

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number: 001-41103

DRILLING TOOLS INTERNATIONAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
3701 Briarpark Drive  
Suite 150  
Houston, Texas  
(Address of principal executive offices)

87-2488708  
(I.R.S. Employer  
Identification No.)

77042  
(Zip Code)

Registrant's telephone number, including area code: (832) 742-8500

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.0001 per share	DTI	The Nasdaq Stock Market LLC

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of November 14, 2024, the registrant had 34,704,696 shares of common stock, \$0.0001 par value per share, outstanding.

## Table of Contents

	<u>Page</u>
	1
<b>PART I.</b>	
	1
<b>FINANCIAL INFORMATION</b>	
Item 1.	3
<a href="#">Condensed Consolidated Financial Statements (Unaudited)</a>	3
<a href="#">Condensed Consolidated Balance Sheets</a>	3
<a href="#">Condensed Consolidated Statements of Income and Comprehensive Income</a>	4
<a href="#">Condensed Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Shareholders' Equity</a>	5
<a href="#">Condensed Consolidated Statements of Cash Flows</a>	7
<a href="#">Notes to Condensed Consolidated Financial Statements (Unaudited)</a>	8
Item 2.	33
<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	33
Item 3.	43
<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	43
Item 4.	44
<a href="#">Controls and Procedures</a>	44
<b>PART II.</b>	
<b>OTHER INFORMATION</b>	
Item 1.	46
<a href="#">Legal Proceedings</a>	46
Item 1A.	46
<a href="#">Risk Factors</a>	46
Item 2.	46
<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	46
Item 3.	46
<a href="#">Defaults Upon Senior Securities</a>	46
Item 4.	46
<a href="#">Mine Safety Disclosures</a>	46
Item 5.	46
<a href="#">Other Information</a>	46
Item 6.	47
<a href="#">Exhibits</a>	47
<a href="#">Signatures</a>	48

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Report on Form 10-Q (this "Report") 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 Report 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 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 oilfield services 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;
- the impact of the ongoing Russia-Ukraine and Israel-Hamas conflicts on the global economy;
- application of oilfield anti-indemnity limitations enacted by certain states;
- our ability to obtain additional capital;
- the impact of restrictive covenants in the Amended and Restated Revolving Credit, Security and Guaranty Agreement among Drilling Tools International, Inc., certain of its subsidiaries, Drilling Tools International Corporation and PNC Bank, National Association, dated as of March 15, 2024 (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 information technology systems, in particular Customer Order Management Portal and Support System, 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 DTIC Common Stock;
- 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 DTIC Common Stock or other equity securities;
- our ability to maintain the listing of the DTIC Common Stock on Nasdaq;
- the impact of industry or securities analysts changing their recommendation, or failing to cover, the DTIC Common Stock;
- the impact of our status as a “controlled company;” and
- other risks and uncertainties described in this Report, including those under Part II, Item 1A. “*Risk Factors.*”

The forward-looking statements contained in this Report 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 this Report under Part II, Item 1A. “*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 Report speak only as of the date of this Report. 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.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share data)</i>	<b>September 30, 2024 (Unaudited)</b>	<b>December 31, 2023 (Audited)</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 11,961	\$ 6,003
Accounts receivable, net	33,152	29,929
Related party note receivable, current	1,310	—
Inventories, net	17,352	5,034
Prepaid expenses and other current assets	4,967	4,553
Investments - equity securities, at fair value	—	888
<b>Total current assets</b>	<b>68,742</b>	<b>46,408</b>
Property, plant and equipment, net	77,660	65,800
Operating lease right-of-use assets	23,887	18,786
Intangible assets, net	30,866	216
Goodwill	10,970	—
Deferred financing costs, net	903	409
Related party note receivable, noncurrent	3,740	—
Deposits and other long-term assets	2,076	879
<b>Total assets</b>	<b>\$ 218,844</b>	<b>\$ 132,498</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 9,054	\$ 7,751
Accrued expenses and other current liabilities	12,337	10,579
Revolving line of credit	21,164	—
Current portion of operating lease liabilities	4,441	3,958
Current maturities of long-term debt	5,000	—
<b>Total current liabilities</b>	<b>51,996</b>	<b>22,288</b>
Operating lease liabilities, less current portion	19,533	14,893
Long-term debt	17,917	—
Deferred tax liabilities, net	6,208	6,627
<b>Total liabilities</b>	<b>95,654</b>	<b>43,808</b>
<b>Commitments and contingencies (See Note 15)</b>		
<b>Shareholders' equity</b>		
Common stock, \$0.0001 par value, shares authorized 500,000,000 as of September 30, 2024 and December 31, 2023, 34,704,696 shares issued and outstanding as of September 30, 2024 and 29,768,568 shares issued and outstanding as of December 31, 2023	3	3
Additional paid-in-capital	124,896	95,218
Accumulated deficit	(2,238)	(6,306)
Accumulated other comprehensive loss	529	(225)
<b>Total shareholders' equity</b>	<b>123,190</b>	<b>88,690</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 218,844</b>	<b>\$ 132,498</b>

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

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(UNAUDITED)**

<i>(In thousands, except share and per share data)</i>	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<b>Revenue, net:</b>				
Tool rental	\$ 28,116	\$ 29,361	\$ 86,410	\$ 90,639
Product sale	11,977	8,777	28,190	26,206
<b>Total revenue, net</b>	40,093	38,138	114,600	116,845
<b>Operating costs and expenses:</b>				
Cost of tool rental revenue	4,076	7,337	17,558	21,578
Cost of product sale revenue	5,726	1,814	10,779	5,862
Selling, general, and administrative expense	19,855	16,552	57,415	50,999
Depreciation and amortization expense	6,185	5,303	17,232	15,035
<b>Total operating costs and expenses</b>	35,842	31,006	102,984	93,474
<b>Income from operations</b>	4,251	7,132	11,616	23,371
<b>Other expense, net:</b>				
Interest expense, net	(1,038)	(73)	(2,030)	(995)
Gain (loss) on sale of property	19	—	61	68
Gain (loss) on remeasurement of previously held equity interest	(361)	(535)	368	(148)
Other (expense)	(2,443)	(135)	(5,241)	(6,170)
<b>Total other expense, net</b>	(3,823)	(743)	(6,842)	(7,245)
Income before income tax expense	428	6,389	4,774	16,126
Income tax (expense)/benefit	439	(2,102)	(415)	(5,201)
<b>Net income</b>	\$ 867	\$ 4,287	\$ 4,359	\$ 10,925
Accumulated dividends on redeemable convertible preferred stock	—	—	—	314
Net income available to common shareholders	\$ 867	\$ 4,287	\$ 4,359	\$ 10,611
Basic earnings per share	\$ 0.03	\$ 0.14	\$ 0.14	\$ 0.57
Diluted earnings per share	\$ 0.03	\$ 0.14	\$ 0.14	\$ 0.46
Basic weighted-average common shares outstanding*	33,072,097	29,768,568	30,893,602	18,608,708
Diluted weighted-average common shares outstanding*	33,547,056	30,043,546	31,404,333	23,554,593
<b>Other comprehensive income (loss):</b>				
Net income	\$ 867	\$ 4,287	\$ 4,359	\$ 10,925
Foreign currency translation adjustment, net of tax	1,161	90	753	(117)
<b>Comprehensive income</b>	\$ 2,028	\$ 4,377	\$ 5,112	\$ 10,808

\* Shares of legacy redeemable convertible preferred stock and legacy common stock have been retroactively restated to give effect to the Merger.

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

**DRILLING TOOLS INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND**  
**SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

	Redeemable Convertible Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<i>(In thousands, except share and per share data)</i>										
<b>BALANCE, December 31, 2022</b>	20,370,377	\$ 17,878	53,175,028	\$ 532	(811,156)	\$ (933)	\$ 52,790	\$ (21,054)	\$ (111)	\$ 31,224
Retroactive application of Merger	(13,650,736)	—	(41,223,891)	(531)	811,156	933	(402)	-	—	—
<b>Adjusted Balances, beginning of period*</b>	6,719,641	17,878	11,951,137	1	—	—	52,388	(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
<b>BALANCE, March 31, 2023</b>	6,719,641	\$ 18,192	11,951,137	\$ 1	—	—	\$ 52,074	\$ (15,353)	\$ (111)	\$ 36,611
Net exercise of DTIH stockholders stock options	—	—	36,163	—	—	—	-	—	—	—
Exchange of DTIH redeemable convertible preferred stock for DTIC Common Stock	(6,719,641)	(18,192)	6,719,641	1	—	—	7,192	—	—	7,193
Issuance of DTIC Common Stock to former holders of DTIH redeemable convertible preferred stock in connection with Exchange Agreements	—	—	2,042,181	—	—	—	10,805	—	—	10,805
Merger, net of redemptions and transaction costs	—	—	5,711,721	1	—	—	(8,839)	—	—	(8,838)
Issuance of DTIC Common Stock in connection with the consummation of the PIPE Financing	—	—	2,970,296	—	—	—	30,000	—	—	30,000
Stock-based compensation	—	—	337,429	—	—	—	3,986	—	—	3,986
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	-	—	(207)	(207)
Net income	—	—	—	—	—	—	-	937	-	937
<b>BALANCE, June 30, 2023</b>	—	\$ —	29,768,568	\$ 3	—	—	\$ 95,218	\$ (14,416)	\$ (318)	\$ 80,487
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	—	—	90	90
Net income	—	—	—	—	—	—	—	4,287	—	4,287
<b>BALANCE, September 30, 2023</b>	—	\$ —	29,768,568	\$ 3	—	—	\$ 95,218	\$ (10,129)	\$ (228)	\$ 84,864

\* Shares of legacy redeemable convertible preferred stock and legacy common stock have been retroactively restated to give effect to the Merger.

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

	<u>Common Stock</u>				<u>Accumulated Other Comprehen- sive Loss</u>	<u>Total Shareholders' Equity</u>
<i>(In thousands, except share and per share data)</i>	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>		
<b>BALANCE, December 31, 2023</b>	29,768.5 68	\$ 3	\$ 95,218	\$ (6,306)	\$ (225)	\$ 88,690
Stock-based compensation	—	—	208	—	—	208
Foreign currency translation adjustment, net of tax	—	—	—	—	(511)	(511)
Net income	—	—	—	3,126	—	3,126
<b>BALANCE, March 31, 2024</b>	29,768.5 68	3	95,426	(3,180)	(736)	91,513
Stock-based compensation	—	—	413	—	—	413
Exercise of stock options	16,556	—	255	(290)	—	(35)
Shares issued due to vesting of restricted stock units	74,440	—	442	—	—	442
Foreign currency translation adjustment, net of tax	—	—	—	—	102	102
Net income	—	—	—	365	—	365
<b>BALANCE, June 30, 2024</b>	29,859.5 64	\$ 3	\$ 96,536	\$ (3,105)	\$ (634)	\$ 92,800
Issuance of Common Stock related to business combination	4,845.13 2	\$ —	\$ 27,714	—	—	27,714
Accelerated vesting of substitute stock options	—	—	\$ 138	—	—	138
Stock-based compensation	—	—	\$ 508	—	—	508
Foreign currency translation adjustment, net of tax	—	—	—	—	1,163	1,163
Net income	—	—	—	867	—	867
<b>BALANCE, September 30, 2023</b>	34,704.6 96	\$ 3	124,896	\$ (2,238)	\$ 529	\$ 123,190

