirty (30) days after an event that Employee believes constitutes "Good Reason," and such notice shall describe the circumstance believed to constitute Good Reason, or Employee will have and will be deemed to have waived his right to terminate his employment for Good Reason for any such event. Employee's Good Reason Termination must be effective no later than 2 years following the event that Employee believes constitutes Good Reason. Employee may not terminate his employment for Good Reason if the Company cures such event within thirty (30) business days after receiving Employee's notice of the event that Employee believes constitutes Good Reason.

3.3 Termination upon Death. Employee's employment shall terminate automatically upon his death.

3.4 Obligations Due Upon Termination for Cause. Upon a Voluntary Resignation, a Termination for Cause, a termination due to Employee's death or if Employee delivers a Non-Renewal Notice, Employee shall be paid (i) the accrued and unpaid portion of Employee's Base Salary through the date of Employee's termination of employment (the "Compensation Payment"), (ii) any accrued but unused vacation days for the calendar year in which Employee's termination of employment occurs (the "Vacation Payment") and (iii) any reimbursement for business travel and other expenses to which Employee is entitled under Section 2.5 (the "Reimbursement"), in each case in accordance with the Company's standard payroll practice; however, except as provided in this Section 3.4, Employee shall not be entitled to any additional compensation or benefits which would otherwise have been provided pursuant to this Agreement had the Term continued following such termination of employment, including, without limitation, any bonuses, incentive compensation, stock option or other equity based award that is not vested or payable pursuant to its terms at the date of such termination of employment.

Upon a Voluntary Resignation, a Termination for Cause or if Employee delivers a Non-Renewal Notice, Employee (and his assigns and transferees) shall (i) forfeit any unvested stock options, restricted stock or unit awards and other equity based awards granted by the Company or its Affiliates to Employee (collectively, "Unvested Equity Awards") and (ii) be entitled to retain any vested stock options, restricted stock or unit awards and other equity based awards granted by the Company or its Affiliates to Employee (collectively, "Vested Equity Awards"), subject to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan.

Upon a termination due to Employee's death, Employee shall (i) be paid a Prorated Bonus (as defined below), (ii) be immediately vested in any outstanding Unvested Equity Awards (other than the option granted in the Option Agreement for the Class I Performance Shares and the Class II Performance Shares (as such terms are defined in the Option Agreement) and any other Unvested Equity Awards that vest solely upon or as a result of a Change of Control (as defined in the Plan)) and (iii) be entitled to retain any Vested Equity Awards that are vested as of the date of such termination subject to, in the case of clauses (ii) and (iii) of this sentence, the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan.

As used herein, "Affiliate" means with respect to any natural person, corporation, partnership, limited liability company, trust, unincorporated organization or other entity (each, a "Person"), another Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such Person; as used herein, "control" means the possession, directly or indirectly through one or more intermediaries, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

3.5 Obligations Due Upon Termination Without Cause. Upon a Termination without Cause, a Disability Termination, a Good Reason Termination or if the Company delivers a Non-Renewal Notice, then Employee shall be paid (a) the Compensation Payment, the Vacation Payment, the Reimbursement and the Prorated Bonus (as defined below), in each case paid in accordance with the normal payroll practices of the Company, and (b) for a period of fifteen (15) months following termination, beginning in the Severance Commencement Month, an amount each month equal to the Monthly Severance Amount (as defined below), payable each month in accordance with the normal payroll practices of the Company (the Prorated Bonus and the amounts payable under this Section 3.5 are "Severance Payments").

In addition, upon a Termination without Cause, a Disability Termination, a Good Reason Termination or if the Company delivers a Non-Renewal Notice, the Company shall, for a period of fifteen (15) months following termination, beginning in Severance Commencement Month, pay the premium for Employee's health insurance under the same group health insurance policy(ies) that is (are) provided to employees of the Company, subject to the terms of and to the extent permitted by the Company's group health insurance policy(ies), the standard terms of the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"), and Employee making appropriate elections to participate in such coverage (such payments, the "Severance Benefits").

Upon a Termination without Cause, a Good Reason Termination or a Disability Termination, Employee shall (a) be immediately vested in any outstanding Unvested Equity Awards (other than the option granted in the Option Agreement for the Class I Performance Shares and the Class II Performance Shares (as such terms are defined in the Option Agreement) and any other Unvested Equity Awards that vest solely upon or as a result of a Change of Control (as defined in the Plan)) as of the date of such termination and (b) be entitled to retain any Vested Equity Awards as of the date of such termination, subject, in the case of clauses (a) and (b) of this sentence, to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan.

If the Company delivers a Non-Renewal Notice, Employee (and his assigns and transferees) shall (i) forfeit any Unvested Equity Awards as of the first day after the Term in which such Non-Renewal Notice is delivered and (ii) be entitled to retain any Vested Equity Awards, subject to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan.

Employee shall not be entitled to receive any Severance Payments, Severance Benefits or other rights pursuant to this Section 3.5, and shall forfeit any Unvested Equity Awards held by him, unless within sixty (60) days following his termination of employment during Employee's lifetime (or, if later, within thirty (30) days of the Company providing notice to Employee that he is required to deliver a release pursuant to this sentence) and provided that Employee is alive and competent to do so, Employee has executed (and not revoked) and delivered to the Company a general release of all claims that Employee may have or assert against the Company and its Affiliates relating to Employee's employment and the terms hereunder in the form attached hereto as Exhibit A (the "Release").

If the Company has notified Employee that Employee's employment with the Company has been terminated for Cause, then Employee will not be obligated to provide the Release and shall not, solely as a result of Employee's failure to have provided the Release, if it is subsequently determined that Employee was not properly terminated for Cause, forfeit or lose his right to receive any Severance Payments, Severance Benefits or other rights pursuant to this Section 3.5, and shall not forfeit or lose any Unvested Equity Awards held by him as of the date of such termination.

As used herein, "Prorated Bonus" means an amount equal to 50% of Employee's Base Salary in effect immediately prior to his termination of employment, multiplied by a fraction, the numerator of which is the number of days during the calendar year up to and including the termination of employment, and the denominator of which is 365 (the "Prorated Bonus"); provided that if the termination of employment occurs within one hundred and twenty (120) days following the end of the immediately preceding calendar year and the Board has not otherwise determined Employee's Bonus in respect of such immediately preceding year prior to the date of termination, the Prorated Bonus shall be increased by an amount equal to 50% of Employee's Base Salary in effect immediately prior to his termination of employment and Employee shall not be eligible for or paid a Bonus under Section 2.2.

As used herein, "Monthly Severance Amount" means an amount equal (i) 150% of Employee's Base Salary in effect immediately before the termination of Employee divided by (ii) twelve (12).

As used herein, "Severance Commencement Month" means (i) if Employee's employment is terminated during the last sixty (60) days of any calendar year, the later of the first month following Employee's delivery of the Release to the Company in accordance with this Section 3.5 and the first month of the year following Employee's termination and (ii) if Employee's employment is terminated at any other time during the year, the first month following Employee's delivery of the Release to the Company in accordance with this Section 3.5.

3.6 Offsets. In all cases, the compensation payable to Employee under this Agreement upon termination of the employment relationship shall be offset against any amounts to which Employee may otherwise be entitled under any and all severance plans and policies of the Company or its Affiliates that would be aggregated with this separation pay plan under Section 409A regulations.

3.7 Continuation of Benefits. Notwithstanding any inference to the contrary in this Article III or elsewhere in this Agreement, upon any termination of Employee's employment with the Company, Employee and Employee's spouse shall have the right (at their option), with Employee and his spouse being responsible for the applicable premium, to continue to be covered under the same group health insurance policy(ies) that is (are) provided to employees of the Company, with such coverage remaining in effect for a minimum of six (6) months, but terminable earlier at the option of Employee or his spouse, subject to the terms of and to the extent permitted by the Company's group health insurance policy(ies), the standard terms of COBRA and Employee making appropriate elections to participate in such coverage. The Company shall notify Employee of his rights under this Section 3.7 within thirty (30) days of a termination of employment, provided that any notice provided to Employee in accordance with COBRA shall satisfy the Company's notice obligation for all purposes under this Section 3.7. Employee shall notify the Company of his and his spouse's election to obtain the coverage provided by this Section 3.7 no later than sixty (60) days after termination of Employee's employment with the Company.

3.8 Continuing Obligations. Termination of the employment relationship pursuant to Sections 3.1, 3.2 and 3.3 above, or pursuant to the delivery of a Non-Renewal Notice, shall not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Article IV.

ARTICLE IV
COVENANTS OF EMPLOYEE

4.1 Confidential Information.

(a) Employee recognizes that his employment by the Company is one of the highest trust and confidence because in the course of his employment with the Company Employee will acquire knowledge of, and become fully familiar with, all aspects of the Company's business during the term of this Agreement, including proprietary and confidential information that is special and of critical value to the Company. Employee acknowledges (i) that the Company owns and utilizes the Confidential Information (as defined below), (ii) that any Confidential Information existing on the Effective Date or developed thereafter is and will be owned by the Company and (iii) that he has no rights, interests or entitlements thereto. Employee acknowledges that hardship, loss or irreparable injury and damage could result to the Company if any Confidential Information were imparted to, or became known by, any Person engaging in a business in competition with that of the Company, the measurement of which hardship, loss or irreparable injury would be difficult if not impossible to ascertain. Therefore, Employee agrees that it is necessary for the Company to protect its business from such damage, and Employee further agrees that the following covenants constitute a reasonable and appropriate means, consistent with the best interest of Employee, the Company and Parent, to protect the Company and Parent against such damage and shall apply to and be binding upon Employee as provided herein.

As used herein, "Confidential Information" means, with respect to the Company, Parent and each of their Affiliates, any and all information, whether or not in writing, regarding: past, current and prospective customers, suppliers, service providers, investors and Affiliates, employees, contractors and the industry not generally known to the public; strategies, methods, books, records and documents; technical information concerning products, equipment, services and processes, including designs and specifications; procurement procedures, pricing and pricing techniques, including contact names, services provided, pricing, type and amount of services used; pricing strategies and price curves; positions; plans or strategies for expansion or acquisitions; budgets; research; financial and sales data; trading methodologies and terms; communications information; evaluations, opinions and interpretations of information and data; marketing and merchandising techniques; electronic databases; models; specifications; computer programs; contracts; bids or proposals; technologies and methods; training methods and processes; organizational structure; personnel information; payments or rates paid to consultants or other service providers; and other such confidential or proprietary information.

As used herein, "Court" means (i) any court established and functioning under the laws of any nation or state, or any political subdivision thereof, including the United States of America and any state of the United States of America and (ii) any arbitrator, arbitration panel or similar body.

(b) Employee agrees and covenants to use his best efforts and exercise utmost diligence to protect and safeguard the Confidential Information. Employee further agrees and covenants that, except as may be required by the Company or its Affiliates in connection with this Agreement, or with the prior written consent of the Company and Parent, Employee shall not, either during the term of this Agreement or thereafter, directly or indirectly, use for Employee's own benefit or for the benefit of another, or disclose, disseminate or distribute to another, any Confidential Information (whether or not acquired, learned, obtained or developed by Employee alone or in conjunction with others). All memoranda, notes, records, drawings, documents or other writings whatsoever made, compiled, acquired or received by Employee during the term of this Agreement related to Employee's employment or performance hereunder, arising out of, in connection with, or related to any business of the Company or its Affiliates, including, but not limited to, Confidential Information, are, and shall continue to be, the sole and exclusive property of the Company, and shall, together with all copies thereof and all advertising literature, be returned and delivered to the Company by Employee immediately, without demand, upon the termination of this Agreement, or at any time upon the Company's demand.

(c) The obligations of Employee regarding Confidential Information shall not apply if (i) it was generally known (including information that is publicly available) in the industries in which the Company or Parent engages or may engage prior to disclosure other than as a result of a breach of this Agreement by Employee, (ii) such disclosure comes into the public domain (including the industries in which the Company or Parent engages or may engage) through no fault of Employee, or (iii) such disclosure is required by law or compelled by court order.

4.2 Non-Solicitation; Non-Competition.

(a) Employee covenants that, during the term of this Agreement and for a period of two (2) years following the termination of Employee's employment with the Company under this Agreement (together, the "Non-Solicitation Period"), other than on behalf of the Company or its Affiliates, Employee will not, either directly or indirectly, for himself or on behalf of any other Person, solicit for employment, or otherwise encourage the departure of, an individual who was or is employed or engaged by the Company or its Affiliates during the Non-Solicitation Period.

(b) Employee hereby covenants and agrees that, during the Non-Solicitation Period, other than on behalf of the Company or its Affiliates, Employee will not, directly or indirectly, engage in either of the following activities in any county or parish in which the Company or any of its Affiliates operates as of the Effective Date or during the Non-Solicitation Period, including, but not limited to, the counties and parishes in California, Louisiana, Oklahoma, Texas and Wyoming set forth in Exhibit B (collectively, the "Restricted Area") in the business of renting drill collars, stabilizers, sub-assemblies and flow valves to participants in the oil and natural gas exploration and production industry or any other business in which the Company or any Affiliate that employs Employee is engaged during the Non-Solicitation Period (the "Business"):

(i) carry on or engage, for himself or on behalf of any other Person, in the Business; or

(ii) own, manage, operate, control, be employed by or participate in the management, ownership, operation or control of, or be connected in any manner with, any business (whether as director, officer, employee, agent, representative, partner, security holder, consultant or otherwise) engaged in a business that is the same as or substantially similar to the Business.

Notwithstanding the foregoing, Employee shall be permitted to acquire as a passive investment not more than 10% of the outstanding equity securities of any company engaged in such competitive activities, the equity securities of which are traded on a national securities exchange.

(c) Employee hereby acknowledges that he has and will acquire knowledge of certain business contacts and information regarding the Company's and its Affiliates' clients, customers and certain Persons whom the Company or any of its Affiliates has identified as prospective clients and customers. During the Non-Solicitation Period, other than on behalf of the Company or its Affiliates, Employee shall not, directly or indirectly, for himself or on behalf of any other Person, solicit the sale or lease of goods, services or a combination of goods and services that are the same as or substantially similar to those offered or provided by the Company or its Affiliates in the Business during the Term and preceding termination of Employee's employment with the Company or its Affiliates from (i) any established customer of the Company or its Affiliates or (ii) any prospective customer of the Company or its Affiliates with which Employee had contact during the Non-Solicitation Period.

(d) If Employee is found to have breached any promise made in this Section 4.2 during the Non-Solicitation Period, the Non-Solicitation Period will be extended by a month for each month in which Employee was in breach so that the Company is provided the benefit of the full three-year period.

4.3 Intellectual Property. Employee agrees that all Inventions in the Field (as defined below) shall be the sole and exclusive property of the Company and Employee agrees, on his behalf and on behalf of his heirs, assigns and representatives, to assign and transfer to the Company or its designee, without any separate remuneration or compensation, his entire right, title and interest in and to all Inventions in the Field, together with all United States and foreign rights with respect thereto, and, at the Company's expense, to execute, acknowledge and deliver all papers and to do any and all other things necessary for or incident to the applying for, obtaining and maintaining of such letters patent, copyrights, trademarks or other intellectual property rights and to perform all lawful acts, including giving testimony, and to execute and deliver all such instruments that may be necessary or proper to vest all such Inventions in the Field and patents and copyrights with respect thereto in the Company, and to assist the Company in the prosecution or defense of any interference which may be declared involving any of said patent applications, patents, copyright applications or copyrights. In the event the Company is unable, after reasonable efforts and, in any event, after ten (10) business days, to secure Employee's signature on a written assignment to the Company, of any application for letters patent, trademark registration or to any common law or statutory copyright or other property right therein, whether because of his physical or mental incapacity, or for any other reason whatsoever, Employee irrevocably designates and appoints the Secretary of the Company as Employee's attorney-in-fact to act on Employee's behalf to execute and file any such applications and to do all lawfully permitted acts to further the prosecution or issuance of such assignments, letters patent, copyright or trademark. Employee agrees to fully and promptly disclose to the Company any Inventions in the Field.

As used herein, "Inventions in the Field" means any and all inventions, developments, applications, techniques, discoveries, innovations, writings, domain names, improvements, trade secrets, designs, drawings, business processes, secret processes, know-how and all other intellectual property, whether or not patentable or constituting a copyright or trademark and whether reduced to practice or not, which Employee has previously or may in the future create, conceive, develop or make, either alone or in conjunction with others (whether on or off the Company's premises or during or after normal working hours) and related or in any way connected with the Company, its strategic plans, products, processes, apparatus or business now or hereafter carried on by the Company. Employee represents, warrants and covenants on the date hereof that (i) he does not have any applications for patents or copyright registrations pending, either domestic or foreign, (ii) his performance of the foregoing disclosure and assignment provisions will not breach any invention assignment or proprietary information agreement with any former employer or other party, and (iii) there is no invention or works or authorship now in his possession which he will claim to be excluded herefrom.

4.4 Assistance in Litigation. After the Term and for so long as HHEP-Directional, L.P., a Delaware limited partnership, and its Affiliates own, directly or indirectly, more than 50% of the outstanding common stock of the Company, Employee shall, upon reasonable notice, furnish such information and assistance to the Company, Parent or any of their Affiliates as may reasonably be requested by the Company in connection with any litigation in which the Company, Parent or any of their Affiliates is, or may become, a party. The Company shall reimburse Employee for all reasonable out-of-pocket expenses, including travel expenses, incurred by Employee in rendering such assistance, but shall have no obligation to compensate Employee for his time in providing information and assistance in accordance with this Section 4.4.

4.5 Survival. Each covenant of Employee set forth in this Article IV shall survive the termination of this Agreement and shall be construed as an agreement independent of any other provision of this Agreement, and the existence of any claim or cause of action of Employee against the Company whether predicated on this Agreement or otherwise shall not constitute a defense to the enforcement by the Company of said covenants.

4.6 Specific Performance; Invalidity. The Company and Employee agree that it would not be possible to measure in monetary terms the damages which the Company and Parent would incur if any Employee breaches his obligations under this Article IV. Therefore, if the Company and/or Parent, after a breach of this Article IV by Employee, lawfully institutes any action or proceedings to enforce its rights hereunder, Employee agrees not to assert, and hereby forever waives, the claim or defense that the Company and/or Parent, as applicable, has an adequate remedy at Law. In the event of a breach of this Article IV, Employee further agrees, upon order of a Court and so long as the Company is not in breach of this Agreement, to reimburse the Company for all costs and expenses, including reasonable attorneys' fees, incurred in enforcing their rights hereunder. If Employee violates any of the covenants set forth in this Article IV, prior to a breach by the Company of this Agreement, the Company and Parent will suffer irreparable damage and shall be entitled to specific performance, full injunctive relief or such other relief as may be provided at law or in equity together with such damages as may be provided at law or in equity.

Insofar as the covenants set forth in this Article IV are concerned, Employee specifically acknowledges and agrees as follows: (i) he is receiving a substantial benefit as a result of this Agreement and the Option Agreement; (ii) he will be receiving cash payments; (iii) the Business is highly competitive and the assets of the Company, including the Confidential Information, goodwill, customer contacts, potential revenue and customer lists, are valuable, as used by the Company and Parent in the Business and, further, that protection against competition is of critical importance to the Company; (iv) the covenants are reasonable and not greater than necessary to protect the Confidential Information and the goodwill and operation of the Business; (v) the time duration of the covenants and the geographical area limitations of the covenants are reasonable and necessary to protect the Confidential Information and the goodwill and operation of the Business; and (vi) the covenants are not oppressive to Employee and do not impose a greater restraint on Employee than is necessary to protect the Confidential Information and the goodwill and operation of the Business.

It is the express intention of Employee and the Company to comply with all Laws which may be applicable to the covenants in this Article IV. Consequently, Employee and the Company hereby specifically agree that, if any Court shall determine any covenant contained in this Article IV to be effective in any particular area or jurisdiction only if such covenant is modified to limit its duration or scope, such covenant may be reformed or modified by the judgment or order of such Court to reflect a lawful and enforceable duration or scope. Such covenant automatically shall be deemed to be amended and modified with respect to that particular area or jurisdiction so as to comply with the judgment or order of such Court and, as to all other areas and jurisdictions covered by this Agreement, the terms and provisions hereof shall remain in full force and effect as originally written. If any Court shall hold any covenants contained in this Article IV to be void or otherwise unenforceable in any particular area or jurisdiction notwithstanding the operation of this provision, such covenant automatically shall be deemed to be amended so as to eliminate therefrom that particular area or jurisdiction as to which such covenant is so held void or otherwise enforceable and, as to all other areas and jurisdictions covered by this Agreement, the terms and provisions hereof shall remain in full force and effect as originally written.

4.7 Material Inducement. For the purposes of this Section 4.7, references to the “Company” shall include the Company and its Affiliates. Employee understands and hereby acknowledges that Employee’s agreement to be bound by the protective covenants set forth in this Article IV is a material inducement for the Company entering into this Agreement and the Option Agreement and agreeing to pay the Employee the compensation and benefits set forth herein and therein and to provide Employee the Confidential Information, and that the Company has made substantial investments to develop its business interests, goodwill and Confidential Information. Further, Employee understands the foregoing restrictions may limit his or her ability to engage in certain businesses during the period of time provided for, but acknowledges that Employee will receive sufficiently high remuneration and other benefits under this Agreement and the Option Agreement to justify such restriction and Employee represents and warrants that the knowledge, skills and abilities he possesses at the time of this Agreement are sufficient to permit him, in the event of termination of his employment with the Company, to earn a livelihood satisfactory to himself without violating any provision of this Article IV. Nothing in this Article IV shall confer upon Employee any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which, subject to the terms of this Agreement, are hereby reserved, to discharge Employee at any time for any reason whatsoever, with or without cause.

ARTICLE V
MISCELLANEOUS

5.1 Notices. For purposes of this Agreement, all notices and other communications shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Directional Rentals, Inc.
Attn: Chairman of the Board
1125 Regional Park Drive
Houston, Texas 77060
Facsimile: (281) 645-2014

If to Parent:

Directional Rentals Holdings, Inc.
c/o Hicks Equity Partners LLC
Attention: Curt Crofford, Rick Neuman, Lori McCutcheon
100 Crescent Court, Suite 1200
Dallas, Texas 75201
Facsimile: (214) 615-2236 or (214) 615-2223

In the case of notices and communications to the Company or Parent, with a copy to (which copy shall not constitute notice):

Bracewell & Giuliani LLP
711 Louisiana Street, Suite 2300
Houston, Texas 77002
Attention: William S. Anderson
Facsimile: (713) 437-5370

In the case of notices and communications to the Company or Parent, with a copy to (which copy shall not constitute notice):

Hicks Equity Partners LLC
Attention: Curt Crofford, Rick Neuman, Lori McCutcheon
100 Crescent Court, Suite 1200
Dallas, Texas 75201
Facsimile: (214) 615-2236 or (214) 615-2223

If to Employee, to the address last shown on the Company's records.

The Company, Parent or Employee may furnish a change of address to the other parties in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.2 Expenses. Each of the parties hereto shall bear such party's own attorneys' fees and other expenses incurred in connection with the negotiation and preparation of this Agreement.

5.3 Governing Law and Venue. This Agreement shall be deemed to be made in and in all respects shall be interpreted, construed and governed exclusively by and in accordance with the laws of the State of Texas without regard to the conflict of law principles thereof. Exclusive venue of any dispute relating to this Agreement or Employee's employment with or separation from employment with the Company or its Affiliates shall be, and is convenient in, Harris County, Texas. The parties agree to waive any challenge to the application of Texas law or of Harris County venue to any dispute or claim arising from or related to this Agreement.

5.4 Arbitration. Any and all controversies between the parties relating to this Agreement (each, a "Disputed Issue") shall be submitted to mediation by a party's giving written notice to such effect to the other party. During the 90 day period following the service of such notice, the parties shall attempt in good faith to settle the Disputed Issues by non-binding mediation in Houston, Texas, using a mediator upon which they jointly agree. Either party may submit any Disputed Issues not resolved during such 90 day period to binding arbitration in Houston, Texas by a party's giving written notice to such effect to the other party and the Houston, Texas office of the American Arbitration Association ("AAA"). If the parties involved in the controversy cannot agree within 15 days from service of such notice of binding arbitration upon the other party in accordance with the terms of this Agreement upon the selection of a single arbitrator, the arbitrator shall be selected or designated by the AAA upon the written request of either party. Such arbitrator must be a member of the State Bar of Texas actively engaged in the practice of law. Arbitration of such Disputed Issues shall be conducted in accordance with the Employment Law rules of AAA. The decision of the arbitrator shall be final and binding upon all parties and shall be enforceable in a court of competent jurisdiction. The arbitration award shall be in writing, delivered within five (5) business days of the hearing and shall specify the factual and legal bases for the award. Each party shall bear all costs and expenses incurred by it in connection with any mediation and arbitration; provided, that, the arbitrator is hereby authorized to award to the prevailing party the costs (including reasonable attorneys' fees and expenses) of any such mediation and arbitration. Notwithstanding anything herein to the contrary, a party may apply to a court of competent jurisdiction for injunctive relief in respect to a breach or threatened breach hereof.

5.5 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.6 Invalidity. It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant or remedy of this Agreement or the application thereof to any Person, association or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any Person, association or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

5.7 Assignment. This Agreement shall be binding upon and inure to the benefit of the Company and Parent. The Company or Parent may assign this Agreement to any other Person which may hereafter acquire or succeed to all or substantially all of the business or assets of such party by any means whether direct or indirect, by purchase, merger, consolidation or otherwise. Employee's rights and obligations under Agreement hereof are personal and such rights, benefits and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated or transferred, whether by operation of law or otherwise, without the prior written consent of the Company and Parent.

5.8 Section 409A. This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Code. This Agreement shall be administered, interpreted, and construed in a manner consistent with Section 409A of the Code. Should any provision of this Agreement be found not to comply with, or otherwise be exempt from, the provisions of Section 409A, such provision shall be modified and given effect (retroactively if necessary), by the Company, with the consent of Employee, in such manner as the Company and Employee agree reasonably and in good faith to be necessary or appropriate to comply with, or to effectuate an exemption from, Section 409A. Notwithstanding anything herein to the contrary, (a) if at the time of Employee's termination of employment, Employee is a "specified employee" as defined in Section 409A and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided by the Company) until the date that is six months following the date of Employee's termination of employment (or the earliest date as is permitted under Code Section 409A), (b) if any other payments of money or other benefits due to Employee hereunder could cause the application of an accelerated or additional tax under Section 409A, then such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner determined by the Company that does not cause such an accelerated or additional tax, (c) to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, Employee shall not be considered to have terminated employment with the Company for purposes of this Agreement and no payment shall be due to Employee under this Agreement based on termination of employment until Employee would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A, and (d) to the extent permitted by Code Section 409A, each amount to be paid or benefit to be provided to Employee pursuant to this Agreement, which constitutes deferred compensation subject to Section 409A, shall be construed as a separate identified payment for purposes of Section 409A. Employee shall not have any right to determine a date of payment of any amount under this

Agreement. To the extent required to avoid an accelerated or additional tax under Section 409A, amounts reimbursable to Employee under this Agreement, if any, shall be paid to Employee on or before the last day of the year following the year in which the expense was incurred, the amount of expenses eligible for reimbursement (and in-kind benefits provided to Employee) during any one year may not affect amounts reimbursable or provided in any subsequent year, and the right to reimbursement (and in-kind benefits provided to Employee) under this Agreement shall not be subject to liquidation or exchange for another benefit. Employee acknowledges and understands that neither the Company nor any employee or agent of the Company has provided Employee any tax advice regarding this Agreement, amounts payable under this Agreement, or Section 409A and that the Company has urged Employee to seek advice from Employee's own tax advisor regarding the tax consequences of this Agreement to Employee.