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



**DRILLING TOOLS INTERNATIONAL CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(In thousands)	Nine Months Ended September 30,	
	2024	2023
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,359	\$ 10,925
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	17,232	15,035
Amortization of deferred financing costs	226	88
Non-cash lease expense	3,620	3,418
Provision for excess and obsolete inventory	—	22
Provision for excess and obsolete property and equipment	286	381
Provision for credit losses	42	502
Deferred tax expense	(1,301)	3,741
Gain on sale of property	(72)	(68)
Loss on asset disposal	27	—
Realized loss on interest rate swaps	—	4
Unrealized gain on equity securities	(368)	148
Realized loss on equity securities	12	—
Gross profit from sale of lost-in-hole equipment	(7,348)	(13,968)
Stock-based compensation expense	1,572	3,986
Changes in operating assets and liabilities:		
Accounts receivable, net	2,086	(577)
Prepaid expenses and other current assets	(633)	(92)
Inventories, net	(2,883)	(2,876)
Operating lease liabilities	(3,416)	(3,311)
Accounts payable	(2,802)	(888)
Accrued expenses and other current liabilities	(916)	1,014
<b>Net cash flows from operating activities</b>	<b>9,723</b>	<b>17,484</b>
<b>Cash flows from investing activities:</b>		
Acquisition of a business, net of cash acquired	(38,670)	—
Proceeds from sale of equity securities	1,244	—
Proceeds from sale of property, plant and equipment	77	126
Purchases of property, plant and equipment	(19,678)	(36,776)
Proceeds from sale of lost-in-hole equipment	10,895	16,623
<b>Net cash from investing activities</b>	<b>(46,132)</b>	<b>(20,027)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from Merger and PIPE Financing, net of transaction costs	—	23,162
Payment of deferred financing costs	(721)	(322)
Proceeds from revolving line of credit	30,062	71,646
Payments on revolving line of credit	(8,898)	(89,995)
Proceeds from Term Loan	25,000	—
Repayment of Term Loan	(2,083)	—
Payments to holders of DTIH redeemable convertible preferred stock in connection with retiring their DTI stock upon the Merger	—	(194)
<b>Net cash from financing activities</b>	<b>43,360</b>	<b>4,297</b>
<b>Effect of changes in foreign exchange rates</b>	<b>(993)</b>	<b>(117)</b>
<b>Net change in cash</b>	<b>5,958</b>	<b>1,637</b>
<b>Cash at beginning of period</b>	<b>6,003</b>	<b>2,352</b>
<b>Cash at end of period</b>	<b>\$ 11,961</b>	<b>\$ 3,989</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 1,488	\$ 901
Cash paid for income taxes	\$ 256	\$ 2,546
<b>Non-cash investing and financing activities:</b>		
Fair value of CTG liabilities assumed in CTG Acquisition	\$ 3,162	\$ —
Fair value of SDPI liabilities assumed in SDPI Acquisition	\$ 6,246	\$ —
ROU assets obtained in exchange for lease liabilities	\$ 5,737	\$ 3,002
Non-cash recovery of note receivable	\$ 453	\$ —
Net exercise of stock options	\$ 254	\$ —
Shares withheld from exercise of stock options for payment of taxes	\$ 36	\$ —
Purchases of inventory included in accounts payable and accrued expenses and other current liabilities	\$ 1,592	\$ 451
Purchases of property and equipment included in accounts payable and accrued expenses and other current liabilities	\$ —	\$ 1,733
Non-cash directors and officers insurance	\$ —	\$ 1,063
Non-cash Merger financing	\$ —	\$ 2,000
Exchange of DTIH redeemable convertible preferred stock for DTIC Common Stock in connection with the Merger	\$ —	\$ 7,193
Issuance of DTIC Common Stock to former holders of DTIH redeemable convertible preferred stock in connection with Exchange Agreements	\$ —	\$ 10,805
Accretion of redeemable convertible preferred stock to redemption value	\$ —	\$ 314

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

## NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and Nature of Operations

Drilling Tools International Corporation, a Delaware corporation ("DTIC" or the "Company"), is a global oilfield services company that designs, engineers, manufactures and provides a differentiated, rental-focused offering of tools for use in onshore and offshore horizontal and directional drilling operations, as well as other cutting-edge solutions across the well life cycle.

On March 15, 2024 (the "CTG Acquisition Date"), we entered into a Share Purchase Agreement (the "Share Purchase Agreement") with Casing Technologies Group Limited ("CTG"), certain shareholders of CTG, and a representative of CTG. Pursuant to the terms of the Share Purchase Agreement, the Company acquired one hundred percent (100%) of the shares of CTG (the "CTG Acquisition"), which wholly owns Deep Casing Tools Limited ("Deep Casing"), an energy technology development company, for approximately £16.2 million, or \$20.9 million, based on the British pound sterling to United States dollar exchange rate on the CTG Acquisition Date. For further details regarding the acquisition, refer to Note 2 – "*Business Combinations.*"

On March 6, 2024, the Company entered into an agreement and plan of merger (the "Merger Agreement") by and among the Company, Superior Drilling Products, Inc., a Utah corporation ("SDPI"), DTI Merger Sub I, Inc., a Delaware corporation and directly wholly owned subsidiary of the Company ("Merger Sub I"), and Merger DTI Merger Sub II, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company ("Merger Sub II"), pursuant to which Merger Sub I merged with and into SDPI (the "First Merger"), with SDPI surviving as a wholly owned subsidiary of DTI and upon the effective time of the First Merger (the "First Effective Time"), SDPI, as the surviving corporation of the First Merger, merged with and into Merger Sub II (the "Second Merger," and together with the First Merger, the "Merger"), with Merger Sub II surviving as a wholly owned subsidiary of the Company. In accordance with the terms of the Merger Agreement, the closing of the Merger occurred on July 31, 2024 (the "SDPI Closing Date" or "SDPI Closing") for total consideration of \$47.9 million. For further details regarding the acquisition, refer to Note 2 - "*Business Combinations.*"

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, United Kingdom, Germany, United Arab Emirates, Saudi Arabia, Kuwait, Oman, Malaysia, and Australia. 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 unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the U.S ("U.S. GAAP") as set forth by the Financial Accounting Standards Board ("FASB") and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). References to US GAAP issued by the FASB in these notes to the accompanying unaudited condensed consolidated financial statements are to the FASB Accounting Standards Codification ("ASC") and Accounting Standards Update ("ASUs").

### Unaudited Interim Financial Information

The accompanying interim unaudited condensed consolidated financial statements included in this quarterly report have been prepared in accordance with U.S. GAAP and, in the opinion of the Company, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of September 30, 2024, and its results of operations for the three and nine months ended September 30, 2024 and 2023, and cash flows for the nine months ended September 30, 2024 and 2023. The condensed consolidated balance sheet at December 31, 2023, was derived from the audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements.

### 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 unaudited condensed 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 unaudited condensed consolidated financial statements and accompanying notes as of the date of the unaudited condensed 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. Actual results may differ materially and adversely from these estimates. In the current macroeconomic and business environment affected by the Russia-Ukraine and Israel-Hamas conflicts 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 accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated on consolidation. Further, the basis of consolidation incorporates the financial statements of our foreign entity, Casing Technologies Group Limited, which operates under UK Generally Accepted Accounting Principles ("UK GAAP"). Those financial statements are translated into U.S. GAAP for consolidation purposes. The translation process adheres to established accounting standards and guidelines to ensure consistency and comparability across our consolidated financial statements. This approach enables us to accurately reflect the financial position, results of operations, and cash flows of our consolidated operations.

#### **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 unaudited condensed consolidated statements of income and comprehensive income have been translated at the average rates during the reporting period. Translation gains and losses are recorded in accumulated other comprehensive loss as a component of shareholders' 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 unaudited condensed consolidated statements of income and comprehensive income. For the three and nine months ended September 30, 2024 and 2023, aggregate transaction gains and losses included in the unaudited condensed consolidated statements of income and comprehensive income were immaterial.

#### **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. Revenue from tool rental services are accounted for in accordance with 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 judgments. 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 contracts are billed daily, monthly, or per well. 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. Additionally, the Company has rental contracts that are based on usage, either on a per footage or per well basis. As these types of rental contracts primarily consist of variable lease payments, which are unknown at commencement, revenue is recognized when the changes in the factor on which the contingent lease payments are based occur. When the customer returns the rental equipment and the footage or usage becomes known, the Company recognizes revenue.

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

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, drill bit manufacturing and refurbishment, 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 sale and drill bit manufacturing and refurbishments 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 three and nine months ended September 30, 2024, the revenue generated within the United States was \$31.7 million and \$96.9 million respectively, or 79% and 85% of total revenues. For the three and nine months ended September 30, 2023, the revenue generated outside the United States, in Canada and International, was \$8.4 million and \$17.7 million, respectively, or 21% and 15% of total revenues. For the three and nine months ended September 30, 2023, the revenue generated within the United States was \$34.9 million and \$106.6 million, respectively, or 92% and 91% of total revenues. For the three and nine months ended September 30, 2023, the revenue generated outside the United States, in Canada and International was \$3.2 million and \$10.2 million, respectively, or 8% and 9% of total revenues.

### **Contract Assets and Contract Liabilities**

Contract assets represent the Company's rights to consideration for work completed but not billed. As of September 30, 2024 and December 31, 2023, the Company had contract assets of \$4.0 million and \$4.2 million, respectively. Contract assets were recorded in accounts receivable, net in the accompanying unaudited condensed 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 September 30, 2024 and December 31, 2023, the Company did not have any material contract liabilities. All deferred revenues are expected to be recognized during the following 12 months, and they were recorded in accrued expenses and other current liabilities in the accompanying unaudited condensed 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 September 30, 2024 and December 31, 2023.

### **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 credit losses and are classified as accounts receivable, net on the unaudited condensed consolidated balance sheets.

### **Allowance for Credit Losses**

The Company considers both current conditions and reasonable and supportable forecasts of future conditions when evaluating expected credit losses for uncollectible receivable balances. In our determination of the allowance for credit losses, we pool receivables by days outstanding and apply an expected credit loss percentage to each pool. The expected credit loss percentage is determined using historical loss data adjusted for current conditions and forecasts of future economic conditions. Current conditions considered include predefined 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.

As of September 30, 2024 and December 31, 2023, the allowance for credit losses totaled \$1.3 million and \$1.5 million, respectively.

### **Business Combinations**

The Company applies the acquisition method of accounting for business combinations, which requires us to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the assets and liabilities acquired. We account for contingent assets and liabilities at fair value on the acquisition date, and record changes to fair value associated with these assets and liabilities as a period cost as incurred. We use established valuation techniques and engage reputable valuation specialists to assist us with these valuations. We use a reasonable measurement period to record any adjustment related to the opening balance sheet (generally, less than one year). After the measurement period, changes to the opening balance sheet can result in the recognition of income or expense as period costs. To the extent these items stem from contingencies that existed at the balance sheet date, but are contingent upon the realization of future events, the cost is charged to expense at the time the future event becomes known.

**Inventories, net**

Inventories are stated at the lower of cost or net realizable value. Cost is determined by using the specific identification method or the first-in-first-out ("FIFO") method, depending on the type of inventory. 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 cost of rental revenue and cost of product sale revenue within operating costs section of the unaudited condensed consolidated statements of income and comprehensive income 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 unaudited condensed consolidated balance sheets and to recognize those lease payments on a straight-line basis in the unaudited condensed consolidated statements of income and comprehensive income 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 unaudited condensed 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, noncancelable, 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*.

#### Lesser 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 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 rental" on the unaudited condensed consolidated statements of income 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.