5.9 Parachute Payment. In the event that the severance and other benefits provided for in this Agreement or otherwise payable or provided to Employee (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) but for this Section 5.9, would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Employee's benefits shall be either (a) delivered in full, or (b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Employee on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code.

Unless the Company and Employee otherwise agree in writing, any determination required under this Section 5.9 will be made in writing by an accounting firm selected by the Company (the "Accountants"), whose determination will be conclusive and binding upon Employee and the Company for all purposes. For purposes of making the calculations required by this Section 5.9, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.9. The Company and Employee shall each bear one half of the costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.9. Any reduction in payments and/or benefits required by this Section 5.9 shall occur in the following order: (1) any cash payments, (2) any taxable benefits, (3) any nontaxable benefits and (4) any vesting of equity awards, in each case to the extent necessary to maximize the retained payments.

The Accountants shall provide their calculations, together with detailed supporting documentation, to the Company and Employee within thirty (30) calendar days after the date on which the Accountants have been engaged to make such determinations or such other time as requested by the Company or Employee. Any good faith determination of the Accountants made hereunder shall be final, binding and conclusive upon the Company.

5.10 Entire Agreement; Amendments. This Agreement replaces in full all previous agreements and discussions pertaining to the nature of Employee's employment relationship with the Company and/or Parent and the term and termination of such relationship. This Agreement constitutes the entire agreement of the parties with regard to the subject matters hereof, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect to such subject matters. Each party to this Agreement acknowledges that no representation, inducement, promise or agreement, oral or written, has been made by either party with respect to such subject matters, which is not embodied herein, and that no agreement, statement or promise relating to the employment of Employee by the Company that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Board. Employee represents and warrants that he is not a party to or bound by any other agreement or understanding of any type, whether written or oral, or by any statutory or common law duty or obligation which, in any case, would in any way restrict his ability to be employed by the Company, or his ability to compete freely with other Persons in connection with the business of the Company. Employee has no existing or current employment agreement. By Employee's execution below, Employee acknowledges that Employee has received a copy of the Stockholders' Agreement as currently in effect and has had ample time to review such agreement with counsel.

IN WITNESS WHEREOF, the Company and Employee have duly executed this Agreement in multiple originals, effective for all purposes as of the Effective Date.

DIRECTIONAL RENTALS, INC.

By: /s/ Eric C. Neuman
Name: Eric C. Neuman
Executive Vice President

DIRECTIONAL RENTALS HOLDINGS, INC.

By: /s/ Eric C. Neuman
Name: Eric C. Neuman
Executive Vice President

EMPLOYEE

/s/ Robert Wayne Prejean
Robert Wayne Prejean

Exhibit 10.15

AMENDMENT TO THE EMPLOYMENT AGREEMENT
by and between
DRILLING TOOLS INTERNATIONAL, INC. AND
WAYNE PREJEAN

WITNESSETH

WHEREAS, Drilling Tools International, Inc., a Louisiana corporation (the "Company"), and Wayne Prejean (the "Employee") have entered into that certain Employment Agreement effective as of April 1, 2017 (the "Agreement"); and

WHEREAS, pursuant to Section 5.9 of the Agreement, the Agreement may be amended from time to time upon such amendment being approved by the Board of Directors of the Company and upon the execution of such amendment by the Company and the Employee; and

WHEREAS, the Company and Employee desire to amend the Agreement as provided below.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein and in the Agreement, the Company and Employee agree as follows:

1. The second Recital beginning with the term "WHEREAS" in the Agreement in which "Purchase Agreement" is defined is hereby deleted from the Agreement, and any covenant, obligation, or consideration related to the Purchase Agreement found in the Agreement is void and is of no force or effect.

2. Effective as of the date hereof, Section 2.6 of the Agreement is amended in its entirety as follows:

"2.6 Employment Benefits.

(a) Employee shall be entitled to payment by the Company of the premium for Employee's health insurance under the Company's group health plan, four (4) weeks of vacation per year, sick pay, other paid and unpaid days off from work and other benefits made available to other executive officers of the Company (the "Benefits") pursuant to policies and/or plans adopted from time to time by the Company, which Benefits will, when appropriate, be prorated in any calendar year during which the Employee is employed for less than the entire year (with such proration to be based on the number of days in such calendar year during which he is employed by the Company). If available on commercially reasonable terms, Employee shall be the beneficiary of a disability income insurance policy paid for by the Company that provides for annual income in an amount equal to the Base Salary. The Company shall provide Employee with a Company vehicle or vehicle allowance (i) suitable for Employee's position and responsibilities as set forthherein, (ii) in accordance with the Company's vehicle policy and (iii) as approved by the President of the Company. Except as otherwise specifically provided in this Agreement, Employee is not entitled to any fringe benefits, additional compensation or perquisites including, without limitation, reimbursement for personal expenses, health club membership and spousal compensation. Employee shall be responsible for payment of the premium for health insurance coverage for his spouse and dependents under the Company's group health plan. Notwithstanding anything in this Agreement to the contrary, the Company shall not by reason of this Agreement be obligated to institute, maintain or refrain from changing, amending or discontinuing, any benefit plan or program, so long as such changes are similarly applicable to employees of the Company generally.

(b) To further clarify and define the disability income insurance policy benefits set forth above in Section 2.6(a), the Company shall provide a long-term disability benefit to the Employee for a period of one hundred and four weeks (104) commencing on the date that benefits under the Company's thirteen week (13) short-term disability plan expire in an amount which would provide an annual income to the Employee equal to the Employee's Base Salary at the time he becomes disabled (as determined under the Company's Short-Term and Long-Term Liability Plans (and a pro rata amount of the Base Salary for any shorter period) ("Disability Benefits"). If the long-term disability insurance policy providing payments under the Company's Long-Term Disability Plan ("Long-Term Disability Plan Payments") do not provide an annual benefit equal to the Disability Benefits, then the Company shall pay the difference between the Disability Benefits and the payments under the Long-Term Disability Plan Payments from the Company's general funds and such payments will be made at the same time the Long-Term Disability Plan Payments are made."

IN WITNESS WHEREOF, this Amendment to the Employment Agreement by and between Drilling Tools International, Inc. and Wayne Prejean, is signed by a duly authorized officer or Board member of the Company and the Employee on the date set forth below his/her name, and shall be effective on the date reflected below.

Date: 2/19/18

DRILLING TOOLS INTERNATIONAL, INC.

/s/ R. Wayne Prejean

R. Wayne Prejean
President and CEO

Date: 2/19/18

EMPLOYEE

/s/ R. Wayne Prejean

R. Wayne Prejean

Exhibit 10.16

Execution Version

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement"), is entered into between Drilling Tools International, Inc., a Louisiana corporation (the "Company"), and David Johnson. ("Employee") effective as of November 27, 2017 (the "Effective Date").

WITNESSETH:

WHEREAS, the Company is a wholly-owned subsidiary of Drilling Tools International Holdings, Inc., a Delaware corporation ("Parent");

WHEREAS, the Company desires to employ Employee pursuant to the terms and conditions set forth in this Agreement, and Employee desires to be employed by the Company pursuant to such terms and conditions.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein , the Company and Employee agree as follows:

ARTICLE I
EMPLOYMENT AND DUTIES

1.1 Term of Employment. The Company agrees to employ Employee, and Employee agrees to be employed by the Company, subject to the terms and conditions of this Agreement, beginning as of the Effective Date and continuing until the third anniversary of the Effective Date (the "Initial Term"). Employee's employment with the Company will continue for successive one-year periods after the end of the Initial Term (each such one-year period a "Renewal Term" and collectively with the Initial Term, the "Term"), subject to the terms and conditions of this Agreement, unless either party hereto has given written notice to the other party of its intent not to renew this Agreement at least sixty (60) days prior to the end of the then current Term (the "Non-Renewal Notice"). During any Renewal Term, the terms, conditions and provisions set forth in this Agreement shall remain in effect unless otherwise agreed to in writing by the parties.

1.2 Duties. Employee shall be employed by the Company as the CFO in a key role as designated by the President & CEO of the Company. In addition, Employee shall have such other authorities, responsibilities and duties of an executive, managerial or administrative nature as determined by the President & CEO and board of directors of Parent (the "Board") from time to time. Employee shall at all times comply with the reasonable policies and procedures of the Company as in effect from time to time. While employed hereunder, Employee shall devote his full time and attention during normal business hours to the business affairs of the Company and use Employee's best efforts to perform faithfully and effectively Employee's duties and responsibilities and Employee shall not engage, directly or indirectly, in any other business or businesses, whether or not similar to that of the Company, except with the prior consent of the Board, which shall not be unreasonably withheld. It shall not be a violation of the immediately preceding sentence for Employee to (i) serve on civic or charitable boards or committees, (ii) manage personal investments or (iii) manage personal franchise investment, in each case so long as such activities do not significantly interfere with the performance of Employee's duties and responsibilities as an employee of the Company under this Agreement. Employee acknowledges and agrees that Employee owes a fiduciary duty of loyalty to act at all times in the best interests of the Company. In keeping with such duty, Employee shall make full disclosure to the Company of all business opportunities pertaining to Company's business and shall not appropriate for Employee's own benefit business opportunities concerning the Company's business.

ARTICLE II
COMPENSATION AND BENEFITS

2.1 Base Salary. During the Term the Company shall pay Employee an annual base salary not less than $220,000 (the "Base Salary"), which shall be paid in accordance with the Company's standard payroll practice or as otherwise mutually agreed in a manner that does not cause Base Salary to constitute "nonqualified deferred compensation" pursuant to Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended (the "Code"). The Base Salary may be increased from time to time in the sole discretion of the President & CEO and Board.

2.2 Bonus. As additional compensation for the performance of Employee's duties under this Agreement, Employee shall be eligible for an annual bonus ("Bonus"), the payment and amount of which, if any, shall be within the sole discretion of the Board. The target Bonus for each calendar year will be 25% to 125% of the amount of the Base Salary (the "Target Bonus") paid in such calendar year as determined by the Board, in its sole discretion, provided that the actual Bonus for each calendar year, if any, shall be determined by the Board in its sole discretion. Any Bonus payable with respect to calendar year 2017 will be prorated. The Board shall consider whether to grant Employee a Bonus in·respect of a calendar year within one hundred twenty (120) days after the end of such calendar year. If the Board determines to grant Employee a Bonus in respect of a calendar year, then such Bonus shall be paid within thirty (30) days after such determination.

2.3 Equity Compensation. In addition to the compensation set forth in Sections 2.1 and 2.2, Employee shall be eligible to receive stock options, restricted stock awards or such other equity compensation pursuant to the policies and/or plans adopted from time to time by the Board in its sole discretion. The terms and conditions of any such stock options, restricted stock awards or other equity compensation shall be set forth in the governing documents entered into between Employee and the Company in connection therewith.

2.4 Tax Withholding. The Company may withhold from any compensation, benefits or amounts payable to Employee all amounts (including social security contributions and federal income taxes) required to be withheld pursuant to any applicable law.

2.5 Reimbursement of Business Expenses. Employee shall be reimbursed by the Company for reasonable travel, lodging, meals, customer entertainment and other expenses incurred by him in connection with performing his duties hereunder subject to, and documented in accordance with, the Company's policies in effect from time to time.

2.6 Employment Benefits.

a) Employee shall be entitled to payment by the Company of the premium for Employee's health insurance under the Company's group health plan, four (4) weeks of vacation per year, sick pay, other paid and unpaid days off from work and other benefits made available to other executive officers of the Company (the "Benefits") pursuant to policies and/or plans adopted from time to time by the Company, which Benefits will, when appropriate, be prorated in any calendar year during which the Employee is employed for less than the entire year (with such proration to be based on the number of days in such calendar year during which he is employed by the Company). If available on commercially reasonable terms, Employee shall be the beneficiary of a disability income insurance policy paid for by the Company that provides for annual income in an amount equal to the Base Salary. The Company shall provide Employee with a Company vehicle or vehicle allowance (i) suitable for Employee's position and responsibilities as set forth herein, (ii) in accordance with the Company's vehicle policy and (iii) as approved by the President & CEO of the Company. The Company shall reimburse up to $1,500 per month for club dues. Except as otherwise specifically provided in this Agreement, Employee is not entitled to any fringe benefits, additional compensation or perquisites including, without limitation, reimbursement for personal expenses, health club membership and spousal compensation. Employee shall be responsible for payment of the premium for health insurance coverage for his spouse and dependents under the Company's group health plan. Notwithstanding anything in this Agreement to the contrary, the Company shall not by reason of this Agreement be obligated to institute, maintain or refrain from changing, amending or discontinuing, any benefit plan or program, so long as such changes are similarly applicable to employees of the Company generally.

b) To further clarify and define the disability income insurance policy benefits set forth above in Section 2.6(a), the Company shall provide a long-term disability benefit to the Employee for a period of one hundred and four weeks (104) commencing on the date that benefits under the Company's thirteen week (13) short-term disability plan expire in an amount which would provide an annual income to the Employee equal to the Employee's Base Salary at the time he becomes disabled (as determined under the Company's Short-Term and Long-Term Liability Plans and a pro rata amount of the Base Salary for any shorter period) ("Disability Benefits"). If the long-term disability insurance policy providing payments under the Company's Long-Term Disability Plan ("Long-Term Disability Plan Payments") do not provide an annual benefit equal to the Disability Benefits, then the Company shall pay the difference between the Disability Benefits and the payments under the Long-Term Disability Plan Payments from the Company's general funds and such payments will be made at the same time the Long-Term Disability Plan Payments are made."

2.7 Indemnification. The Company shall, to the fullest extent permitted by applicable law and the Company's Bylaws, indemnify, defend and hold harmless Employee from and against any and all claims, demands, losses, damages, liabilities, judgments, awards, penalties, fines, settlements, costs and expenses (including court costs and reasonable attorneys' fees) arising from any action, suit or proceeding (whether civil, criminal, administrative, arbitrative or investigative) made against Employee by any person other than the Company or Parent in connection with or related to his service of the Company regardless of whether the Term of the Agreement has expired or Employee's employment has terminated under the Agreement.

ARTICLE III
TERMINATION PRIOR TO EXPIRATION AND EFFECTS
OF SUCH TERMINATION

3.1 Termination by Company. The Company shall have the right to terminate Employee’s employment at any time prior to the expiration of the Term:

(a) for Cause, upon the determination by the Company that Cause exists for termination of Employee’s employment (a “Termination for Cause”). As used herein, the term “Cause” means (i) Employee’s gross negligence or willful misconduct in connection with the performance of Employee’s duties; (ii) Employee’s commission of, or plea of no contest to, a felony or a crime involving moral turpitude; (iii) Employee’s willful refusal without proper legal reason to perform the duties and responsibilities required of Employee under this Agreement or to otherwise fail or refuse to abide by and comply with the Company’s lawful policies and procedures (including those contained in any employment manual, as amended from time to time, made available to Employee); (iv) Employee’s material breach of any material provision of this Agreement or the Stockholders’ Agreement of Parent (the “Stockholders’ Agreement”); (v) alcohol abuse or illegal drug use by Employee that is determined by the Board acting in good faith to materially impair Employee’s ability to perform his duties and responsibilities hereunder; or (vi) Employee’s engagement in any activity that constitutes a conflict of interest between Employee and the Company, without disclosure to and the consent of the Board, if such activity results or is reasonably likely to result in material damage to the Company. Prior to terminating Employee’s employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.l(a). the Company shall provide Employee with a written notice of its intent to terminate his employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.1(a). Such written notice shall specify the particular act or acts or failure or failures to act that form(s) the basis for the decision to so terminate Employee’s employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.l(a). If such acts or failures may reasonably be remedied or cured, and if such acts or failures have not been the subject of a previous notice under this Section 3.1(a), Employee shall have thirty (30) days following the receipt of the notice required under this Section 3.1(a) to effect that remedy or cure. Upon or after the Company’s issuance of the notice of intent to terminate Employee’s employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.1(a), the Company may suspend Employee with pay pending the Company’s decision whether to proceed with the termination;

(b) for any reason other than Cause or a Disability Termination (a “Termination Without Cause”); or

(c) if Employee becomes unable to substantially perform, with reasonable accommodation, Employee’s duties as a result of a physical or mental impairment, as determined by a physician selected by Employee and approved by the Company, for a period of 180 days in any 360 day period (a “Disability Termination”).

3.2 Termination by Employee.

(a) Employee shall have the right to terminate Employee's employment at any time prior to the expiration of the Term for no reason (a "Voluntary Resignation") or for Good Reason (a "Good Reason Termination"). For purposes of this Agreement, "Good Reason" means any of the following actions if taken without Employee's prior consent:

(i) The Company's failure to pay Employee any amounts otherwise vested and due under this Agreement in accordance with this Agreement;

(ii) A reduction in the then current base salary or title of Employee;

(iii) A material reduction in the authority, duties or responsibilities of Employee;

(iv) The Company's requirement that Employee report to any person other than the President & CEO of the Company

(v) The failure of any successor or assignee to all or substantially all of the assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place;

(vi) The Company's requirement that Employee relocate to any place other than the Houston, Texas greater metropolitan area; or

(vii) Any material breach by the Company of this Agreement.

Any termination of employment by Employee that is not a Good Reason Termination shall constitute a Voluntary Resignation.

(b) To exercise his right to terminate for Good Reason, Employee must provide written notice to the Company within thirty (30) days after an event that Employee believes constitutes "Good Reason," and such notice shall describe the circumstance believed to constitute Good Reason, or Employee will have and will be deemed to have waived his right to terminate his employment for Good Reason for any such event. Employee's Good Reason Termination must be effective no later than 2 years following the event that Employee believes constitutes Good Reason. Employee may not terminate his employment for Good Reason if the Company cures such event within thirty (30) business days after receiving Employee's notice of the event that Employee believes constitutes Good Reason.

3.3 Termination upon Death. Employee's employment shall terminate automatically upon his death.

3.4 Obligations Due Upon Termination for Cause. Upon a Voluntary Resignation, a Termination for Cause, a termination due to Employee's death or if Employee delivers a Non-Renewal Notice, Employee shall be paid (i) the accrued and unpaid portion of Employee's Base

Salary through the date of Employee's termination of employment (the "Compensation Payment"), (ii) any accrued but unused vacation days for the calendar year in which Employee's termination of employment occurs (the "Vacation Payment") and (iii) any reimbursement for business travel and other expenses to which Employee is entitled under Section 2.5 (the "Reimbursement"), in each case in accordance with the Company's standard payroll practice; however, except as provided in this Section 3.4, Employee shall not be entitled to any future compensation or benefits which would otherwise have been provided pursuant to this Agreement had the Term continued following such termination of employment, including, without limitation, any bonuses, incentive compensation, stock option or other equity based award that is not vested or payable pursuant to its terms at the date of such termination of employment. Upon a Voluntary Resignation, a Termination for Cause or if Employee delivers a Non -Renewal Notice, Employee (and his assigns and transferees) shall (i) forfeit any unvested stock options, restricted stock or unit awards and other equity based awards granted by the Company or its Affiliates to Employee (collectively, "Unvested Equity Awards") and (ii) be entitled to retain any vested stock options, restricted stock or unit awards and other equity based awards granted by the Company or its Affiliates to Employee (collectively, "Vested Equity Awards"), subject to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. Upon a termination due to Employee's death, Employee shall (i) be immediately vested in any outstanding Unvested Equity Awards and (ii) be entitled to retain any Vested Equity Awards that are vested as of the date of such termination subject to, in the case of clauses (i) and (ii) of this sentence, the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. As used in this Agreement, "Affiliate" means with respect to any natural person, corporation, partnership, limited liability company, trust, unincorporated organization or other entity (each, a "Person"), another Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such Person; as used herein, "control" means the possession, directly or indirectly through one or more intermediaries, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

3.5 Obligations Due Upon Termination Without Cause. Upon a Termination without Cause, a Disability Termination, a Good Reason Termination or if the Company delivers a Non-Renewal Notice, then Employee shall be paid (a) (i) the Compensation Payment, the Vacation Payment and the Reimbursement and (ii) an amount equal to 50% of Employee's Base Salary in effect immediately prior to his termination of employment, multiplied by a fraction, the numerator of which is the number of days during the calendar year up to and including the termination of employment and the denominator of which is 365 (the "Prorated Bonus"), in each case paid in accordance with the normal payroll practices of the Company, and (b) for a period of fifteen (15) months following the date of termination, beginning in the first month following the termination of employment, an amount each month equal to the Monthly Severance Amount (as defined below), payable each month in accordance with the normal payroll practices of the Company (the Prorated Bonus and the amounts payable under this Section 3.5(b) are "Severance Payments"). In addition, upon a Termination without Cause, a Disability Termination, a Good Reason Termination or if the Company delivers a Non-Renewal Notice, the Company shall, for a period of fifteen (I 5) months following the date of termination, pay the premium for Employee's health insurance under the same group health insurance policy(ies) that is (are) provided to employees of the Company, subject to the terms of and to the extent permitted by the Company's group health insurance policy(ies), the standard terms of the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"), and Employee making appropriate elections to participate in such coverage (such payments, the "Severance Benefits"). The "Monthly Severance Amount" shall equal (i) 150% of Employee's Base Salary in effect immediately before the termination of Employee divided by (ii) twelve (12). Upon a Termination without Cause, a Good Reason Termination or a Disability Termination, Employee shall (a) be immediately vested in any outstanding Unvested Equity Awards as of the date of such termination and (b) be entitled to retain any Vested Equity Awards as of the date of such termination, subject, in the case of clauses (a) and (b) of this sentence, to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. If the Company delivers a Non-Renewal Notice, Employee (and his assigns and transferees) shall (i) forfeit any Unvested Equity Awards as of the first day after the Term in which such Non-Renewal Notice is delivered and (ii) be entitled to retain any Vested Equity Awards, subject to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. Employee shall not be entitled to receive any Severance Payments or Severance Benefits pursuant to this Section 3.5, and shall forfeit any Unvested Equity Awards held by him, unless within sixty (60) days following his termination of employment during Employee's lifetime (or, if later, within thirty (30) days of the Company providing notice to Employee that he is required to deliver a release pursuant to this sentence) and provided that Employee is alive and competent to do so, Employee has executed (and not revoked) and delivered to the Company a general release of all claims that Employee may have or assert against the Company and its Affiliates relating to Employee's employment and the terms hereunder in the form attached hereto as Exhibit A. If the Company has notified Employee that Employee's employment with the Company has been terminated for Cause, then Employee will not be obligated to provide the release contemplated by this Section 3.5 and shall not, solely are a result of Employee's failure to have provided the release contemplated by this Section 3.5, if it is subsequently determined that Employee was not properly terminated for Cause, forfeit or lose his right to receive any Severance Payments, Severance Benefits or other rights pursuant to this Section 3.5, and shall not forfeit or lose any Unvested Equity Awards held by him as of the date of such termination.

3.6 Offsets. In all cases, the compensation payable to Employee under this Agreement upon termination of the employment relationship shall be offset against any amounts to which Employee may otherwise be entitled under any and all severance plans and policies of the Company or its Affiliates that would be aggregated with this separation pay plan under Section 409A regulations.

3.7 Continuation of Benefits. Notwithstanding any inference to the contrary in this Article III or elsewhere in this Agreement, upon any termination of Employee's employment with the Company, Employee and Employee's spouse shall have the right (at their option), with Employee and his spouse being responsible for the applicable premium, to continue to be covered under the same group health insurance policy(ies) that is (are) provided to employees of the Company, with such coverage remaining in effect for a minimum of six (6) months, but terminable earlier at the option of Employee or his spouse, subject to the terms of and to the extent permitted by the Company's group health insurance policy(ies), the standard terms of COBRA and Employee making appropriate elections to participate in such coverage. The Company shall notify Employee of his rights under this Section 3.7 within thirty (30) days of a termination of employment, provided that any notice provided to Employee in accordance with COBRA shall satisfy the Company's notice obligation for all purposes under this Section 3.7. Employee shall notify the Company of his and his spouse's election to obtain the coverage provided by this Section 3.7 no later than sixty (60) days after termination of Employee's employment with the Company.

3.8 Continuing Obligations. Termination of the employment relationship pursuant to Sections 3.1, 3.2 and 3.3 above, or pursuant to the delivery of a Non-Renewal Notice, shall not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Article IV.

ARTICLE IV COVENANTS OF EMPLOYEE

4.1 Confidential Information.

(a) Employee recognizes that his employment by the Company is one of the highest trust and confidence because Employee has and will acquire knowledge of, and become fully familiar with, all aspects of the Company's business during the term of this Agreement, including proprietary and confidential information that is special and of critical value to the Company. Employee acknowledges (i) that the Company owns and utilizes certain Confidential Information, (ii) that any Confidential Information existing on the Effective Date is owned by the Company and (iii) that he has no rights, interests or entitlements thereto. Employee acknowledges that hardship, loss or irreparable injury and damage could result to the Company if any Confidential Information were imparted to or became known by any Person engaging in a business in competition with that of the Company, the measurement of which hardship, loss or irreparable injury would be difficult if not impossible to ascertain. Therefore, Employee agrees that it is necessary for the Company to protect its business from such damage, and Employee further agrees that the following covenants constitute a reasonable and appropriate means, consistent with the best interest of both Employee and the Company, to protect the Company against such damage and shall apply to and be binding upon Employee as provided herein. For purposes of this Agreement, "Confidential Information" shall mean any and all information regarding past, current and prospective customers, suppliers, service providers, investors and Affiliates, employees, contractors and the industry not generally known to the public; strategies, methods, books, records and documents; technical information concerning products, equipment, services and processes, including designs and specifications; procurement procedures, pricing and pricing techniques, including contact names, services provided, pricing, type and amount of services used; pricing strategies and price curves; positions; plans or strategies for expansion or acquisitions; budgets; research; financial and sales data; trading methodologies and terms; communications information; evaluations, opinions and interpretations of information and data; marketing and merchandising techniques; electronic databases; models; specifications; computer programs; contracts; bids or proposals; technologies and methods; training methods and processes; organizational structure; personnel information; payments or rates paid to consultants or other service providers; and other such confidential or proprietary information.

(b) Employee agrees and covenants to use his best efforts and exercise utmost diligence to protect and safeguard the Confidential Information. Employee further agrees and covenants that, except as may be required by the Company in connection with this Agreement, or with the prior written consent of the Company, Employee shall not, either during the term of this Agreement or thereafter, directly or indirectly, use for Employee's own benefit or for the benefit of another, or disclose, disseminate or distribute to another, any Confidential Information (whether or not acquired, learned, obtained or developed by Employee alone or in conjunction with others). All memoranda, notes, records, drawings, documents or other writings whatsoever made, compiled, acquired or received by Employee during the term of this Agreement related to Employee's employment or performance hereunder, arising out of, in connection with, or related to any business of the Company, including, but not limited to, Confidential Information, are, and shall continue to be, the sole and exclusive property of the Company, and shall, together with all copies thereof and all advertising literature, be returned and delivered to the Company by Employee immediately, without demand, upon the termination of this Agreement, or at any time upon the Company's demand. The Company acknowledges that other employees have access to the Confidential Information.

(c) The obligations of Employee regarding Confidential Information shall not apply if (i) it was generally known (including information that is publicly available) in the industries in which the Company engages or may engage prior to disclosure, (ii) such disclosure comes into the public domain (including the industries in which the Company engages or may engage) through no fault of the Employee, or (iii) such disclosure is required by law or compelled by court order.