#### **Goodwill**

Goodwill represents the excess of purchase price paid over the fair value of the net assets of acquired businesses. We evaluate Goodwill at least annually for impairment. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. We conduct our annual assessment of the recoverability of goodwill as of December 31 of each year. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test. If the qualitative assessment indicates that it is more likely than not that the fair value of the reporting unit is less than its carrying amount or we elect not to perform a qualitative assessment, the quantitative assessment of goodwill test is performed. The goodwill impairment test is also performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If it is necessary to perform the quantitative assessment to determine if our goodwill is impaired, we will utilize a discounted cash flow analysis using management's projections that are subject to various risks and uncertainties of revenues, expenses and cash flows as well as assumptions regarding discount rates, terminal value and control premiums. Estimates of future cash flows and fair value are highly subjective and inherently imprecise. These estimates can change materially from period to period based on many factors. Accordingly, if conditions change in the future, we may record impairment losses, which could be material to any particular reporting period.

#### **Accounting for Impairment of Long-lived Assets**

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 three and nine months ended September 30, 2024 and 2023, management determined that there were no triggering events necessitating impairment testing of 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 unaudited condensed consolidated statements of income 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. During the three months ended September 30, 2024, the Company settled all investments in equity securities for a realized loss of \$12 thousand.

**Redeemable Convertible Preferred Stock**

Prior to the closing of the Merger, there were outstanding shares of DTIH Series A redeemable convertible preferred stock ("Redeemable Convertible Preferred Stock"), which was classified outside of permanent equity in mezzanine equity on the unaudited condensed consolidated balance sheets as it was redeemable on a fixed date.

Upon the closing of the Merger, all of the Redeemable Convertible Preferred Stock was canceled in exchange for DTIC common stock and the right to receive cash. Accordingly, there was no Redeemable Convertible Preferred Stock outstanding as of September 30, 2024 and December 31, 2023.

**Preferred Stock**

As of the closing of the Merger, the Board of Directors (the "Board") has expressly granted authority to issue shares of preferred stock, in one or more series, and to fix for each such series such voting powers, full or limited, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof as shall be stated and expressed in the resolution or resolutions adopted by the Board providing for the issue of such series and as may be permitted by the Delaware General Corporation Law. The number of authorized shares of preferred stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of all of the then outstanding shares of the capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, without a separate vote of the holders of the preferred stock, or any series thereof, unless a vote of any such holders is required pursuant to any preferred stock designation.

The Board has not issued any shares of any classes or series of preferred stock as of September 30, 2024, and through the date these financial statements were available to be issued.

**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 unaudited condensed consolidated statements of income and comprehensive income. All indirect operating costs, including labor, freight, contract labor and others, are included in selling, general, and administrative expense in the unaudited condensed consolidated statements of income and comprehensive income.

**Stock-Based Compensation**

The Company recognizes stock-based compensation expenses over the requisite service period. The Company historically granted stock-based compensation awards with performance based vesting conditions. These options all vested upon the closing of the Merger with ROC. Subsequent to the closing of the merger with ROC, the Company's stock-based compensation awards granted are subject to service based and performance based vesting conditions. Pursuant to ASC 718-10-35-8, the Company recognizes compensation cost for stock awards with only service conditions that have a graded vesting schedule on a straight-line basis over the service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. 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 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. The Board considered numerous objective and subjective factors to determine the fair value of the Company's common stock at each meeting in which awards were approved. The factors considered include, but were 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 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 the sale of the Company, given prevailing market conditions; and (vii) precedent transactions involving the Company's shares.

For restricted stock units, the grant date fair value is determined based on quoted market price for the Company's common stock as of the grant date and the grant date fair value of the awards are recognized as compensation cost as awards vest over the requisite service period.



**Earnings Per Share**

Basic earnings per share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted earnings is computed by adjusting net income (loss) to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted earnings is computed by dividing the diluted net income (loss) 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 Redeemable Convertible Preferred Stock did not contractually entitle its holders to participate in profits or losses. As such, it was 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 the unaudited condensed 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 unaudited condensed 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 unaudited condensed 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 unaudited condensed 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 September 30, 2024 and December 31, 2023. 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 unaudited condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2024 and 2023.

**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.

The Company's interest rate swap is a pay-fixed, receive-variable interest rate swap based on SOFR swap rate. The SOFR 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 three and nine months ended September 30, 2024 the application of valuation techniques applied to similar assets and liabilities has been consistent.

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.

The interest swap agreement was settled on July 10, 2023. Upon settlement, the swap had a fair value of \$0.4 million. For the three and nine months ended September 30, 2023, the settlement resulted in a realized loss of \$4 thousand. No new interest swaps were entered into subsequently or during the nine months ended September 30, 2024.

### 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 on a recurring basis are summarized as follows (in thousands):

Assets at Fair Value as of September 30, 2024				
	Level 1	Level 2	Level 3	Total
Investments, equity securities	\$ —	\$ —	\$ —	\$ —
<b>Total assets at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

Assets at Fair Value as of December 31, 2023				
	Level 1	Level 2	Level 3	Total
Investments, equity securities	\$ 888	\$ —	\$ —	\$ 888
<b>Total assets at fair value</b>	<b>\$ 888</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 888</b>

As of September 30, 2024, the Company did not have any Level 1, 2, or 3 assets or liabilities. As of December 31, 2023, the Company did not have any Level 2 or 3 assets or liabilities.

### Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, accounts receivable, and accounts payable. The carrying amount of such instruments approximates fair value due to their short-term nature. Additionally, the Company carries long-term debt at its amortized cost, which approximates fair value.

**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 September 30, 2024 and 2023, the Company generated approximately 29% and 28%, respectively, of its revenue from 2 customers. During the nine months ended September 30, 2024 and 2023, the Company generated approximately 28% and 28%, respectively, of its revenue from 2 customers. Amounts due from these customers included in accounts receivable at September 30, 2024 and December 31, 2023 were approximately \$5.8 million and \$8.6 million, respectively.

During the three months ended September 30, 2024, the Company had 2 vendors that represented approximately 25% of purchases. During the three months ended September 30, 2023, the Company had 1 vendor that represented approximately 15% of purchases. During the nine months ended September 30, 2024 and 2023, the Company had 2 vendors that represented approximately 25% and 21% of purchases, respectively. Amounts due from these vendors included in accounts payable at September 30, 2024 and December 31, 2023 were approximately \$0.1 million and \$1.8 million, respectively.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash. 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.

**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 as of September 30, 2024.

**Accounting Standards Issued But Not Yet Effective**

In December 2023, FASB issued Accounting Standard Update ("ASU") 2023-09, Income Taxes (Topic 740) – Improvements to Income Tax Disclosures, which requires enhanced income tax disclosures that reflect how operations and related tax risks, as well as how tax planning and operational opportunities, affect the tax rate and prospects for future cash flows. This standard is effective for the Company beginning January 1, 2025 with early adoption permitted. The Company is evaluating the effects of adopting this new accounting guidance on its disclosures but does not currently expect adoption will have a material impact on the Company's consolidated financial statements. The Company does not intend to early adopt this ASU.

In November 2023, FASB issued ASU 2023-07, Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures, which includes requirements for more robust disclosures of significant segment expenses and measures of a segment's profit and loss used in assessing performance. This standard is effective for the Company's annual period beginning January 1, 2024 and interim periods beginning January 1, 2025 with early adoption permitted. The Company is still evaluating the effects of adopting this new accounting guidance on its disclosures.

## NOTE 2 – BUSINESS COMBINATIONS

### Acquisition of CTG

On the CTG Acquisition Date, the Company’s wholly owned subsidiary, Drilling Tools International, Inc., entered into and consummated the Share Purchase Agreement with CTG, the shareholders of CTG, and a representative of CTG, to acquire 100% of the shares of CTG for a gross cash purchase consideration of £16.2 million, or approximately \$20.9 million, based on the British pound sterling to United States dollar exchange rate on the CTG Acquisition Date. CTG is incorporated in the United Kingdom and is the holding company of its wholly owned subsidiary, Deep Casing. Deep Casing specializes in the design, engineering, and manufacturing of a range of patented and innovative products for well construction, well completion, and casing installation processes for the global oil and gas sector. The CTG Acquisition allows the Company to further expand its geographical presence globally, especially in the Middle East, provides accretive earnings to consolidated results of operations, and expands the Company’s portfolio of intellectual property rights, through the acquisition of over 60 patents.

The £16.2 million, or approximately \$20.9 million, gross cash purchase consideration was used on the CTG Acquisition Date to (i) settle Deep Casing’s outstanding debt of £15.3 million, or approximately \$19.8 million; (ii) pay Deep Casing’s legacy shareholders £0.3 million, or approximately \$0.3 million, in accordance with the Share Purchase Agreement; and (iii) pay Deep Casing’s acquisition-related costs of £0.6 million, or approximately \$0.8 million.

The CTG Acquisition has been accounted for as a business combination in accordance with ASC 805, Business Combinations (“ASC 805”). Drilling Tools International, Inc. has been treated as the accounting acquirer. Accordingly, CTG’s tangible and identifiable intangible assets acquired and its liabilities assumed were recorded at their estimated fair values on the CTG Acquisition Date.

The preliminary allocation of the purchase is as follows:

<b>Assets</b>	Preliminary March 15, 2024	Measurement Period Adjustments	As adjusted March 15, 2024
Cash	\$ 2,674	—	\$ 2,674
Accounts receivable, net	3,781	—	3,781
Inventories, net	4,282	—	4,282
Prepaid expenses and other current assets	189	—	189
Property, plant and equipment, net	1,647	—	1,647
Operating lease ROU asset	315	—	315
Intangible assets, net	8,065	—	8,065
Goodwill	2,618	526	3,144
<b>Total assets acquired</b>	<b>\$ 23,571</b>	<b>\$ 526</b>	<b>\$ 24,097</b>
<b>Liabilities</b>			
Accounts payable	2,656	—	2,656
Accrued expenses and other current liabilities	(295)	526	231
Current portion of operating lease liabilities	95	—	95
Operating lease liabilities, less current portion	180	—	180
<b>Total liabilities assumed</b>	<b>\$ 2,636</b>	<b>\$ 526</b>	<b>\$ 3,162</b>
<b>Total consideration transferred</b>	<b>\$ 20,935</b>	<b>\$ —</b>	<b>\$ 20,935</b>

The excess of the purchase price over the fair values of the net identifiable tangible and intangible assets acquired has been assigned to goodwill. Goodwill represents the future benefits as a result of the acquisition that will enhance the services available to both new and existing customers and increase the Company’s competitive position. Goodwill will be evaluated for impairment at least annually. Goodwill attributable to the CTG Acquisition is not deductible for tax purposes. During the three months ended June 30, 2024, a measurement period adjustment was identified as it relates to assumed accrued liabilities. The total measurement period adjustment was \$0.5 million. The measurement period adjustment impacted the goodwill recognized on March 15, 2024. As of September 30, 2024, the Company is substantially complete with the process of allocating the purchase price and valuing the acquired assets and liabilities assumed.

The following table sets forth the amounts allocated to the identified intangible assets, the estimated useful lives of those intangible assets as of the CTG Acquisition Date, and the methodologies used to determine the fair values of those intangible assets (\$ in thousands):

	Fair value	Useful life (in years)	Fair value methodology
<b>Intangible assets</b>			
Trade names	\$ 819	15	Relief from royalty method
Developed Technology	3,269	20	Relief from royalty method
Customer relationships		20	Multi-period excess earnings method of the income approach
	3,977		
<b>Total intangible assets</b>	<b>\$ 8,065</b>		

The intangible assets acquired are expected to be amortized over their useful lives on a straight-line basis.

The Company incurred acquisition-related costs of \$0.3 million during the nine months ended September 30, 2024, which are included in other income (expense), net in the condensed consolidated statement of income and comprehensive income.