4.2 <u>Non-Solicitation; Non-Competition</u>.

(a) Employee covenants that, during the term of this Agreement and for a period of two (2) years following the termination of Employee's employment with the Company under this Agreement (together, the "<u>Non -Solicitation Period</u>"), he will not, either directly or indirectly, for himself or on behalf of any other Person, solicit for employment, or otherwise encourage the departure of, an individual who was or is employed or engaged by the Company during the Non-Solicitation Period

(b) Employee hereby covenants and agrees that, during the Non-Solicitation Period, Employee will not, directly or indirectly, engage in either of the following activities in any county or parish in which the Company or any of its Affiliates operates in North America or within a two hundred and fifty (250) mile radius surrounding any operations off the shores of North America or in the areas, states, counties, parishes or provinces otherwise set forth in <u>Exhibit B</u> as of the Effective Date or during the Non -Solicitation Period, including, but not limited to, the counties and parishes in California, Louisiana, Texas and Wyoming set forth in <u>Exhibit B</u> (collectively, the "<u>Restricted Area</u>") in the business of renting drill collars, stabilizers, sub-assemblies and flow valves to participants in the oil and natural gas exploration and production industry or any other business in which the Company is engaged during the Non-Solicitation Period (the "<u>Business</u>"):

(i) carry on or engage, on such Employee's own behalf or on behalf of any other Person, in the Business; or

(ii) own, manage, operate, control, be employed by or participate in the management, ownership, operation or control of, or be connected in any manner with, any business (whether as director, officer, employee, agent, representative, partner, security holder, consultant or otherwise) engaged in a business that is the same as or substantially similar to the Business.

Notwithstanding the foregoing, Employee shall be permitted to acquire as a passive investment not more than 10% of the outstanding equity securities of any company engaged in such competitive activities, the equity securities of which are traded on a national securities exchange.

(c) Employee hereby acknowledges that he has and will acquire knowledge of certain business contacts and information regarding the Company's clients, customers and certain Persons whom the Company has identified as prospective clients and customers. During the Non-Solicitation Period, Employee shall not, directly or indirectly, for himself or on behalf of any other Person, solicit the sale or lease of goods, services or a combination of goods and services that are the same as or substantially similar to those offered or provided by the Company in the Business during the Term and preceding termination of Employee's employment with the Company from

(i) any established customer of the Company or (ii) any prospective customer of the Company with which the Company had contact during the Non-Solicitation Period.

(d) If Employee is found to have breached any promise made in this Section 4.2 during the Non-Solicitation Period, the Non-Solicitation Period will be extended by a month for each month in which Employee was in breach so that the Company is provided the benefit of the full three -year period.

4.3 Intellectual Property. Employee agrees that all Inventions in the Field (as defined below) shall be the sole and exclusive property of the Company and Employee agrees, on his behalf and on behalf of his heirs, assigns and representatives, to assign and transfer to the Company or its designee, without any separate remuneration or compensation, his entire right, title and interest in and to all Inventions in the Field, together with all United States and foreign rights with respect thereto, and, at the Company's expense, to execute, acknowledge and deliver all papers and to do any and all other things necessary for or incident to the applying for, obtaining and maintaining of such letters patent, copyrights, trademarks or other intellectual property rights and to perform all lawful acts, including giving testimony, and to execute and deliver all such instruments that may be necessary or proper to vest all such Inventions in the Field and patents and copyrights with respect thereto in the Company, and to assist the Company in the prosecution or defense of any interference which may be declared involving any of said patent applications, patents, copyright applications or copyrights. In the event the Company is unable, after reasonable efforts and, in any event, after ten (10) business days, to secure Employee's signature on a written assignment to the Company, of any application for letters patent, trademark registration or to any common law or statutory copyright or other property right therein, whether because of his physical or mental incapacity, or for any other reason whatsoever, Employee irrevocably designates and appoints the Secretary of the Company as Employee's attorney-in-fact to act on Employee's behalf to execute and file any such applications and to do all lawfully permitted acts to further the prosecution or issuance of such assignments, letters patent, copyright or trademark. Employee agrees to fully and promptly disclose to the Company any Inventions in the Field. For purposes of this Agreement, the "Inventions in the Field" shall mean any and all inventions, developments, applications, techniques, discoveries, innovations, writings, domain names, improvements, trade secrets, designs, drawings, business processes, secret processes, know-how and all other intellectual property, whether or not patentable or constituting a copyright or trademark and whether reduced to practice or not, which Employee has previously or may in the future create, conceive, develop or make, either alone or in conjunction with others (whether on or off the Company's premises or during or after normal working hours) and related or in any way connected with the Company, its strategic plans, products, processes, apparatus or business now or hereafter carried on by the Company. Employee represents, warrants and covenants on the date hereof that (i) he does not have any applications for patents or copyright registrations pending, either domestic or foreign, (ii) his performance of the foregoing disclosure and assignment provisions will not breach any invention assignment or proprietary information agreement with any former employer or other party, and (iii) there is no invention or works or authorship now in his possession which he will claim to be excluded herefrom.

4.4 Assistance in Litigation. After the Term and for so long as HHEP- Directional, L.P., a Delaware limited partnership, and its Affiliates own, directly or indirectly, more than 50% of the outstanding common stock of the Company, Employee shall, upon reasonable notice, furnish such information and assistance to the Company or any of its Affiliates as may reasonably be requested by the Company in connection with any litigation in which the Company or any of its Affiliates is, or may become, a party. The Company shall reimburse the Employee for all reasonable out-of-pocket expenses, including travel expenses, incurred by the Employee in rendering such assistance, but shall have no obligation to compensate the Employee for his time in providing information and assistance in accordance with this Section 4.4.

4.5 Survival. Each covenant of Employee set forth in this Article IV shall survive the termination of this Agreement and shall be construed as an agreement independent of any other provision of this Agreement, and the existence of any claim or cause of action of Employee against the Company whether predicated on this Agreement or otherwise shall not constitute a defense to the enforcement by the Company of said covenant.

4.6 Specific Performance; Invalidity. The Company and Employee agree that it would not be possible to measure in monetary terms the damages which the Company would incur if any Employee breaches his obligations under this Article IV. Therefore, if the Company, after a breach by Employee, lawfully institutes any action or proceedings to enforce its rights hereunder, Employee agrees not to assert, and hereby forever waives, the claim or defense that the Company has an adequate remedy at Law. In the event of a breach of this Article IV, Employee further agrees, upon order of a Court and so long as the Company is not in breach of this Agreement, to reimburse the Company for all costs and expenses, including reasonable attorneys' fees, incurred in enforcing its rights hereunder. If Employee violates any of the covenants set forth in this Article

IV, prior to a breach by the Company of this Agreement, the Company will suffer irreparable damage and shall be entitled to specific performance, full injunctive relief or such other relief as may be provided at law or in equity together with such damages as may be provided at law or in equity.

Insofar as the covenants set forth in this Article IV are concerned, Employee specifically acknowledges and agrees as follows: (i) he is receiving a substantial benefit as a result of this Agreement; (ii) he will be receiving cash payments; (iii) the Business is highly competitive and the assets of the Company, including goodwill, customer contacts, potential revenue and customer lists, are valuable, as used by the Company in the Business and that protection against competition is of critical importance to the Company; (iv) the covenants are reasonable and necessary to protect the Confidential Information and goodwill and the operation and the Business; (v) the time duration of the covenants and the geographical area limitations of the covenants are reasonable and necessary to protect the Confidential Information and the goodwill and operation of the Business; and (vi) the covenants are not oppressive to Employee and do not impose a greater restraint on Employee than is necessary to protect the Confidential Information and the goodwill and operation of the Business.

It is the express intention of Employee and the Company to comply with all Laws which may be applicable to the covenants in this Article IV. Consequently, Employee and the Company hereby specifically agree that, if any Court shall determine any covenant contained in this Article IV to be effective in any particular area or jurisdiction only if such covenant is modified to limit its duration or scope, such covenant may be reformed or modified by the judgment or order of such Court to reflect a lawful and enforceable duration or scope. Such covenant automatically shall be deemed to be amended and modified with respect to that particular area or jurisdiction so as to comply with the judgment or order of such Court and, as to all other areas and jurisdictions covered by this Agreement, the terms and provisions hereof shall remain in full force and effect as originally written. If any Court shall hold any covenants contained in this Article IV to be void or otherwise unenforceable in any particular area or jurisdiction notwithstanding the operation of this provision, such covenant automatically shall be deemed to be amended so as to eliminate therefrom that particular area or jurisdiction as to which such covenant is so held void or otherwise enforceable and, as to all other areas and jurisdictions covered by this Agreement, the terms and provisions hereof shall remain in full force and effect as originally written.

4.7 Material Inducement. For the purposes of this Section 4.7, references to the "Company" shall include the Company and its Affiliates. Employee hereby acknowledges that Employee's agreement to be bound by the protective covenants set forth in this Article IV was a material inducement for Parent and the Company entering into this Agreement and agreeing to pay the Employee the compensation and benefits set forth herein. Further, Employee understands the foregoing restrictions may limit his or her ability to engage in certain businesses during the period of time provided for, but acknowledges that Employee will receive sufficiently high remuneration and other benefits under this Agreement to justify s::h restriction and Employee represents and warrants that the knowledge, skills and abilities he possesses at the time of commencement of employment hereunder are sufficient to permit him, in the event of termination of his employment hereunder, to earn a livelihood satisfactory to himself without violating any provision of this Article IV. Nothing in this Article IV shall confer upon Employee any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which, subject to the terms of this Agreement, are hereby reserved, to discharge Employee at any time for any reason whatsoever, with or without cause.

ARTICLE V
MISCELLANEOUS

5.1 Notices. For purposes of this Agreement, all notices and other communications shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Drilling Tools International, Inc.
Attn: Chief Executive Officer
3701 Briarpark - Suite 150
Houston, Texas 77042

Email: wayne.prejean@drillingtools.com
Veda.ragsdill@drillingtools.com

With a copy to (which copy shall not constitute notice):

Bracewell LLP
711 Louisiana Street, Suite 2300
Houston, Texas 77002
Attention: William S. Anderson
Facsimile: (713) 437-5370

With a copy to (which copy shall not constitute notice):

Hicks Equity Partners LLC
Attention: Curt Crofford, Rick Neuman, Lori McCutcheon, Genee Darden
100 Crescent Court, Suite 1200
Dallas, Texas 75201
Facsimile: (214) 615-2236

If to Employee, to the address last shown on the Company's records.

Either the Company or Employee may furnish a change of address to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.2 Expenses. Each of the parties hereto shall bear such party's own attorneys' fees and other expenses incurred in connection with the negotiation and preparation of this Agreement.

5.3 Governing Law and Venue. This Agreement shall be deemed to be made in and in all respects shall be interpreted, construed and governed exclusively by and in accordance with the laws of the State of Texas without regard to the conflict of law principles thereof. Exclusive venue of any dispute relating to this Agreement or Employee's employment with or separation from employment with Employer shall be, and is convenient in, Harris County, Texas. The Parties agree to waive any challenge to the application of Texas law or of Harris County venue to any dispute or claim arising from or related to this Agreement.

5.4 Arbitration. Any and all controversies between the parties relating to this Agreement (each, a "Disputed Issue") shall be submitted to mediation by a party's giving written notice to such effect to the other party. During the 90 day period following the service of such notice, the parties shall attempt in good faith to settle the Disputed Issues by non-binding mediation in Houston, Texas, using a mediator upon which they jointly agree. Either party may submit any Disputed Issues not resolved during such 90 day period to binding arbitration in Houston, Texas by a party's giving written notice to such effect to the other party and the Houston, Texas office of the American Arbitration Association ("AAA"). If the parties involved in the controversy cannot agree within 15 days from service of such notice of binding arbitration upon the other party in accordance with the terms of this Agreement upon the selection of a single arbitrator, the arbitrator shall be selected or designated by the AAA upon the written request of either party. Such arbitrator must be a member of the State Bar of Texas actively engaged in the practice of law. Arbitration of such Disputed Issues shall be conducted in accordance with the Employment Law rules of AAA. The decision of the arbitrator shall be final and binding upon all parties and shall be enforceable in a court of competent jurisdiction. The arbitration award shall be in writing, delivered within five (5) business days of the hearing and shall specify the factual and legal bases for the award. Each party shall bear all costs and expenses incurred by it in connection with any mediation and arbitration; provided, that, the arbitrator is hereby authorized to award to the prevailing party the costs (including reasonable attorneys' fees and expenses) of any such mediation and arbitration. Notwithstanding anything herein to the contrary, a party may apply to a court of competent jurisdiction for injunctive relief in respect to a breach or threatened breach hereof.

5.5 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.6 Invalidity. It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant or remedy of this Agreement or the application thereof to any Person, association or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any Person, association or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

5.7 Assignment. This Agreement shall be binding upon and inure to the benefit of the Company. The Company may assign this Agreement to any other Person which may hereafter acquire or succeed to all or substantially all of the business or assets of the Company by any means whether direct or indirect, by purchase, merger, consolidation or otherwise. Employee's rights and obligations under Agreement hereof are personal and such rights, benefits and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated or transferred, whether by operation of law or otherwise, without the prior written consent of the Company.