The Company's condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2024 include CTG's revenues of \$3.9 million and \$8.7 million, respectively and net income of \$0.6 million and \$1.4 million, respectively. CTG's revenues and net income included in the Company's condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2024 are from the CTG Acquisition Date through September 30, 2024.

### **Supplemental Pro Forma Information**

The unaudited supplemental pro forma financial results below for the three and nine months ended September 30, 2024 and 2023, combine the consolidated results of the Company and CTG, giving effect to the CTG Acquisition as if it had been completed on January 1, 2023. This unaudited supplemental pro forma financial information is presented for informational purposes only and is not indicative of future operations or results had the acquisition been completed as of January 1, 2023, or any other date.

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Pro forma revenue	\$ 40,093	\$ 37,775	\$ 117,972	\$ 130,606
Pro forma net income	\$ 1,299	\$ 4,234	\$ 4,293	\$ 12,702

The unaudited supplemental pro forma financial information in the table above contains material nonrecurring pro forma adjustments to remove interest expense on CTG's debt as it is assumed that the business combination occurred and the debt was paid off on January 1, 2023.

### **Acquisition of Superior Drilling Products, Inc.**

On March 6, 2024, the Company entered into the Merger Agreement by and among the Company, SDPI, Merger Sub, Merger Sub II, pursuant to the First Merger, with SDPI surviving as a wholly owned subsidiary of DTI and upon the effective time of the First Merger, SDPI, as the surviving corporation of the First Merger, merged with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of the Company.

In accordance with the terms of the Merger Agreement, the closing of the Merger occurred on July 31, 2024 (the "SDPI Closing Date" or "SDPI Closing") for total consideration of \$47.9 million. The consideration for the Merger of \$47.9 million is comprised of the following items (in thousands):

Cash paid to holders of SDPI Common Stock(1)	\$ 13,668
Cash payment of SDPI transaction costs	2,907
Cash repayment of SDPI debt	2,278
Cash payment to holders of SDPI Restricted Stock	1,806
Cash severance payment to former SDPI employee(2)	233
Fair value of DTI Common Stock issued in exchange for outstanding SDPI Common Stock(3)	27,714
Fair value of replacement awards issued to holders of SDPI Options	138
Effective settlement of preexisting relationship between DTI and SDPI(4)	(828)
<b>Fair value of consideration transferred</b>	<b>\$ 47,916</b>

(1) Represents cash consideration paid to holders of SDPI common stock, which consisted of (i) payment of \$0.4 million to holders of SDPI common stock who elected to receive cash election consideration of \$1.00 per share of SDPI common stock held pursuant to the terms of the Merger Agreement; (ii) payment of \$4.3 million to SDPI stockholders who did not make an election to

receive either cash election consideration or stock election consideration and, therefore, pursuant to the terms of the Merger Agreement, automatically received the cash election consideration of \$1.00 per share of SDPI common stock held; and (iii) payment of \$9.0 million to holders of SDPI common stock whereby the stock election shares exceeded the maximum share amount, as described in the Merger Agreement, which triggered the proration provision described in the Merger Agreement.

(2) Represents a severance payment made in accordance with the terms of an employment agreement between SDPI and an employee that was entered into prior to contemplation of the Merger Agreement. The agreement contained a provision whereby a change in control event would trigger a severance payment, and it was determined that the closing of the Merger triggered the requirement for such a payment to be made. Upon the SDPI Closing, DTI paid the severance payment on SDPI's behalf.

(3) Represents the fair value of the shares of DTI common stock issued to holders of SDPI common stock as consideration for the Merger. Holders of SDPI common stock received 4,845,132 shares of DTI's common stock with an aggregate fair value of \$27.7 million, which was calculated using the quoted market price of DTI common stock of \$5.72 per share on the SDPI Closing Date.

(4) Represents the effective settlement of DTI's accounts payable to SDPI as DTI was a customer of SDPI's prior to the SDPI Closing.

The Company previously held an equity interest in SDPI that was acquired and held prior to the SDPI Closing Date. The Company's previously held interest was remeasured to its fair value of \$1.2 million based on the market price of SDPI's common stock on the SDPI Closing Date. This remeasurement resulted in a \$0.4 million loss included in the Company's condensed consolidated statement of income and comprehensive income for the three months ended September 30, 2024 and a total gain of \$0.4 million included in the Company's condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2024. The fair value of DTI's previously held equity interest in SDPI was included in the measurement of goodwill on the SDPI Closing Date.

SDPI is an innovative drilling and completion tool technology company providing cost saving solutions that drive production efficiencies for the oil and natural gas drilling industry. In addition, SDPI is a manufacturer and refurbisher of polycrystalline diamond compact drill bits for leading oil field services companies. The acquisition furthers the Company's growth strategy as a premier provider of technologically differentiated solutions and services for the global oil & gas drilling industry. The SDPI acquisition allows the company to vertically integrate around our proven and successful Drill-N-Ream® tool, gain global rights to run this tool, continue the Vernal, UT bit repair business supporting major OEMs of PDC drill bits, and leverage their high-spec machine shop. In addition, we acquired over 30 patents and patents pending, the majority of which have been granted.

The acquisition of SDPI has been accounted for as a business combination in accordance with ASC 805, Business Combinations. The Company has been treated as the accounting acquirer. Accordingly, SDPI's tangible and identifiable intangible assets acquired and its liabilities assumed were recorded at their estimated fair values on the SDPI Closing Date. The purchase price allocation for the Merger is preliminary and subject to revision, primarily relating to information pertaining to inventory. Additional information that existed as of the SDPI Closing Date may become known during the remainder of the measurement period, which will not extend beyond one year from the SDPI Closing Date.

The preliminary allocation of the purchase is as follows (in thousands):

<b>Assets acquired:</b>	
Cash	\$ 1,726
Accounts receivable, net	1,239
Related party note receivable, current	1,231
Inventories, net	2,800
Prepaid expenses and other current assets	573
Property, plant and equipment, net	10,213
Related party note receivable, noncurrent	4,193
Operating lease right-of-use asset	2,662
Intangible assets, net	22,850
Deposits and other long-term assets	200
<b>Total assets acquired</b>	<b>47,687</b>
<b>Liabilities assumed:</b>	
Accounts payable	370
Current portion of operating lease liabilities	147
Accrued expenses and other current liabilities	1,804
Deferred tax liabilities, net	881
Deferred income	675
Operating lease liabilities, less current portion	2,368
<b>Total liabilities assumed</b>	<b>6,245</b>
<b>Total identifiable net assets</b>	<b>41,442</b>
Goodwill	7,718
<b>Total net assets acquired and goodwill</b>	<b>\$ 49,160</b>

The following table presents a preliminary reconciliation of the fair value of consideration transferred and the fair value of DTI's investment in SDPI that was acquired and held prior to Closing which is included in the calculation of goodwill (in thousands):

Fair value of consideration transferred	\$ 47,916
Fair value of DTI's investment in SDPI that was acquired and held prior to Closing	1,244
<b>Total fair value consideration transferred and fair value of DTI's investment in SDPI that was acquired and held prior to Closing</b>	<b>\$ 49,160</b>

The excess of the fair value of the consideration transferred and the fair value of DTI's previously held investment in SDPI over the fair values of the net identifiable tangible and intangible assets acquired has been assigned to goodwill. Goodwill represents the future benefits as a result of the acquisition that will enhance the services available to both new and existing customers and increase the Company's competitive position. Goodwill will be evaluated for impairment at least annually. Goodwill attributable to the acquisition of SDPI is not deductible for tax purposes.

The following table sets forth the amounts allocated to the identified intangible assets, the estimated useful lives of those intangible assets as of the SDPI Closing Date, and the methodologies used to determine the fair values of those intangible assets (\$ in thousands):

	Fair value	Useful life (in years)	Fair value methodology
Customer relationships	\$ 13,400	15	Multi-period Excess Earnings Method
Developed technology	8,600	15	Relief-From-Royalty Method
Trade names	800	15	Relief-From-Royalty Method
Backlog	50	0.4	Multi-period Excess Earnings Method
Total intangible assets	<u>\$ 22,850</u>		

The intangible assets acquired are expected to be amortized over their useful lives on a straight-line basis.

The Company incurred acquisition-related costs of \$0.6 million and \$1.7 million during the three and nine months ended September 30, 2024, respectively, which are included in other expense, net in the condensed consolidated statements of income and comprehensive income.

The Company's condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2024 include SDPI's revenues of \$2.2 million and net loss of \$0.7 million from the SDPI Closing Date to September 30, 2024.

### **Supplemental Pro Forma Information**

The unaudited supplemental pro forma financial results below for the three and nine months ended September 30, 2024 and 2023, combine the consolidated results of the Company and SDPI, giving effect to the Merger as if it had been completed on January 1,

2023. The unaudited supplemental pro forma financial results to not give effect to the impact of the CTG Acquisition. This unaudited supplemental pro forma financial information is presented for informational purposes only and is not indicative of future operations or results had the acquisition been completed as of January 1, 2023, or any other date.

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Pro forma revenue	\$ 40,663	\$ 40,517	\$ 120,140	\$ 124,928
Pro forma net income/(loss)	\$ (2,349)	\$ 4,000	\$ (3,304)	\$ 8,883

The unaudited supplemental pro forma financial information in the table above contains material nonrecurring pro forma adjustments to (i) record acquisition-related costs incurred by the Company prior to the SDPI Closing Date in the amount of \$0.6 million and (ii) to record stock compensation expense of \$0.5 million for SDPI options that vested upon the closing of the acquisition of SDPI.

### NOTE 3 – REVISION OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company identified certain errors in its previously issued September 30, 2023 interim unaudited condensed consolidated financial statements related to the presentation between cost of tool rental revenue and cost of product sale revenue. Through management's review of classification within the consolidated statements of income and comprehensive income, the Company identified that the cost of revenue for the sale of accessories was historically presented within cost of tool rental revenue, as opposed to correctly presented within cost of product sale revenue, whereas the associated accessory revenue is presented in product sale revenue.

Management evaluated these errors in accordance with SEC Staff Accounting Bulletin Number 99, Materiality (“SAB 99”), which is since codified in Accounting Standards Codification 250, Accounting Changes and Error Corrections (“ASC 250”). The Company performed a quantitative and qualitative assessment of the errors and determine that the errors did not have a material impact to previously issued financial statements. Management noted that the presentation errors identified resulted in a net zero impact to total operating costs and expenses, income from operations, or net income. Therefore, these immaterial errors have been corrected in the current period in accordance with the guidance under SAB 99 and ASC 250.

The unaudited condensed consolidated financial statements presented herein for the three and nine months ended September 30, 2023 have been revised to correct the errors described above in accordance with SEC SAB Topic 1.M, as codified in ASC 250.

<i>(In thousands, except share and per share data)</i>	Three months ended September 30,		
	As Previously Reported	Total Adjustment	As Revised
Cost of tool rental revenue	\$ 7,956	\$ (619)	\$ 7,337
Cost of product sale revenue	1,195	619	1,814

  

<i>(In thousands, except share and per share data)</i>	Nine months ended September 30,		
	As Previously Reported	Total Adjustment	As Revised
Cost of tool rental revenue	\$ 23,785	\$ (2,207)	\$ 21,578
Cost of product sale revenue	3,655	2,207	5,862

### NOTE 4 – 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
September 30, 2024	\$ —	\$ —	\$ —

  

	Cost	Unrealized Loss	Fair Value
December 31, 2023	\$ 999	\$ (111)	\$ 888

Unrealized holding losses on equity securities for the three months ended September 30, 2024 and 2023 were approximately \$0.4 million and \$0.5 million, respectively. Unrealized holding gains on equity securities for the nine months ended September 30, 2024 were



approximately \$0.4 million while unrealized holding losses for the nine months ended September 30, 2023 were \$0.1 million. On July 31, 2024, the Company elected cash for the shares owned in SDPI. The Company received \$1.2 million in cash and recognized a realized loss of \$12 thousand. Refer to *Note 2 - Business Combinations* for more information.

#### NOTE 5 – BALANCE SHEET DETAILS - CURRENT ASSETS AND CURRENT LIABILITIES

##### *Inventories, net*

The following table shows the components of inventory (in thousands):

	September 30, 2024	December 31, 2023
Raw materials	\$ 13,365	\$ 5,022
Work in progress	\$ 1,362	—
Finished goods	2,841	16
<b>Total inventories</b>	<b>17,568</b>	<b>5,038</b>
Allowance for obsolete inventory	(216)	(4)
<b>Inventories, net</b>	<b>\$ 17,352</b>	<b>\$ 5,034</b>

##### *Prepaid expenses and other current assets*

The following table shows the components of prepaid expenses and other current assets (in thousands):

	September 30, 2024	December 31, 2023
<b>Prepaid expenses:</b>		
Deposits on inventory	\$ 1,896	\$ 2,146
Prepaid income tax	869	362
Prepaid insurance	1,368	1,110
Prepaid rent	452	372
Prepaid equipment	—	331
Prepaid other	382	214
<b>Other current assets:</b>		
Other	—	18
<b>Total</b>	<b>\$ 4,967</b>	<b>\$ 4,553</b>

##### *Accrued expenses and other current liabilities*

The following table shows the components of accrued expenses and other current liabilities (in thousands):

	September 30, 2024	December 31, 2023
<b>Accrued expenses:</b>		
Accrued compensation and related benefits	\$ 4,716	\$ 4,999
Accrued insurance	957	978
Accrued transaction advisory fees	—	1,000
Accrued professional services	44	189
Accrued interest	367	58
Accrued property taxes	916	60
Accrued monitoring fees	373	373
Other	426	147
<b>Other current liabilities:</b>		
Income tax payable	3,523	1,586
Sales tax payable	37	71
Unbilled lost-in-hole revenue	303	76
Deferred revenue	675	1,042
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 12,337</b>	<b>\$ 10,579</b>

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

The following table shows the component of property, plant and equipment, net (in thousands):

	Estimated Useful Lives (in Years)	September 30, 2024	December 31, 2023
Rental tools and equipment	3-10	\$ 205,223	\$ 188,949
Buildings and improvements	5-40	7,083	6,672
Office furniture, fixtures and equipment	3-5	2,470	2,389
Transportation and equipment	3-5	715	793
<b>Total property, plant and equipment</b>		<b>215,491</b>	<b>198,803</b>
Less: accumulated depreciation		(139,395)	(133,003)
<b>Property, plant and equipment, net (excluding construction in progress)</b>		<b>76,095</b>	<b>65,800</b>
Construction in progress		1,565	-
<b>Property, plant and equipment, net</b>		<b>\$ 77,660</b>	<b>\$ 65,800</b>

Total depreciation expense for the three months ended September 30, 2024 and 2023 was approximately \$5.8 million and \$5.3 million, respectively. Total depreciation expense for the nine months ended September 30, 2024 and 2023 was approximately \$16.7 million and \$15.0 million, respectively. The Company has not acquired any property, plant and equipment under capital leases.

Property, plant and equipment, net, is concentrated within the United States. As of September 30, 2024 and December 31, 2023, property, plant and equipment, net held within the United States was \$67.7 million and \$63.0 million, or 87% and 96% of total property, plant and equipment, net, respectively. As of September 30, 2024 and December 31, 2023, property, plant and equipment, net held outside the United States, in Canada and International, was \$9.9 million and \$2.8 million, or 13% and 4% of total property, plant and equipment, net, respectively.

## NOTE 7 – INTANGIBLE ASSETS, NET

The following table shows the components of intangible assets, net (in thousands):

	Useful Lives (in Years)	September 30, 2024	December 31, 2023
Trade name	10-15	\$ 2,927	\$ 1,280
Developed Technology	13-20	12,251	270
Customer Relationships	15-20	17,563	—
<b>Total intangible assets</b>		<b>32,741</b>	<b>1,550</b>
Less: accumulated amortization		(1,875)	(1,334)
<b>Intangible assets, net</b>		<b>\$ 30,866</b>	<b>\$ 216</b>

Total amortization expense for the three months ended September 30, 2024 and 2023 was approximately \$0.4 million and \$12 thousand, respectively. Total amortization expense for the nine months ended September 30, 2024 and 2023 was approximately \$0.5 million and \$35 thousand, respectively.

## NOTE 8 – REVOLVING CREDIT FACILITY AND TERM LOAN

In December 2015, the Company entered into a credit facility with PNC Bank, National Association (the "Existing Credit Facility"). The facility provided for a revolving line of credit with a maximum borrowing amount totaling \$60.0 million.

On March 15, 2024, the Company refinanced its revolving credit facility (the "Refinancing") by entering into a Second Amended and Restated Revolving Credit, Term Loan and Security and Guaranty Agreement (the "Credit Facility") with certain of the Company's subsidiaries and PNC Bank, National Association as lender and as agent. Pursuant to the terms of the Credit Facility, the Company will be provided a revolving line of credit in a principal amount up to \$80.0 million and a single draw term loan (the "Term Loan") in a

principal amount of \$25.0 million. The line of credit and the Term Loan mature in March 2029. The Credit Facility amends and restates the Company's Existing Credit Facility under that certain Amended and Restated Revolving Credit, Term Loan, and Security Agreement, dated as of June 20, 2023, by and among the Company, certain of its subsidiaries, and PNC Bank National Association.

For the three and nine months ended September 30, 2024, the interest on the amount drawn on the Credit Facility and the outstanding Term Loan balance are based on the Secured Overnight Financing Rate ("SOFR") or the bank's base lending rate plus applicable margin (approximately 9.50% and 9.20%, respectively, at September 30, 2024). The Credit Facility is collateralized by substantially all the assets of the Company.

As of September 30, 2024, the Company has drawn \$21.2 million against the line of credit.

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. As of September 30, 2024, the Company was in compliance with all restrictive covenants.

#### ***Contingent Interest Embedded Derivative Liability***

Under the Credit Facility Agreement, the interest rate will reset (the "Default Rate") upon the event of a default and an additional 2% will be added to the base rate. The Company analyzed the Default Rate feature of the Credit Facility for derivative accounting consideration under ASC 815, *Derivatives and Hedging*, and determined the Default Rate met the definition of a derivative as it is a contingent interest feature. The Company also noted that the Default Rate feature (the 'Default Rate Derivative') required bifurcation from the host contract and was to be accounted for at fair value. In accordance with ASC 815-15, the Company bifurcated the Default Rate feature of the note and determined the derivative is liability classified.

The Default Rate Derivative is treated as a liability, initially measured at fair value with subsequent changes in fair value recorded in earnings. Management has assessed the probability of occurrence for a non-credit default event and determined the likelihood of a referenced event to be remote. Therefore, the estimated fair value of the Default Rate Derivative was negligible as of September 30, 2024 and December 31, 2023 and therefore no amounts were recorded as of September 30, 2024 or December 31, 2023.

#### **NOTE 9 – INCOME TAXES**

The Company recorded an income tax benefit and expense on the unaudited condensed consolidated statements of income and comprehensive income of \$0.4 million and \$2.1 million for the three months ended September 30, 2024 and 2023, respectively. The Company recorded income tax expense on the unaudited condensed consolidated statements of income and comprehensive income of \$0.4 million and \$5.2 million for the nine months ended September 30, 2024 and 2023, respectively.

The income tax expense for the six months ended June 30, 2024 was calculated using a discrete approach. This methodology was used because changes in the Company's results of operations and acquisitions can materially impact the estimated annual effective tax rate. The Company's effective tax rate for the nine months ended September, 2024 and 2023 were provisions of 8.7% and 32.3%, 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 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 and nine months ended September 30, 2024 and 2023.

The Company is still evaluating the tax impact of the CTG and SDPI Acquisition, including the impact of the transaction costs. Additionally, the Company continues to evaluate the deferred tax assets and liabilities and corresponding valuation allowance in connection with the CTG Acquisition.

## NOTE 10 – STOCK-BASED COMPENSATION

On June 20, 2023, the Company adopted the Drilling Tools International Corporation 2023 Omnibus Incentive Plan (the "2023 Plan"). The 2023 Plan became effective on the closing of the Merger. The 2023 Plan provides for the issuance of shares of Common Stock up to ten percent (10%) of the shares of outstanding Common Stock as of the closing of the Merger and automatically increases on the first trading day of each calendar year by the number of shares of Common Stock equal to three percent (3%) of the total number of outstanding Common Stock on the last day of the prior calendar year. The 2023 Plan allows for awards to be issued to employees, non-employee directors, and consultants in the form of options, stock appreciation rights, restricted shares, restricted stock units, performance based awards, other share-based awards, other cash-based awards, or a combination of the foregoing. As of September 30, 2024, there were 1,056,536 shares of Common Stock available for issuance under the 2023 Plan.

### *Stock Options*

In connection with the Merger, all outstanding options to purchase shares of DTIH common stock were canceled and exchanged for options to purchase shares of DTIC Common Stock ("Company Options"). The number of Company Options issued and the associated exercise prices were adjusted using the Common Exchange Ratio used for the Merger. As a result of the Merger, the Company issued options to purchase a total of 2,361,722 shares of the Company's Common Stock to former holders of the DTIH stock options. The vesting schedules, remaining term, and provisions (other than the adjusted number of underlying shares and exercise prices) of the Company Options issued, are identical to the vesting schedules, remaining term, and other provisions of the DTIH stock options that were exchanged. Per a post-closing amendment, Company Options currently held by former holders of DTIH stock options are no longer subject to employment considerations.

The fair value of each stock option award is estimated on the date of grant using a Black-Scholes 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. For any grants of stock options subsequent to the Company being publicly traded, the Company will use the quoted market price as of the grant date as an input into the Black-Scholes model.

During the three and nine months ended September 30, 2023, there were no shares granted, exercised, or forfeited.

During the nine months ended September 30, 2023, the Company recognized \$1.7 million of stock-based compensation expense within selling, general, and administrative expense on the unaudited condensed consolidated statements of income and comprehensive income related to the accelerated vesting of an executive's 534,063 performance-based stock options. The performance conditions were satisfied upon completion of the Merger and all 534,063 performance-based stock options vested on June 20, 2023.

During the nine months ended September 30, 2023, the Company recognized \$2.3 million of stock-based compensation expense within other expense on the unaudited condensed consolidated statements of income and comprehensive income as a result of the issuance of shares in accordance with the Transaction Service Agreement.

The following table summarizes our stock option activity for the nine months ended September 30, 2024:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
OUTSTANDING, December 31, 2023	2,361,722	\$ 4.02	3.12	\$ —
Granted	2,670,374	3.04	—	—
Exercised	68,470	3.72	—	—
Forfeited	—	\$ —	—	—
OUTSTANDING, September 30, 2024	4,963,626	\$ 3.49	6.32	\$ 1,902
UNVESTED, September 30, 2024	2,600,000	\$ 3.02	9.63	\$ 1,851
EXERCISABLE, September 30, 2024	2,363,626	\$ 4.03	2.67	\$ 51

During the three months ended September 30, 2024, the Company recognized \$0.4 million of stock-based compensation expense related to stock options within selling, general, and administrative expenses on the unaudited condensed consolidated statements of income and comprehensive income. During the nine months ended September 30, 2024, the Company recognized \$1.0 million of stock-based compensation expense within selling, general, and administrative expenses on the unaudited condensed consolidated statements of income and comprehensive income. As of September 30, 2024, total unrecognized compensation expense related to the stock options totaled \$3.5 million.