5.8 Section 409A. This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Code. This Agreement shall be administered, interpreted, and construed in a manner consistent with Section 409A of the Code. Should any provision of this Agreement be found not to comply with, or otherwise be exempt from, the provisions of Section 409A, such provision shall be modified and given effect (retroactively if necessary), by the Company, with the consent of Employee, in such manner as the Company and Employee agree reasonably and in good faith to be necessary or appropriate to comply with, or to effectuate an exemption from, Section 409A. Notwithstanding anything herein to the contrary, (a) if at the time of Employee's termination of employment, Employee is a "specified employee" as defined in Section 409A and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided by the Company) until the date that is six months following the date of Employee's termination of employment (or the earliest date as is permitted under Code Section 409A), (b) if any other payments of money or other benefits due to Employee hereunder could cause the application of an accelerated or additional tax under Section 409A, then such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner determined by the Company that does not cause such an accelerated or additional tax, (c) to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, Employee shall not be considered to have terminated employment with the Company for purposes of this Agreement and no payment shall be due to Employee under this Agreement based on termination of employment until Employee would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A, and (d) to the extent permitted by Code Section 409A, each amount to be paid or benefit to be provided to Employee pursuant to this Agreement, which constitutes deferred compensation subject to Section 409A, shall be construed as a separate identified payment for purposes of Section 409A. Employee shall not have any right to determine a date of payment of any amount under this Agreement. To the extent required to avoid an accelerated or additional tax under Section 409A, amounts reimbursable to Employee under this Agreement, if any, shall be paid to Employee on or before the last day of the year following the year in which the expense was incurred, the amount of expenses eligible for reimbursement (and in-kind benefits provided to Employee) during any one year may not affect amounts reimbursable or provided in any subsequent year, and the right to reimbursement (and in-kind benefits provided to Employee) under this Agreement shall not be subject to liquidation or exchange for another benefit. Employee acknowledges and understands that neither the Company nor any employee or agent of the Company has provided Employee any tax advice regarding this Agreement, amounts payable under this Agreement, or Section 409A and that the Company has urged Employee to seek advice from Employee's own tax advisor regarding the tax consequences of this Agreement to Employee.

5.9 Entire Agreement: Amendments. This Agreement replaces in full all previous agreements and discussions pertaining to the nature of Employee's employment relationship with the Company and the term and termination of such relationship. This Agreement constitutes the entire agreement of the parties with regard to such subject matters, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect such subject matters. Each party to this Agreement acknowledges that no representation, inducement, promise or agreement, oral or written, has been made by either party with respect to such subject matters, which is not embodied herein, and that no agreement, statement or promise relating to the employment of Employee by the Company that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Board. The Employee represents and warrants that he is not a party to or bound by any other agreement or understanding of any type, whether written or oral, or by any statutory or common law duty or obligation which, in any case, would in any way restrict his ability to be employed by the Company, or his ability to compete freely with other Persons in connection with the business of the Company. Employee has no existing or current employment agreement. By Employee's execution below, Employee acknowledges that Employee has received a copy of the Stockholders' Agreement as currently in effect and has had ample time to review such agreement with counsel.

IN WITNESS WHEREOF, the Company and Employee have duly executed this Agreement in multiple originals, effective for all purposes as of the Effective Date.

DRILLING TOOLS INTERNATIONAL, INC.

By: /s/ R. Wayne Prejean
Name: R. Wayne Prejean
President & CEO

EMPLOYEE

/s/ David R. Johnson
David Johnson

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement"), is entered into between Drilling Tools International, Inc., a Louisiana corporation (the "Company''), and Michael Wayne Domino, Jr. ("Employee") effective as of April 1, 2017 (the "Effective Date").

WITNESSETH:

WHEREAS, the Company is a wholly-owned subsidiary of Drilling Tools International Holdings, Inc., a Delaware corporation ("Parent");

WHEREAS, Employee is a party to that certain Stock Purchase and Contribution Agreement dated January 27, 2012, by and among Parent, the Company and the holders listed on the signature page thereto (the "Purchase Agreement"); and

WHEREAS, the Company desires to employ Employee pursuant to the terms and conditions set forth in this Agreement, and Employee desires to be employed by the Company pursuant to such terms and conditions.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein and in the Purchase Agreement, the Company and Employee agree as follows:

ARTICLE I
EMPLOYMENT AND DUTIES

1.1 Term of Employment. The Company agrees to employ Employee, and Employee agrees to be employed by the Company, subject to the terms and conditions of this Agreement, beginning as of the Effective Date and continuing until the third anniversary of the Effective Date (the "Initial Term"). Employee's employment with the Company will continue for successive one-year periods after the end of the Initial Term (each such one-year period a "Renewal Term" and collectively with the Initial Term, the "Term"), subject to the terms and conditions of this Agreement, unless either party hereto has given written notice to the other party of its intent not to renew this Agreement at least sixty (60) days prior to the end of the then current Term (the "Non-Renewal Notice"). During any Renewal Term, the terms, conditions and provisions set forth in this Agreement shall remain in effect unless otherwise agreed to in writing by the parties.

1.2 Duties. Employee shall be employed by the Company as the Vice President in a key role as designated by the President of the Company. In addition, Employee shall have such other authorities, responsibilities and duties of an executive, managerial or administrative nature as determined by the President and board of directors of Parent (the "Board") from time to time. Employee shall at all times comply with the reasonable policies and procedures of the Company as in effect from time to time. While employed hereunder, Employee shall devote his full time and attention during normal business hours to the business affairs of the Company and use Employee's best efforts to perform faithfully and effectively Employee's duties and responsibilities and Employee shall not engage, directly or indirectly, in any other business or businesses, whether or not similar to that of the Company, except with the prior consent of the Board, which shall not be unreasonably withheld. It shall not be a violation of the immediately preceding sentence for Employee to (i) serve on civic or charitable boards or committees or (ii) manage personal investments, in each case so long as such activities do not significantly interfere with the performance of Employee's duties and responsibilities as an employee of the Company under this Agreement. Employee acknowledges and agrees that Employee owes a fiduciary duty of loyalty to act at all times in the best interests of the Company. In keeping with such duty, Employee shall make full disclosure to the Company of all business opportunities pertaining to Company's business and shall not appropriate for Employee's own benefit business opportunities concerning the Company's business.

ARTICLE II
COMPENSATION AND BENEFITS

2.1 Base Salary. During the Term the Company shall pay Employee an annual base salary not less than $220,000 (the "Base Salary"), which shall be paid in accordance with the Company's standard payroll practice or as otherwise mutually agreed in a manner that does not cause Base Salary to constitute "nonqualified deferred compensation" pursuant to Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended (the "Code"). The Base Salary may be increased from time to time in the sole discretion of the President/CEO and Board.

2.2 Bonus. As additional compensation for the performance of Employee's duties under this Agreement, Employee shall be eligible for an annual bonus ("Bonus"), the payment and amount of which, if any, shall be within the sole discretion of the Board. The target Bonus for each calendar year will be 25% to 125% of the amount of the Base Salary (the "Target Bonus") paid in such calendar year as determined by the Board, in its sole discretion, provided that the actual Bonus for each calendar year, if any, shall be determined by the Board in its sole discretion. Any Bonus payable with respect to calendar year 2017 will be prorated. The Board shall consider whether to grant Employee a Bonus in respect of a calendar year within one hundred twenty (120) days after the end of such calendar year. If the Board determines to grant Employee a Bonus in respect of a calendar year, then such Bonus shall be paid within thirty (30) days after such determination.

2.3 Equity Compensation. In addition to the compensation set forth in Sections 2.1 and 2.2, Employee shall be eligible to receive stock options, restricted stock awards or such other equity compensation pursuant to the policies and/or plans adopted from time to time by the Board in its sole discretion. The terms and conditions of any such stock options, restricted stock awards or other equity compensation shall be set forth in the governing documents entered into between Employee and the Company in connection therewith.

2.4 Tax Withholding. The Company may withhold from any compensation, benefits or amounts payable to Employee all amounts (including social security contributions and federal income taxes) required to be withheld pursuant to any applicable law.

2.5 Reimbursement of Business Expenses. Employee shall be reimbursed by the Company for reasonable travel, lodging, meals, customer entertainment and other expenses incurred by him in connection with performing his duties hereunder subject to, and documented in accordance with, the Company's policies in effect from time to time.

2.6 Employment Benefits. Employee shall be entitled to payment by the Company of the premium for Employee's health insurance under the Company's group health plan, four (4) weeks of vacation per year, sick pay, other paid and unpaid days off from work and other benefits made available to other executive officers of the Company (the "Benefits") pursuant to policies and/or plans adopted from time to time by the Company, which Benefits will, when appropriate, be prorated in any calendar year during which the Employee is employed for less than the entire year (with such proration to be based on the number of days in such calendar year during which he is employed by the Company). If available on commercially reasonable terms, Employee shall be the beneficiary of a disability income insurance policy paid for by the Company that provides for annual income in an amount equal to the Base Salary. The Company shall provide Employee with a Company vehicle or vehicle allowance (i) suitable for Employee's position and responsibilities as set forth herein, (ii) in accordance with the Company's vehicle policy and (iii) as approved by the President of the Company. Except as otherwise specifically provided in this Agreement, Employee is not entitled to any fringe benefits, additional compensation or perquisites including, without limitation, reimbursement for personal expenses, health club membership and spousal compensation. Employee shall be responsible for payment of the premium for health insurance coverage for his spouse and dependents under the Company's group health plan. Notwithstanding anything in this Agreement to the contrary, the Company shall not by reason of this Agreement be obligated to institute, maintain or refrain from changing, amending or discontinuing, any benefit plan or program, so long as such changes are similarly applicable to employees of the Company generally.

Company will also continue to pay Key Man Life Insurance premiums for the duration of this agreement for insured amounts of $3.0 million of death benefit paid to the beneficiary as designated by employee.

2.7 Indemnification. The Company shall, to the fullest extent permitted by applicable law and the Company's Bylaws, indemnify, defend and hold harmless Employee from and against any and all claims, demands, losses, damages, liabilities, judgments, awards, penalties, fines, settlements, costs and expenses (including court costs and reasonable attorneys' fees) arising from any action, suit or proceeding (whether civil, criminal, administrative, arbitrative or investigative) made against Employee by any person other than the Company or Parent in connection with or related to his service of the Company regardless of whether the Term of the Agreement has expired or Employee's employment has terminated under the Agreement.

ARTICLE III
TERMINATION PRIOR TO EXPIRATION AND EFFECTS OF SUCH TERMINATION

3.1 Termination by Company. The Company shall have the right to terminate Employee's employment at any time prior to the expiration of the Term:

(a) for Cause, upon the determination by the Company that Cause exists for termination of Employee's employment (a "Termination for Cause"). As used herein, "Cause" means (i) Employee's gross negligence or willful misconduct in connection with the performance of Employee's duties; (ii) Employee's commission of, or plea of no contest to, a felony or a crime involving moral turpitude; (iii) Employee's willful refusal without proper legal reason to perform the duties and responsibilities required of Employee under this Agreement or to otherwise fail or refuse to abide by and comply with the Company's lawful policies and procedures (including those contained in any employment manual, as amended from time to time, made available to Employee); (iv) Employee's material breach of any material provision of this Agreement or the Stockholders' Agreement of Parent (the "Stockholders' Agreement"); (v) alcohol abuse or illegal drug use by Employee that is determined by the Board acting in good faith to materially impair Employee's ability to perform his duties and responsibilities hereunder; or (vi) Employee's engagement in any activity that constitutes a conflict of interest between Employee and the Company, without disclosure to and the consent of the Board, if such activity results or is reasonably likely to result in material damage to the Company. Prior to terminating Employee's employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.l(a). the Company shall provide Employee with a written notice of its intent to terminate his employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.l(a). Such written notice shall specify the particular act or acts or failure or failures to act that form(s) the basis for the decision to so terminate Employee's employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.l(a). If such acts or failures may reasonably be remedied or cured, and if such acts or failures have not been the subject of a previous notice under this Section 3. The Employee shall have thirty (30) days following the receipt of the notice required under this Section 3.l(a) to effect that remedy or cure. Upon or after the Company's issuance of the notice of intent to terminate Employee's employment for Cause pursuant to clauses (iii) and (iv) of this Section 3.l(a). the Company may suspend Employee with pay pending the Company's decision whether to proceed with the termination;

(b) for any reason other than Cause or a Disability Termination (a "Termination Without Cause"); or

(c) if Employee becomes unable to substantially perform, with reasonable accommodation, Employee's duties as a result of a physical or mental impairment, as determined by a physician selected by Employee and approved by the Company, for a period of 180 days in any 360 day period (a "Disability Termination").

3.2 Termination by Employee.

(a) Employee shall have the right to terminate Employee's employment at any time prior to the expiration of the Term for no reason (a "Voluntary Resignation") or for Good Reason (a "Good Reason Termination"). For purposes of this Agreement, "Good Reason" means any of the following actions if taken without Employee's prior consent:

(i) The Company's failure to pay Employee any amounts otherwise vested and due under this Agreement in accordance with this Agreement;

(ii) A reduction in the then current base salary or title of Employee;

(iii) A material reduction in the authority, duties or responsibilities of Employee;

(iv) The Company's requirement that Employee report to any person other than the President of the Company

(v) The failure of any successor or assignee to all or substantially all of the assets of the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place;

(vi) The Company's requirement that Employee relocate to any place other than the Houston, Texas greater metropolitan area; or

(vii) Any material breach by the Company of this Agreement.

Any termination of employment by Employee that is not a Good Reason Termination shall constitute a Voluntary Resignation.

(b) To exercise his right to terminate for Good Reason, Employee must provide written notice to the Company within thirty (30) days after an event that Employee believes constitutes "Good Reason," and such notice shall describe the circumstance believed to constitute Good Reason, or Employee will have and will be deemed to have waived his right to terminate his employment for Good Reason for any such event. Employee's Good Reason Termination must be effective no later than 2 years following the event that Employee believes constitutes Good Reason. Employee may not terminate his employment for Good

Reason if the Company cures such event within thirty (30) business days after receiving Employee's notice of the event that Employee believes constitutes Good Reason.