#### *Restricted Stock Units*

In May 2024, the Company issued an aggregate 143,000 restricted stock units (“RSUs”) to five members of the Board (the “Directors”). Of the awards, 74,440 RSUs were deemed to be related to services performed during the year ended December 31, 2023, and were to vest immediately, while the remaining 68,560 RSUs are subject to a vesting term of one year. The Directors are considered to be employees of the Company under ASC 718.

During the three and nine months ended September 30, 2024, the Company recognized \$0.1 million and \$0.5 million, respectively, of stock based compensation related to RSUs within selling, general, and administrative expenses on the unaudited condensed consolidated statements of income and comprehensive income related to the RSUs. As of September 30, 2024, unrecognized compensation expense related to the RSUs totaled \$0.2 million

#### **NOTE 11 – OTHER EXPENSES, NET**

The following table shows the components of other expenses, net for the three months ended September 30, 2024 and 2023 (in thousands):

	Three months ended September 30, 2024	Three months ended September 30, 2023
Transaction fees	\$ (1,857)	\$ (124)
HHLLC stock-based compensation	—	—
Interest income	36	—
Other, net	(622)	(11)
<b>Other expense, net</b>	<b>\$ (2,443)</b>	<b>\$ (135)</b>

The following table shows the components of other expenses, net for the nine months ended September 30, 2024 and 2023 (in thousands):

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Transaction fees	\$ (4,766)	\$ (2,339)
HHLLC stock-based compensation	—	(3,623)
Other, net	(546)	(256)
Interest income	71	48
<b>Other expense, net</b>	<b>\$ (5,241)</b>	<b>\$ (6,170)</b>

## NOTE 12 – RELATED PARTY TRANSACTIONS

### *Management fees*

For the three months ended September 30, 2024 and 2023, management fees paid to Hicks Holdings Operating LLC ("HHLLC"), a shareholder of the Company, were approximately \$0.2 million and \$0.3 million, respectively. For the nine months ended September 30, 2024 and 2023, management fees paid to Hicks Holdings Operating LLC were approximately \$0.6 million and \$0.9 million, respectively. Management fees paid to a shareholder are included in selling, general and administrative expense in the accompanying unaudited condensed consolidated statements of income and comprehensive income.

### *Director fees*

For the three months ended September 30, 2024 and 2023, director fees paid to Board were approximately \$0.1 million and \$0.0 million, respectively. For the nine months ended September 30, 2024 and 2023, director fees paid to Board members were approximately \$0.4 million and \$0.1 million, respectively. Director fees are included in selling, general and administrative expense in the accompanying unaudited condensed consolidated statements of income and comprehensive income.

### *Leases*

For the three months ended September 30, 2024 and 2023, the Company paid rent to Cree Investments, LLC, a shareholder of the Company, of approximately \$13 thousand and \$13 thousand, respectively, relating to the lease of a building. For the nine months ended September 30, 2024 and 2023, the Company paid rent expense to Cree Investments, LLC of approximately \$38 thousand and \$38 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 13 - *Leases*.

### *Promissory Notes*

Upon consummation of the Merger, the Company issued shares of DTIC Common Stock in connection with the PIPE Financing to payoff convertible promissory notes which were issued to an affiliate of the ROC Sponsor on December 6, 2022 and March 2, 2023. The notes did not bear interest and were in the amounts of \$2.1 million and \$2.1 million, respectively.

### *Working Capital Loan*

Prior to the Merger, ROC paid the remaining outstanding principal amount owed to an affiliate of the ROC Sponsor in the amount of \$0.4 million for a loan to fund working capital deficiencies or finance transaction costs in connection with the Merger. The loan did not bear interest.

### *Sale of trucks*

During the three months ended September 30, 2024, the Company sold two trucks to employees of the Company. The transactions were conducted at fair market value, with a total sales price of \$0.1 million. As of September 30, 2024, the Company did not have any receivables recorded on the balance sheet related to this transaction.

### *Related Party Note Receivable*

On July 31, 2024 ("Closing Date"), the Company entered into the Sixth Amendment and Restated Promissory Note with Tronco Energy Corporation ("Tronco"), an entity owned by employees of the Company. Pursuant to the Sixth Amendment and Restated Promissory Note, Tronco will make payments to the Company of \$1.3 million annually, commencing on the first anniversary of the Closing Date through the fifth anniversary of the Closing Date. Per the agreement, if the 20-day average stock price of DTI falls below \$3.20 per share, the principal that otherwise would have been due shall be deferred and apportioned over the remaining payment dates under specified in the agreement. Any payments due and not received by the Company before the fifth date following the anniversary date will bear interest from the date of nonpayment until paid equal to 3%. In accordance with ASC 805, the receivables fair value was measured at the present value of future cash flows upon the Closing Date. The carrying value of the note as of September 30, 2024 was \$5.0 million.

## NOTE 13 – LEASES

The Company leases various facilities and vehicles under noncancelable operating lease agreements. The remaining lease terms for our leases range from 1 month to 14 years. These leases often include options to extend the term of the lease which may be for periods of up to 5 years. When it is reasonably certain that the option will be exercised, the impact of the renewal term is included in the lease term for purposes of determining total future lease payments and measuring the ROU asset and lease liability. We apply the short-term lease policy election, which allows us to exclude from recognition leases with an original term of 12 months or less. We have not entered into any finance leases as of September 30, 2024.

For the three and nine months ended September 30, 2024, the components of the Company's lease expense were as follows (in thousands):

	Three months ended September 30, 2024	Three months ended September 30, 2023
Operating Lease Cost	\$ 1,647	\$ 1,543
Short-term Lease Cost	34	33
Variable Lease Cost	96	78
Sublease Income	—	—
<b>Total Lease Cost</b>	<b>\$ 1,777</b>	<b>\$ 1,654</b>

  

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Operating Lease Cost	\$ 4,725	\$ 4,593
Short-term Lease Cost	104	96
Variable Lease Cost	287	242
Sublease Income	—	(76)
<b>Total Lease Cost</b>	<b>\$ 5,116</b>	<b>\$ 4,855</b>

Supplemental balance sheet information related to leases was as follows (in thousands):

	Nine months ended September 30, 2024
Weighted-average remaining lease term (in years)	7.23
Weighted average discount rate	7.58 %

  

	Nine months ended September 30, 2024
Cash paid for amounts included in the measurement of lease liabilities	3,533

Future undiscounted cash flows for each of the next five years and thereafter and reconciliation to the lease liabilities recognized on the unaudited condensed consolidated balance sheet as of September 30, 2024 were as follows (in thousands):

2024	\$ 1,528
2025	5,746
2026	5,084
2027	3,742
2028	3,055
Thereafter	12,254
<b>Total lease payments</b>	<b>\$ 31,411</b>
Less: imputed interest	(7,437)
<b>Present value of lease liabilities</b>	<b>\$ 23,974</b>

The Company leases downhole drilling tools to companies in the oil and natural gas industry. Such leases are accounted for in accordance with ASC 842. For the three and nine months ended September 30, 2024, tool rental revenue was approximately \$28.1 million and \$86.4 million, respectively. Our lease contract periods are short-term in nature and are typically daily, monthly, per well, or footage based. Due to the short term nature of the contracts, no maturity table is presented.

#### **NOTE 14 – 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 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 September 30, 2024 and 2023 was approximately \$0.1 million and \$0.1 million, respectively. The total expense for the nine months ended September 30, 2024 and 2023 was approximately \$0.5 million and \$0.4 million, respectively.

#### **NOTE 15 – COMMITMENTS AND CONTINGENCIES**

The Company maintains operating leases for various facilities and vehicles. See Note 13 - *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.

##### **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 (refer to Note 11 – *Related Parties Transactions*).

#### **NOTE 16 – 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 and nine months ended September 30, 2024 and 2023 (in thousands except share and per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<b>Numerator:</b>				
Net income	\$ 867	\$ 4,287	\$ 4,359	\$ 10,925
Less: Redeemable Convertible Preferred Stock dividends	—	—	—	(314)
Net income attributable to common shareholders — basic	<u>\$ 867</u>	<u>\$ 4,287</u>	<u>\$ 4,359</u>	<u>\$ 10,611</u>
Add: Redeemable Convertible Preferred Stock dividends	—	—	—	314
Net income attributable to common shareholders — diluted	<u>\$ 867</u>	<u>\$ 4,287</u>	<u>\$ 4,359</u>	<u>\$ 10,925</u>
<b>Denominator</b>				
Weighted-average common shares used in computing earnings per share — basic	33,072,097	29,768,568	30,893,602	18,608,708
Weighted-average effect of potentially dilutive securities:				
Effect of potentially dilutive time-based stock options	363,581	204,686	412,309	651,996
Effect of potentially dilutive performance-based stock options	97,722	70,292	87,285	60,269
Effect of potentially dilutive restricted stock units	13,656	—	11,137	—
Effect of potentially dilutive redeemable convertible preferred stock	—	—	—	4,233,620
Weighted-average common shares outstanding — diluted	<u>33,547,056</u>	<u>30,043,546</u>	<u>31,404,333</u>	<u>23,554,593</u>
<b>Earnings per share — basic</b>	<u>\$ 0.03</u>	<u>\$ 0.14</u>	<u>\$ 0.14</u>	<u>\$ 0.57</u>
<b>Earnings per share — diluted</b>	<u>\$ 0.03</u>	<u>\$ 0.14</u>	<u>\$ 0.14</u>	<u>\$ 0.46</u>

As of September 30, 2024, the Company's potentially dilutive securities consisted of options to purchase common stock. Based on the amounts outstanding as of the three and nine months ended September 30, 2024 and 2023, the Company excluded the following potential common shares from the computation of diluted net income per share because including them would have had an anti-dilutive effect:

	Three months ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Time-based options outstanding	162,237	140,135	140,135	140,135
<b>Total</b>	<u>162,237</u>	<u>140,135</u>	<u>140,135</u>	<u>140,135</u>

## NOTE 16 – SUBSEQUENT EVENTS

### *Acquisition of European Drilling Projects B.V*

On October 3, 2024, the Company announced the closing of the acquisition of European Drilling Projects B.V ("EDP"), a private company with limited liability, registered in the Dutch Commercial Register. EDP is a global provider of next-generation stabilizers, specialty reamers, and wellbore optimization technology for the drilling industry. The integration of EDP's expertise aligns with the Company's international growth strategy and commitment to technological differentiation. The acquisition of EDP aims to reinforce the Company's position as a leader in providing innovative drilling solutions to the global oil and gas industry.

The acquisition will be accounted for as a business combination under the acquisition method of accounting pursuant to ASC 805. The initial accounting for the business combination is in process, which includes a valuation analysis to value the assets and liabilities assumed as a result of the transaction. As such, the impact on the condensed consolidated financial statements cannot be estimated at this time.

### *Acquisition of Titan Tools Group Limited*

On October 31, 2024, the Company announced the signing of a definitive agreement to acquire Titan Tools Services Ltd., a United Kingdom based downhole tool rental company ("Titan Tools"). The acquisition of Titan Tools is expected to close in the first quarter of 2025, subject to customary closing conditions and regulatory approvals. The initial accounting for this acquisition is in process, which includes conducting a valuation analysis to value the assets and liabilities being acquired as a result of the transaction. As a result, the impact on the condensed consolidated financial statements cannot be estimated at this time.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of September 30, 2024, and for the three months ended June 30, 2024 and 2023, included elsewhere herein. For additional information pertaining to our business, including risk factors which should be considered before investing in our common stock, refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Our historical results are not necessarily indicative of the results that may be expected for any period in the future. All dollar amounts are expressed in thousands of United States (“U.S.”) dollars (“\$”), unless otherwise indicated. Capitalized terms used in this section, but not otherwise defined, have the meanings ascribed to them in the Report.*

### **Overview**

We are a global oilfield services company that designs, engineers, manufactures and provides a differentiated, rental-focused offering of tools for use in onshore and offshore horizontal and directional drilling operations, as well as other cutting-edge solutions across the well life cycle. We now operate from 16 service and support centers across North America and maintains 11 international service and support centers across the Europe, Middle East, and Africa (“EMEA”) regions and Asia-Pacific (“APAC”) regions.

Our business model primarily centers on revenue generated from tool rentals and product sales. We generated revenue from total tool rentals and product sales of \$40.1 million and \$38.1 million for the three months ended September 30, 2024 and 2023, respectively, and had net income of \$0.9 million and \$4.3 million for those same periods. Additionally, we generated revenue from tool rentals and product sales of \$114.6 million and \$116.8 million for the nine months ended September 30, 2024 and 2023, respectively, and had net income of \$4.4 million and \$10.9 million for those same periods, respectively. As of September 30, 2024, we had cash and cash equivalents of \$12.0 million, and an accumulated deficit of \$2.2 million.

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 customers need to replace aging or consumable products and our ability to provide competitive pricing.

All of these factors may be influenced by the oil and gas region in which our customers are operating. 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 given region and with a specific customer.

### **Recent Developments and Trends**

#### *Industry Update*

In the first half of 2024, the oil and gas market witnessed a dynamic interplay of geopolitical tensions, supply concerns, and global demand fluctuations. Crude oil prices remained volatile, with benchmarks such as Brent and WTI experiencing fluctuations driven by a multitude of factors. Geopolitical tensions in key oil-producing regions, such as the Middle East, continued to influence market sentiment, leading to sporadic spikes in prices. Additionally, concerns over supply disruptions, particularly amidst conflicts and geopolitical uncertainties, added to the market’s unease. As the global market for crude oil has continued its recovery, technical recessions, specifically in China, have slowed progress and created fluctuations in global demand. As of September 30, 2024, the WTI oil price was approximately \$68.75 per barrel.

Despite the high volatility in spot oil prices described above, our customers tend to be more focused on medium-term and long term commodity prices when making investment decisions due to the longer lead times for offshore projects. These forward prices

experienced far less volatility in 2022 and 2023 and have maintained levels in 2024 which are highly constructive for offshore project demand.

Prices for natural gas have decreased somewhat throughout the first half of 2024 relative to the fourth quarter of 2023 in the U.S. due to several factors, including a mild winter in key consuming regions and increased production and availability, both of which led to an oversupply in the market. Additionally, constrained storage capacity and delivery delays resulted in uncertainty around liquefied natural gas exports in the U.S.

Henry Hub natural gas spot prices have decreased from an average of \$2.64 per one million British Thermal Units (“MMBtu”) in September 2023 to \$2.28 per MMBtu in September 2024.

The ongoing conflict in Ukraine and the evolving Israel-Hamas conflict have caused uncertainty in the oil and natural gas markets, and the financial markets, both globally and in the U.S. Such uncertainty already has and could continue to cause stock price volatility and supply chain disruptions as well as higher oil and natural gas prices. These could result in higher inflation worldwide, impact consumer spending and negatively impact demand for our goods and services. Moreover, additional interest rate increases by the U.S. Federal Reserve to combat inflation could further increase the probability of a recession.

Notwithstanding the significant commodity price volatility over the past several years, we have seen decreases in drilling activity in the Western Hemisphere. Conversely, Eastern Hemisphere drilling activity has increased year over year. During the three and nine months ended September 30, 2024, the monthly average Western Hemisphere rig count was 947 and 946 rigs, respectively, compared to 1,007 and 1,062 rigs for the three and nine months ended September 30, 2023, respectively. During the three and nine months ended September 30, 2024, the monthly average Eastern Hemisphere rig count was 736 and 752 rigs, respectively, compared to 739 and 725 rigs for the three and nine months ended September 30, 2023, respectively. However, notwithstanding the impact of longer laterals, improved rig efficiencies have partially offset the impact of this reduction.

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.

### **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*

Beginning in the first quarter of fiscal year 2024, we revised our presentation of non-GAAP measures to exclude the presentation of free cash flow in alignment with industry practices and to enhance comparability with our peers. The Company has determined that GAAP disclosures regarding the Company's liquidity and capital resources, in the form provided in the Company's recent periodic reports and without further enhancement through the inclusion of non-GAAP free cash flow information, provide investors with sufficient information on the Company's cash available for investments, acquisitions, and working capital requirements.

Please refer to the section titled “Non-GAAP Financial Measures” for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial performance measure calculated and presented in accordance with GAAP and a reconciliation of free cash flow to net cash provided by (used in) operating activities, the most directly comparable liquidity measure calculated and presented in accordance with U.S GAAP.

## **Key Components of Results of Operations**

The discussion below relating to significant line items from our interim unaudited consolidated statements of income 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 consist of rental services, inspection services, and repair services is accounted for in accordance 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, 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.

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 over time as a function of an increase in drilling activity, customer pricing, and market share.

We expect that product sales revenue will increase as aged and consumable products will continue to be replaced in order to maintain or increase capacity. Additionally, product sale focused acquisitions are expected to further increase product sale revenue.

### ***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 to support our customers and to maintain the manufacturing, operations and field service team with some expected cost inflation.

We expect that gross margins will continue to improve slightly as we leverage our existing cost structure to support an increase in 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, increased security and IT compliance, review internal controls over financial reporting in accordance with the Sarbanes-Oxley Act of 2002, as amended, and prepare and distribute periodic reports as required by the rules and regulations of the U.S. Securities and Exchange Commission. 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 drive additional 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 income (expense), net*

Our other income (expense), 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**

The following table set forth our results of operations for the periods presented (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Revenue, net:</b>				
Tool rental	\$ 28,116	\$ 29,361	\$ 86,410	\$ 90,639
Product sale	11,977	8,777	28,190	26,206
<b>Total revenue, net</b>	<b>40,093</b>	<b>38,138</b>	<b>114,600</b>	<b>116,845</b>
<b>Cost and expenses:</b>				
Cost of tool rental revenue	4,076	7,337	17,558	21,578
Cost of product sale revenue	5,726	1,814	10,779	5,862
Selling, general, and administrative expense	19,855	16,552	57,415	50,999
Depreciation and amortization expense	6,185	5,303	17,232	15,035
<b>Total costs and expenses</b>	<b>35,842</b>	<b>31,006</b>	<b>102,984</b>	<b>93,474</b>
<b>Operating Income</b>	<b>4,251</b>	<b>7,132</b>	<b>11,616</b>	<b>23,371</b>
<b>Other expense, net:</b>				
Interest expense, net	(1,038)	(73)	(2,030)	(995)
Gain (loss) on sale of property	19	—	61	68
Gain (loss) on remeasurement of previously held equity interest	(361)	(535)	368	(148)
Other income (expense), net	(2,443)	(135)	(5,241)	(6,170)
<b>Total other expense, net</b>	<b>(3,823)</b>	<b>(743)</b>	<b>(6,842)</b>	<b>(7,245)</b>
Income before income taxes	428	6,389	4,774	16,126
Income tax expense	439	(2,102)	(415)	(5,201)
<b>Net income</b>	<b>\$ 867</b>	<b>\$ 4,287</b>	<b>\$ 4,359</b>	<b>\$ 10,925</b>

#### *Comparison of the Three Months Ended September 30, 2024 and 2023*

##### *Revenue, net*

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

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Change</b>	
	<b>2024</b>	<b>2023</b>	<b>Amount</b>	<b>%</b>
Tool rental	\$ 28,116	\$ 29,361	\$ (1,245)	(4)%
Product sale	\$ 11,977	\$ 8,777	\$ 3,200	36%

Tool rental revenue decreased \$1.2 million, or (4)%, to \$28.1 million for the three months ended September 30, 2024 as compared to \$29.4 million for the three months ended September 30, 2023. The decrease was primarily driven by decreased market activity in relation to our Directional Tool Rentals ("DTR") division, the revenue of which decreased \$2.5 million. The decrease was partially offset by an increase in our Premium Tools Division ("PTD"), the revenue of which increased \$0.4 million and an increase at our Wellbore Optimization Tools ("WOT") division, revenue of which increased \$0.6 million.

Product sale revenue increased \$3.2 million, or 36%, to \$12.0 million for the three months ended September 30, 2024 as compared to \$8.8 million for the three months ended September 30, 2023. The increase by additional product sales as it relates to Deep Casing ("DCT") which was acquired in March 2024 and the Diamond Products Division ("DPD"), which was acquired in August 2024. This increase was partially offset by lower tool recovery revenue for the three months ended September 30, 2024 as compared to the three months ended September 30, 2023.

### 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)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Cost of tool rental revenue	\$ 4,076	\$ 7,337	\$ (3,261)	(44)%
Cost of product sale revenue	\$ 5,726	\$ 1,814	\$ 3,912	216%

Cost of tool rental revenue decreased \$3.3 million, or (44)%, to \$4.1 million for the three months ended September 30, 2024 as compared to \$7.3 million for the for the three months ended September 30, 2023. The decrease in cost of tool rental revenue was primarily driven by a decrease in labor and repairs cost due to the decrease in rental activity.

Cost of product sale revenue increased \$3.9 million, or 216%, to \$5.7 million for the three months ended September 30, 2024 as compared to \$1.8 million for the for the three months ended September 30, 2023. The increase in cost of product sale revenue was primarily driven by additional cost of product sales from Deep Casing and DPD, offset by a decrease in cost of product sales associated with tool recovery.

#### Selling, General, and Administrative Expense

(In thousands)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Selling, general, and administrative expense	\$ 19,855	\$ 16,552	\$ 3,303	20%

Selling, general, and administrative expense increased \$3.3 million, or 20%, to \$19.9 million for the three months ended September 30, 2024 as compared to \$16.6 million for the three months ended September 30, 2023. This increase was primarily driven by an increase in personnel related fees and other costs associated with the public company transition. No other driver of this increase was significant.

#### Depreciation and Amortization expense

(In thousands)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Depreciation and amortization expense	\$ 6,185	\$ 5,303	\$ 882	17%

Depreciation and amortization expenses increased \$0.9 million, or 17%, to \$6.2 million for the three months ended September 30, 2024 as compared to \$5.3 million for the three months ended September 30, 2023. The increase was primarily due an increase in depreciation expense resulting from a higher property, plant and equipment balance as of September 30, 2024.

#### Other expense, net

#### Interest Expense, net

(In thousands)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Interest expense, net	\$ (1,038)	\$ (73)	\$ 965	1,322%

Interest expense increased \$965 thousand, or 1322%, to \$1.0 million for the three months ended September 30, 2024 as compared to \$0.1 million for the three months ended September 30, 2023. The increase was primarily due to an increase in interest expense on the term loan entered into in March 2024 and the Credit Facility, which was drawn on during three months ended September 30, 2024.