3.3 Termination upon Death. Employees employment shall terminate automatically upon his death.

3.4 Obligations Due Upon Termination for Cause. Upon a Voluntary Resignation, a Termination for Cause, a termination due to Employee's death or if Employee delivers a Non-Renewal Notice, Employee shall be paid (i) the accrued and unpaid portion of Employee's Base Salary through the date of Employee's termination of employment (the "Compensation Payment"), (ii) any accrued but unused vacation days for the calendar year in which Employee's termination of employment occurs (the "Vacation Payment") and (iii) any reimbursement for business travel and other expenses to which Employee is entitled under Section 2.5 (the "Reimbursement"), in each case in accordance with the Company's standard payroll practice; however, except as provided in this Section 3.4, Employee shall not be entitled to any future compensation or benefits which would otherwise have been provided pursuant to this Agreement had the Term continued following such termination of employment, including, without limitation, any bonuses, incentive compensation, stock option or other equity based award that is not vested or payable pursuant to its terms at the date of such termination of employment. Upon a Voluntary Resignation, a Termination for Cause or if Employee delivers a Non -Renewal Notice, Employee (and his assigns and transferees) shall (i) forfeit any unvested stock options, restricted stock or unit awards and other equity based awards granted by the Company or its Affiliates to Employee (collectively, "Unvested Equity Awards") and (ii) be entitled to retain any vested stock options, restricted stock or unit awards and other equity based awards granted by the Company or its Affiliates to Employee (collectively, "Vested Equity Awards"), subject to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. Upon a termination due to Employee's death, Employee shall (i) be immediately vested in any outstanding Unvested Equity Awards and (ii) be entitled to retain any Vested Equity Awards that are vested as of the date of such termination subject to, in the case of clauses (i) and (ii) of this sentence, the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. As used in this Agreement, "Affiliate" means with respect to any natural person, corporation, partnership, limited liability company, trust, unincorporated organization or other entity (each, a "Person"), another Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such Person; as used herein, "control" means the possession, directly or indirectly through one or more intermediaries, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

3.5 Obligations Due Upon Termination Without Cause. Upon a Termination without Cause, a Disability Termination, a Good Reason Termination or if the Company delivers a Non-Renewal Notice, then Employee shall be paid (a) (i) the Compensation Payment, the Vacation Payment and the Reimbursement and (ii) an amount equal to 50% of Employee's Base Salary in effect immediately prior to his termination of employment, multiplied by a fraction, the numerator of which is the number of days during the calendar year up to and including the termination of employment and the denominator of which is 365 (the "Prorated Bonus"), in each case paid in accordance with the normal payroll practices of the Company, and (b) for a period of fifteen (15) months following the date of termination, beginning in the first month following the termination of employment, an amount each month equal to the Monthly Severance Amount (as defined below), payable each month in accordance with the normal payroll practices of the Company (the Prorated Bonus and the amounts payable under this Section 3.5(b) are "Severance Payments"). In addition, upon a Termination without Cause, a Disability Termination, a Good Reason Termination or if the Company delivers a Non-Renewal Notice, the Company shall, for a period of fifteen (15) months following the date of termination, pay the premium for Employee's health insurance under the same group health insurance policy(ies) that is (are) provided to employees of the Company, subject to the terms of and to the extent permitted by the Company's group health insurance policy(ies), the standard terms of the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"), and Employee making appropriate elections to participate in such coverage (such payments, the "Severance Benefits"). The "Monthly Severance Amount" shall equal (i) 150% of Employee's Base Salary in effect immediately before the termination of Employee divided by (ii) twelve (12). Upon a Termination without Cause, a Good Reason Termination or a Disability Termination, Employee shall (a) be immediately vested in any outstanding Unvested Equity Awards as of the date of such termination and (b) be entitled to retain any Vested Equity Awards as of the date of such termination, subject, in the case of clauses (a) and (b) of this sentence, to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. If the Company delivers a Non-Renewal Notice, Employee (and his assigns and transferees) shall (i) forfeit any Unvested Equity Awards as of the first day after the Term in which such Non-Renewal Notice is delivered and (ii) be entitled to retain any Vested Equity Awards, subject to the repurchase provisions of the Stockholders' Agreement and any other applicable grant documents or plan. Employee shall not be entitled to receive any Severance Payments or Severance Benefits pursuant to this Section 3.5, and shall forfeit any Unvested Equity Awards held by him, unless within sixty (60) days following his termination of employment during Employee's lifetime (or, if later, within thirty (30) days of the Company providing notice to Employee that he is required to deliver a release pursuant to this sentence) and provided that Employee is alive and competent to do so, Employee has executed (and not revoked) and delivered to the Company a general release of all claims that Employee may have or assert against the Company and its Affiliates relating to Employee's employment and the terms hereunder in the form attached hereto as Exhibit A. If the Company has notified Employee that Employee's employment with the Company has been terminated for Cause, then Employee will not be obligated to provide the release contemplated by this Section 3.5 and shall not, solely as a result of Employee's failure to have provided the release contemplated by this Section 3.5, if it is subsequently determined that Employee was not properly terminated for Cause, forfeit or lose his right to receive any Severance Payments, Severance Benefits or other rights pursuant to this Section 3.5, and shall not forfeit or lose any Unvested Equity Awards held by him as of the date of such termination.

3.6 Offsets. In all cases, the compensation payable to Employee under this Agreement upon termination of the employment relationship shall be offset against any amounts to which Employee may otherwise be entitled under any and all severance plans and policies of the Company or its Affiliates that would be aggregated with this separation pay plan under Section 409A regulations.

3.7 Continuation of Benefits. Notwithstanding any inference to the contrary in this Article III or elsewhere in this Agreement, upon any termination of Employee's employment with the Company, Employee and Employee's spouse shall have the right (at their option), with Employee and his spouse being responsible for the applicable premium, to continue to be covered under the same group health insurance policy(ies) that is (are) provided to employees of the Company, with such coverage remaining in effect for a minimum of six (6) months, but terminable earlier at the option of Employee or his spouse, subject to the terms of and to the extent permitted by the Company's group health insurance policy(ies), the standard terms of COBRA. and Employee making appropriate elections to participate in such coverage. The Company shall notify Employee of his rights under this Section 3.7 within thirty (30) days of a termination of employment, provided that any notice provided to Employee in accordance with COBRA shall satisfy the Company's notice obligation for all purposes under this Section 3.7. Employee shall notify the Company of his and his spouse's election to obtain the coverage provided by this Section 3.7 no later than sixty (60) days after termination of Employee's employment with the Company.

3.8 Continuing Obligations. Termination of the employment relationship pursuant to Sections 3.1, 3.2 and 3.3 above, or pursuant to the delivery of a Non-Renewal Notice, shall not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Article IV.

ARTICLE IV
COVENANTS OF EMPLOYEE

4.1 Confidential Information.

(a) Employee recognizes that his employment by the Company is one of the highest trust and confidence because Employee has and will acquire knowledge of, and become fully familiar with, all aspects of the Company's business during the term of this Agreement, including proprietary and confidential information that is special and of critical value to the Company. Employee acknowledges (i) that the Company owns and utilizes certain Confidential Information, (ii) that any Confidential Information existing on the Effective Date is owned by the Company and (iii) that he has no rights, interests or entitlements thereto. Employee acknowledges that hardship, loss or irreparable injury and damage could result to the Company if any Confidential Information were imparted to or became known by any Person engaging in a business in competition with that of the Company, the measurement of which hardship, loss or irreparable injury would be difficult if not impossible to ascertain. Therefore, Employee agrees that it is necessary for the Company to protect its business from such damage, and Employee further agrees that the following covenants constitute a reasonable and appropriate means, consistent with the best interest of both Employee and the Company, to protect the Company against such damage and shall apply to and be binding upon Employee as provided herein. For purposes of this Agreement, "Confidential Information" shall mean any and all information regarding past, current and prospective customers, suppliers, service providers, investors and Affiliates, employees, contractors and the industry not generally known to the public; strategies, methods, books, records and documents; technical information concerning products, equipment, services and processes, including designs and specifications; procurement procedures, pricing and pricing techniques, including contact names, services provided, pricing, type and amount of services used; pricing strategies and price curves; positions; plans or strategies for expansion or acquisitions; budgets; research; financial and sales data; trading methodologies and terms; communications information; evaluations, opinions and interpretations of information and data; marketing and merchandising techniques; electronic databases; models; specifications; computer programs; contracts; bids or proposals; technologies and methods; training methods and processes; organizational structure; personnel information; payments or rates paid to consultants or other service providers; and other such confidential or proprietary information.

(b) Employee agrees and covenants to use his best efforts and exercise utmost diligence to protect and safeguard the Confidential Information. Employee further agrees and covenants that, except as may be required by the Company in connection with this Agreement, or with the prior written consent of the Company, Employee shall not, either during the term of this Agreement or thereafter, directly or indirectly, use for Employee's own benefit or for the benefit of another, or disclose, disseminate or distribute to another, any Confidential Information (whether or not· acquired, learned, obtained or developed by Employee alone or in conjunction with others). All memoranda, notes, records, drawings, documents or other writings whatsoever made, compiled, acquired or received by Employee during the term of this Agreement related to Employee's employment or performance hereunder, arising out of, in connection with, or related to any business of the Company, including, but not limited to, Confidential Information, are, and shall continue to be, the sole and exclusive property of the Company, and shall, together with all copies thereof and all advertising literature, be returned and delivered to the Company by Employee immediately, without demand, upon the termination of this Agreement, or at any time upon the Company's demand. The Company acknowledges that other employees have access to the Confidential Information.

(c) The obligations of Employee regarding Confidential Information shall not apply if (i) it was generally known (including information that is publicly available) in the industries in which the Company engages or may engage prior to disclosure, (ii) such disclosure comes into the public domain (including the industries in which the Company engages or may engage) through no fault of the Employee, or (iii) such disclosure is required by law or compelled by court order.

4.2 Non-Solicitation; Non-Competition.

(a) Employee covenants that, during the term of this Agreement and for a period of three (3) years following the termination of Employee's employment with the Company under this Agreement (together, the "Non -Solicitation Period"), he will not, either directly or indirectly, for himself or on behalf of any other Person, solicit for employment, or otherwise encourage the departure of, an individual who was or is employed or engaged by the Company during the Non-Solicitation Period

(b) Employee hereby covenants and agrees that, during the Non-Solicitation Period, Employee will not, directly or indirectly, engage in either of the following activities in any county or parish in which the Company or any of its Affiliates operates in North America or within a two hundred and fifty (250) mile radius surrounding any operations off the shores of North America or in the areas, states, counties, parishes or provinces otherwise set forth in Exhibit B as of the Effective Date or during the Non -Solicitation Period, including, but not limited to, the counties and parishes in California, Louisiana, Texas and Wyoming set forth in Exhibit B (collectively, the "Restricted Area") in the business of renting drill collars, stabilizers, sub-assemblies and flow valves to participants in the oil and natural gas exploration and production industry or any other business in which the Company is engaged during the Non-Solicitation Period (the "Business"):

(i) carry on or engage, on such Employee's own behalf or on behalf of any other Person, in the Business; or

(ii) own, manage, operate, control, be employed by or participate in the management, ownership, operation or control of, or be connected in any manner with, any business (whether as director, officer, employee, agent, representative, partner, security holder, consultant or otherwise) engaged in a business that is the same as or substantially similar to the Business.

Notwithstanding the foregoing, Employee shall be permitted to acquire as a passive investment not more than 10% of the outstanding equity securities of any company engaged in such competitive activities, the equity securities of which are traded on a national securities exchange.

Employee hereby acknowledges that he has and will acquire knowledge of certain business contacts and information regarding the Company's clients, customers and certain Persons whom the Company has identified as prospective clients and customers. During the Non-Solicitation Period, Employee shall not, directly or indirectly, for himself or on behalf of any other Person, solicit the sale or lease of goods, services or a combination of goods and services that are the same as or substantially similar to those offered or provided by the Company in the Business during the Term and preceding termination of Employee's employment with the Company from

(i) any established customer of the Company or (ii) any prospective customer of the Company with which the Company had contact during the Non-Solicitation Period.

(c) If Employee is found to have breached any promise made in this Section 4.2 during the Non-Solicitation Period, the Non-Solicitation Period will be extended by a month for each month in which Employee was in breach so that the Company is provided the benefit of the full three -year period.

4.3 Intellectual Property. Employee agrees that all Inventions in the Field (as defined below) shall be the sole and exclusive property of the Company and Employee agrees, on his behalf and on behalf of his heirs, assigns and representatives, to assign and transfer to the Company or its designee, without any separate remuneration or compensation, his entire right, title and interest in and to all Inventions in the Field, together with all United States and foreign rights with respect thereto, and, at the Company's expense, to execute, acknowledge and deliver all papers and to do any and all other things necessary for or incident to the applying for, obtaining and maintaining of such letters patent, ·copyrights, trademarks or other intellectual property rights and to perform all lawful acts, including giving testimony, and to execute and deliver all such instruments that may be necessary or proper to vest all such Inventions in the Field and patents and copyrights with respect thereto in the Company, and to assist the Company in the prosecution or defense of any interference which may be declared involving any of said patent applications, patents, copyright applications or copyrights. In the event the Company is unable, after reasonable efforts and, in any event, after ten (10) business days, to secure Employee's signature on a written assignment to the Company, of any application for letters patent, trademark registration or to any common law or statutory copyright or other property right therein, whether because of his physical or mental incapacity, or for any other reason whatsoever, Employee irrevocably designates and appoints the Secretary of the Company as Employee's attorney-in-fact to act on Employee's behalf to execute and file any such applications and to do all lawfully permitted acts to further the prosecution or issuance of such assignments, letters patent, copyright or trademark. Employee agrees to fully and promptly disclose to the Company any Inventions in the Field. For purposes of this Agreement, the "Inventions in the Field" shall mean any and all inventions, developments, applications, techniques, discoveries, innovations, writings, domain names, improvements, trade secrets, designs, drawings, business processes, secret processes, know-how and all other intellectual property, whether or not patentable or constituting a copyright or trademark and whether reduced to practice or not, which Employee has previously or may in the future create, conceive, develop or make, either alone or in conjunction with others (whether on or off the Company's premises or during or after normal working hours) and related or in any way connected with the Company, its strategic plans, products, processes, apparatus or business now or hereafter carried on by the Company. Employee represents, warrants and covenants on the date hereof that (i) he does not have any applications for patents or copyright registrations pending, either domestic or foreign, (ii) his performance of the foregoing disclosure and assignment provisions will not breach any invention assignment or proprietary information agreement with any former employer or other party, and (iii) there is no invention or works or authorship now in his possession which he will claim to be excluded herefrom.

4.4 Assistance in Litigation. After the Term and for so long as HHEP- Directional, L.P., a Delaware limited partnership, and its Affiliates own, directly or indirectly, more than 50% of the outstanding common stock of the Company, Employee shall, upon reasonable notice, furnish such information and assistance to the Company or any of its Affiliates as may reasonably be requested by the Company in connection with any litigation in which the Company or any of its Affiliates is, or may become, a party. The Company shall reimburse the Employee for all reasonable out-of-pocket expenses, including travel expenses, incurred by the Employee in rendering such assistance, but shall have no obligation to compensate the Employee for his time in providing information and assistance in accordance with this Section 4.4.

4.5 Survival. Each covenant of Employee set forth in this Article IV shall survive the termination of this Agreement and shall be construed as an agreement independent of any other provision of this Agreement, and the existence of any claim or cause of action of Employee against the Company whether predicated on this Agreement or otherwise shall not constitute a defense to the enforcement by the Company of said covenant.

4.6 Specific Performance; Invalidity. The Company and Employee agree that it would not be possible to measure in monetary terms the damages which the Company would incur if any Employee breaches his obligations under this Article IV. Therefore, if the Company, after a breach by Employee, lawfully institutes any action or proceedings to enforce its rights hereunder, Employee agrees not to assert, and hereby forever waives, the claim or defense that the Company has an adequate remedy at Law. In the event of a breach of this Article IV, Employee further agrees, upon order of a Court and so long as the Company is not in breach of this Agreement, to reimburse the Company for all costs and expenses, including reasonable attorneys' fees, incurred in enforcing its rights hereunder. If Employee violates any of the covenants set forth in this Article IV, prior to a breach by the Company of this Agreement, the Company will suffer irreparable damage and shall be entitled to specific performance, full injunctive relief or such other relief as may be provided at law or in equity together with such damages as may be provided at law or in equity.

Insofar as the covenants set forth in this Article IV are concerned, Employee specifically acknowledges and agrees as follows: (i) he is receiving a substantial benefit as a result of this Agreement and the Purchase Agreement; (ii) he will be receiving cash payments; (iii) the Business is highly competitive and the assets of the Company, including goodwill, customer contacts, potential revenue and customer lists, are valuable, *as* used by the Company in the Business and that protection against competition is of critical importance to the Company; (iv) the covenants are reasonable and necessary to protect the Confidential Information and goodwill and the operation and the Business; (v) the time duration of the covenants and the geographical area limitations of the covenants are reasonable and necessary to protect the Confidential Information and the goodwill and operation of the Business; and (vi) the covenants are not oppressive to Employee and do not impose a greater restraint on Employee than is necessary to protect the Confidential Information and the goodwill and operation of the Business.

It is the express intention of Employee and the Company to comply with all Laws which may be applicable to the covenants in this Article IV. Consequently, Employee and the Company hereby specifically agree that, if any Court shall determine any covenant contained in this Article IV to be effective in any particular area or jurisdiction only if such covenant is modified to limit its duration or scope, such covenant may be reformed or modified by the judgment or order of such Court to reflect a lawful and enforceable duration or scope. Such covenant automatically shall be deemed to be amended and modified with respect to that particular area or jurisdiction so as to comply with the judgment or order of such Court and, as to all other areas and jurisdictions covered by this Agreement, the terms and provisions hereof shall remain in full force and effect as originally written. If any Court shall hold any covenants contained in this Article IV to be void or otherwise unenforceable in any particular area or jurisdiction notwithstanding the operation of this provision, such covenant automatically shall be deemed to be amended so as to eliminate therefrom that particular area or jurisdiction as to which such covenant is so held void or otherwise enforceable and, as to all other areas and jurisdictions covered by this Agreement, the terms and provisions hereof shall remain in full force and effect as originally written.

4.7 Material Inducement. For the purposes of this Section 4.7, references to the "Company" shall include the Company and its Affiliates. Employee hereby acknowledges that Employee's agreement to be bound by the protective covenants set forth in this Article IV was a material inducement for Parent and the Company entering into this Agreement and the Purchase Agreement and agreeing to pay the Employee the compensation and benefits set forth herein and making the payments contemplated pursuant to the Purchase Agreement. Further, Employee understands the foregoing restrictions may limit his or her ability to engage in certain businesses during the period of time provided for, but acknowledges that Employee will receive sufficiently high remuneration and other benefits under this Agreement and the Purchase Agreement to justify such restriction and Employee represents and warrants that the knowledge, skills and abilities he possesses at the time of commencement of employment hereunder are sufficient to permit him, in the event of termination of his employment hereunder, to earn a livelihood satisfactory to himself without violating any provision of this Article IV. Nothing in this Article IV shall confer upon Employee any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which, subject to the terms of this Agreement, are hereby reserved, to discharge Employee at any time for any reason whatsoever, with or without cause.

ARTICLE V
MISCELLANEOUS

5.1 Notices. For purposes of this Agreement, all notices and other communications shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Drilling Tools International, Inc. Attn:
Chief Executive Officer 3701 Briarpark -
Suite 150
Houston, Texas 77042

Email: wayne.prejean@drillingtools.com
Veda.ragsdill@drillingtools.com

With a copy to (which copy shall not constitute notice): Bracewell LLP
711 Louisiana Street, Suite 2300
Houston, Texas 77002 Attention:
William S. Anderson
Facsimile: (713) 437-5370

With a copy to (which copy shall not constitute notice): Hicks Equity Partners LLC
Attention: Curt Crofford, Rick Neuman, Lori McCutcheon, Genee Darden
100 Crescent Court, Suite 1200
Dallas, Texas 75201
Facsimile: (214) 615-2236

If to Employee, to the address last shown on the Company’s records.

Either the Company or Employee may furnish a change of address to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

5.2 Expenses. Each of the parties hereto shall bear such party's own attorneys' fees and other expenses incurred in connection with the negotiation and preparation of this Agreement.

5.3 Governing Law and Venue. This Agreement shall be deemed to be made in and in all respects shall be interpreted, construed and governed exclusively by and in accordance with the laws of the State of Texas without regard to the conflict of law principles thereof. Exclusive venue of any dispute relating to this Agreement or Employee's employment with or separation from employment with Employer shall be, and is convenient in, Harris County, Texas. The Parties agree to waive any challenge to the application of Texas law or of Harris County venue to any dispute or claim arising from or related to this Agreement.

5.4 Arbitration. Any and all controversies between the parties relating to this Agreement (each, a "Disputed Issue") shall be submitted to mediation by a party's giving written notice to such effect to the other party. During the 90 day period following the service of such notice, the parties shall attempt in good faith to settle the Disputed Issues by non-binding mediation in Houston, Texas, using a mediator upon which they jointly agree. Either party may submit any Disputed Issues not resolved during such 90 day period to binding arbitration in Houston, Texas by a party's giving written notice to such effect to the other party and the Houston, Texas office of the American Arbitration Association ("AAA"). If the parties involved in the controversy cannot agree within 15 days from service of such notice of binding arbitration upon the other party in accordance with the terms of this Agreement upon the selection of a single arbitrator, the arbitrator shall be selected or designated by the AAA upon the written request of either party. Such arbitrator must be a member of the State Bar of Texas actively engaged in the practice of law. Arbitration of such Disputed Issues shall be conducted in accordance with the Employment Law rules of AAA. The decision of the arbitrator shall be final and binding upon all parties and shall be enforceable in a court of competent jurisdiction. The arbitration award shall be in writing, delivered within five (5) business days of the hearing and shall specify the factual and legal bases for the award. Each party shall bear all costs and expenses incurred by it in connection with any mediation and arbitration; provided, that, the arbitrator is hereby authorized to award to the prevailing party the costs (including reasonable attorneys' fees and expenses) of any such mediation and arbitration. Notwithstanding anything herein to the contrary, a party may apply to a court of competent jurisdiction for injunctive relief in respect to a breach or threatened breach hereof.

5.5 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.6 Invalidity. It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant or remedy of this Agreement or the application thereof to any Person, association or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant or remedy shall be construed in a manner so *as* to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any Person, association or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

5.7 Assignment. This Agreement shall be binding upon and inure to the benefit of the Company. The Company may assign this Agreement to any other Person which may hereafter acquire or succeed to all or substantially all of the business or assets of the Company by any means whether direct or indirect, by purchase, merger, consolidation or otherwise. Employee's rights and obligations under Agreement hereof are personal and such rights, benefits and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated or transferred, whether by operation of law or otherwise, without the prior written consent of the Company.

5.8 Section 409A. This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Code. This Agreement shall be administered, interpreted, and construed in a manner consistent with Section 409A of the Code. Should any provision of this Agreement be found not to comply with, or otherwise be exempt from, the provisions of Section 409A, such provision shall be modified and given effect (retroactively if necessary), by the Company, with the consent of Employee, in such manner as the Company and Employee agree reasonably and in good faith to be necessary or appropriate to comply with, or to effectuate an exemption from, Section 409A. Notwithstanding anything herein to the contrary, (a) if at the time of Employee's termination of employment, Employee is a "specified employee" as defined in Section 409A and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided by the Company) until the date that is six months following the date of Employee's termination of employment (or the earliest date as is permitted under Code Section 409A), (b) if any other payments of money or other benefits due to Employee hereunder could cause the application of an accelerated or additional tax under Section 409A, then such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner determined by the Company that does not cause such an accelerated or additional tax, (c) to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, Employee shall not be considered to have terminated employment with the Company for purposes of this Agreement and no payment shall be due to Employee under this Agreement based on termination of employment until Employee would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A, and (d) to the extent permitted by Code Section 409A, each amount to be paid or benefit to be provided to Employee pursuant to this Agreement, which constitutes deferred compensation subject to Section 409A, shall be construed as a separate identified payment for purposes of Section 409A. Employee shall not have any right to determine a date of payment of any amount under this Agreement. To the extent required to avoid an accelerated or additional tax under Section 409A, amounts reimbursable to Employee under this Agreement, if any, shall be paid to Employee on or before the last day of the year following the year in which the expense was incurred, the amount of expenses eligible for reimbursement (and in-kind benefits provided to Employee) during any one year may not affect amounts reimbursable or provided in any subsequent year, and the right to reimbursement (and in-kind benefits provided to Employee) under this Agreement shall not be subject to liquidation or exchange for another benefit. Employee acknowledges and understands that neither the Company nor any employee or agent of the Company has provided Employee any tax advice regarding this Agreement, amounts payable under this Agreement, or Section 409A and that the Company has urged Employee to seek advice from Employee's own tax advisor regarding the tax consequences of this Agreement to Employee.

5.9 Entire Agreement; Amendments. This Agreement replaces in full all previous agreements and discussions pertaining to the nature of Employee's employment relationship with the Company and the term and termination of such relationship. This Agreement constitutes the entire agreement of the parties with regard to such subject matters, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect such subject matters. Each party to this Agreement acknowledges that no representation, inducement, promise or agreement, oral or written, has been made by either party with respect to such subject matters, which is not embodied herein, and that no agreement, statement or promise relating to the employment of Employee by the Company that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Board. The Employee represents and warrants that he is not a party to or bound by any other agreement or understanding of any type, whether written or oral, or by any statutory or common law duty or obligation which, in any case, would in any way restrict his ability to be employed by the Company, or his ability to compete freely with other Persons in connection with the business of the Company. Employee has no existing or current employment agreement. By Employee's execution below, Employee acknowledges that Employee has received a copy of the Stockholders' Agreement as currently in effect and has had ample time to review such agreement with counsel.

IN WITNESS WHEREOF, the Company and Employee have duly executed this Agreement in multiple originals, effective for all purposes as of the Effective Date.

DRILLING TOOLS INTERNATIONAL HOLDINGS, INC.

Signature: /s/ R. Wayne Prejean

Name: R. Wayne Prejean

Title: President & Chief Executive Officer

EMPLOYEE

/s/ Michael W. Domino

Michael Wayne Domino

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the use in the Prospectus constituting a part of this Registration Statement of our report dated March 31, 2023, relating to the consolidated financial statements of Drilling Tools International Holdings, Inc., which are contained in that Prospectus.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ Weaver and Tidwell, L.L.P.

Oklahoma City, Oklahoma
July 20, 2023

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in the Prospectus constituting a part of this Registration Statement on Form S-1 of our report dated March 20, 2023, relating to the financial statements of ROC Energy Acquisition Corp., which is contained in that Prospectus. We also consent the reference to our Firm under the caption “Experts” in the Prospectus.

/s/ WithumSmith+Brown, PC

New York, New York
July 20, 2023

Exhibit 107

Calculation of Filing Fee Table

Form S-1
(Form Type)

Drilling Tools International Corporation
(Exact Name of Registrant as Specified in its Charter)

Table 1: Newly Registered and Carry Forward Securities	Security Type	Security Class Title	Fee Calculation or Carry Forward Rule	Amount Registered	Proposed Maximum Offering Price Per Unit	Maximum Aggregate Offering Price	Fee Rate	Amount of Registration Fee
				Newly Registered Securities				
Fees to be Paid	Equity	Common Stock, par value $0.0001 per share	Rule 457(c)	26,990,264	$4.36(1)	$117,677,551	0.00011020	$12,968
				Carry Forward Securities				
Carry Forward Securities								
	Total Offering Amounts							$12,968
	Total Fees Previously Paid							
	Total Fee Offsets							
	Net Fee Due							$12,968

(1) Estimated solely for the purpose of calculating the registration fee, based on the average of the high and low prices of the Common Stock on Nasdaq on July 18, 2023 (such date being within five business days of the date that the Registration Statement was filed with the SEC). This calculation is in accordance with Rule 457(c) of the Securities Act.