#### *Other Expense, net*

<i>(In thousands)</i>	<u>Three Months Ended September 30,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
Other expense, net	\$ (2,443)	\$ (135)	\$ (2,308)	(1,709.6)%

Other expense for the three months ended September 30, 2024 was \$2.4 million, a increase of \$2.3 million, or (1710)%, compared to the three months ended September 30, 2023. The increase was primarily due to increased transaction costs related to the completion of the acquisition of SDPI during the third quarter of 2024.

#### *Comparison of the Nine Months Ended September 30, 2024 and 2023*

##### *Revenue, net*

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

<i>(In thousands)</i>	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
Tool rental	\$ 86,410	\$ 90,639	\$ (4,229)	(5)%
Product sale	\$ 28,190	\$ 26,206	\$ 1,984	8%

Tool rental revenue decreased \$4.2 million, or (5)%, to \$86.4 million for the nine months ended September 30, 2024 as compared to \$90.6 million for the nine months ended September 30, 2023. The decrease was primarily driven by decreased market activity across certain divisions, especially in relation to our DTR division, the revenue of which decreased \$8.0 million and our PTD division, the revenue of which decreased \$0.9 million. These decreases were offset by increases at our WOT division, the revenue of which increased by \$2.3 million and DCT, the revenue of which increased \$0.6 million.

Product sale revenue decreased \$2.0 million, or 8%, to \$28.2 million for the nine months ended September 30, 2024 as compared to \$26.2 million for the nine months ended September 30, 2023. The decrease was primarily driven by higher than average rental tool recovery events in the nine months ended September 30, 2023, partially offset by additional product sales at DCT and DPD for the nine months ended September 30, 2024.

##### *Costs and Expenses*

###### *Cost of revenue*

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

<i>(In thousands)</i>	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
Cost of tool rental revenue	\$ 17,558	\$ 21,578	\$ (4,020)	(19)%
Cost of product sale revenue	\$ 10,779	\$ 5,862	\$ 4,917	84%

Cost of tool rental revenue decreased \$4.0 million, or (19)%, to \$17.6 million for the nine months ended September 30, 2024 as compared to \$21.6 million for the for the nine months ended September 30, 2023. The decrease in cost of tool rental revenue was primarily driven by a decrease in sub rental, accessory, and repair cost due to the decrease in rental activity.

Cost of product sale revenue increased \$4.9 million, or 84%, to \$10.8 million for the nine months ended September 30, 2024 as compared to \$5.9 million for the for the nine months ended September 30, 2023. The increase in cost of product sale revenue was primarily driven by additional cost of product sales from DCT and DPD, offset by a decrease in cost of product sales associated with tool recovery.



### *Selling, General, and Administrative Expense*

<i>(In thousands)</i>	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
Selling, general, and administrative expense	\$ 57,415	\$ 50,999	\$ 6,416	13%

Selling, general, and administrative expense increased \$6.4 million, or 13%, to \$57.4 million for the nine months ended September 30, 2024 as compared to \$51.0 million for the nine months ended September 30, 2023. This increase was primarily driven by an increase in personnel related fees and other costs associated with the public company transition. No other driver of this increase was significant.

### *Depreciation and Amortization expense*

<i>(In thousands)</i>	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
Depreciation and amortization expense	\$ 17,232	\$ 15,035	\$ 2,197	15%

Depreciation and amortization expenses increased \$2.2 million, or 15%, to \$17.2 million for the nine months ended September 30, 2024 as compared to \$15.0 million for the nine months ended September 30, 2023. The increase was primarily due to an increase in depreciation expense resulting from a higher property, plant and equipment balance as of September 30, 2024.

### *Other (expense) income*

#### *Interest Expense, net*

<i>(In thousands)</i>	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
Interest expense, net	\$ (2,030)	\$ (995)	\$ (1,035)	(104)%

For the nine months ended September 30, 2024 we had interest expense of \$2.0 million as compared to interest expense of \$1.0 million for the nine months ended September 30, 2023. This change of \$1.0 million or 104%. The increase was primarily due to an increase in interest expense on the term loan entered into in March 2024 and the Credit Facility, which was drawn on during three months ended September 30, 2024.

#### *Other Expense*

<i>(In thousands)</i>	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
Other expense, net	\$ (5,241)	\$ (6,170)	\$ 929	(15)%

Other expense for the nine months ended September 30, 2024 was \$5.2 million, a decrease of \$0.9 million, or (15)%, compared to the nine months ended September 30, 2023. The decrease was primarily due to increased transaction costs related to the completion of the merger with ROC Energy Acquisition in June 2023 and compared to transaction costs incurred during the nine months ended September 30, 2024.

### **Non-GAAP Financial Measures**

To supplement our unaudited interim consolidated financial statements, which are prepared and presented in accordance with U.S 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 U.S. GAAP.

We use the non-GAAP financial measure Adjusted EBITDA, which is defined as net income (loss); excluding interest income; interest expense; other income (expense), net; 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.

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

- 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;
- Adjusted EBITDA excludes income tax benefit (expense).

The following tables present a reconciliation of Adjusted EBITDA to net income (loss) for the three and nine months ended September 30, 2024 and 2023 (non-recurring transaction expenses recorded to other (income) expense are presented separately within Adjusted EBITDA):

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Net income (loss)	\$ 867	\$ 4,287
Add (deduct):		
Income tax expense/(benefit)	(439)	2,102
Depreciation and amortization	6,185	5,303
Interest expense, net	1,038	73
Stock option expense	508	—
Management fees	188	295
Loss (gain) on sale of property	(19)	—
Gain (loss) on remeasurement of previously held equity interest	361	535
Transaction expense	1,857	124
Other expense, net	579	10
Adjusted EBITDA	<u>\$ 11,125</u>	<u>\$ 12,729</u>

<i>(In thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Net income (loss)	\$ 4,359	\$ 10,925
Add (deduct):		
Income tax expense	415	5,201
Depreciation and amortization	17,232	15,035
Interest expense, net	2,030	995
Stock option expense	1,572	1,661
Management fees	563	773
Loss (gain) on sale of property	(61)	(68)
Unrealized (gain) loss on equity securities	(368)	148
Transaction expense	4,766	5,963
Other expense, net	475	207
Adjusted EBITDA	<u>\$ 30,982</u>	<u>\$ 40,840</u>

### Liquidity and Capital Resources

At September 30, 2024, we had \$12.0 million of cash and cash equivalents. 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

Reference is made to the disclosure set forth under the heading “Revolving Credit Facility” in Note 7 – *Revolving Credit Facility*, of the notes to the unaudited condensed consolidated financial statements included elsewhere in this Report (the “Interim Financial Statements”).

### Capital Expenditures

Our capital expenditure relates 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 replace tools that are lost or damaged by a customer and these are funded by a rental tool recovery sale amount from the customer. We regularly incur capital expenditures on an on-going basis in order to (i) increase 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 noncancelable operating leases agreements. See Note 14, *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 period indicated:

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2024	2023
Net cash (used in) provided by:		
Operating activities	\$ 9,723	\$ 17,484
Investing activities	(46,132)	(20,027)
Financing activities	43,360	4,297
Effect of changes in foreign exchange rate	(993)	(117)
Net increase (decrease) in cash and cash equivalents	\$ 5,958	\$ 1,637

### Cash Flows (Used In) Provided by Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2024 was \$9.7 million resulting from our net income of \$4.4 million, adjusted for non-cash charges of \$21.1 million in depreciation and amortization, including non-cash lease expense and deferred financing costs, \$1.6 million of stock-based compensation expense, and \$0.3 million in provisions for excess and obsolete property, plant, and equipment and credit losses. This was partially offset by a \$7.3 million gain on rental tool recovery sales, \$1.3 million in deferred tax expense, and \$8.6 million in net changes from operating assets and liabilities. The \$8.6 million in cash used in operating assets and liabilities is primarily due to a \$0.6 million cash outflow in prepaid expenses due to the timing of payments, a \$2.9 million cash outflow in inventory, \$3.4 million cash outflow in operating lease liabilities, and a \$3.7 million cash outflow related to accounts payable and accrued expenses. These outflows were offset by a \$2.1 million cash inflow related to accounts receivables. 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 Report entitled "Risk Factors."

Net cash provided by operating activities for the nine months ended September 30, 2023 was \$17.5 million resulting from our net income of \$10.9 million, adjusted for non-cash charges of \$18.5 million in depreciation and amortization, including amortization of right of use assets and deferred financing costs, \$4.0 million of stock-based compensation expense as a result of the Merger, \$0.5 million of bad debt expense and \$3.7 million in deferred tax expense. This was partially offset by a \$14.0 million gain on rental tool recovery sales and \$6.7 million in net changes from operating assets and liabilities. The \$6.7 million in cash used in operating assets and liabilities is primarily due to a \$0.5 million cash outflow in accounts receivable associated with an increase in sales and higher revenues during the first nine months of 2023 compared to the first nine months of 2022, a \$3.3 million cash outflow from operating lease liabilities as we increase right-of-use assets on hand and a \$2.9 million cash outflow from inventories due to purchased inventory related to our attempt to reduce risk and uncertainties in our supply chain. This was partially offset by a \$0.1 million cash inflow in accounts payable and accrued expenses due to differences in the timing of disbursements. 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 Report entitled “Risk Factors.”

#### ***Cash Flows (Used In) Provided by Investing Activities***

Net cash used in investing activities for the nine months ended September 30, 2024 was \$46.1 million. Purchases of property, plant, and equipment of \$19.6 million and business acquisitions of \$38.6 million were partially offset by proceeds from rental tool recovery sales of \$10.9 million and proceeds from the sale of equity securities of \$1.2 million.

Net cash used in investing activities for the nine months ended September 30, 2023 was \$20.0 million. Purchases of property, plant, and equipment of \$36.7 million were partially offset by proceeds from rental tool recovery sales of \$16.6 million and proceeds from sale of property of \$0.1 million.

#### ***Cash Flows (Used In) Provided by Financing Activities***

Net cash provided by financing activities for the nine months ended September 30, 2024 was \$43.4 million resulting from proceeds from the term loan of \$25 million and proceeds from the revolving line of credit of \$30.1 million offset by \$0.7 million in payments of deferred financing costs and \$10.9 million in repayments of the Term Loan and the revolving line of credit.

Net cash provided by financing activities for the nine months ended September 30, 2023 was \$4.3 million resulting from proceeds from the Merger and PIPE Financing, net of transaction costs, of \$23.1 million, partially offset by a net decrease in amounts outstanding under the Credit Facility Agreement of \$18.3 million, payments of deferred financing costs of \$0.3 million and payments to holders of DTIH convertible preferred stock in connection with the Merger of \$0.2 million.

#### **Critical Accounting Policies and Estimates**

The Interim Financial Statements included in this Report have been prepared in accordance with U.S. GAAP. The preparation of these 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.

For a description of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "Annual Report"). In addition to the critical accounting policies and estimates disclosed in our Annual Report, accounting for Business Combinations was identified as a new critical accounting policy and estimate in the nine months ended September 30, 2024.

#### **Business Combinations**

We account for business combinations using the acquisition method of accounting in accordance with ASC 805, Business Combinations. On the acquisition date for a business combination, we allocate the total purchase consideration for the acquisition to the assets acquired and liabilities assumed based on their respective estimated fair values on the acquisition date. Additionally, we identify and attribute fair values and estimated lives to acquired intangible assets. We identify an acquired intangible asset apart from goodwill whenever the intangible asset arises from contractual or other legal rights, or when it can be separately sold, transferred, licensed, rented, or exchanged. We recognize goodwill, if any, in the amount by which the aggregate fair value of the total purchase consideration exceeds the aggregate fair value of the net assets (including intangible assets) acquired.

In determining the fair values of assets acquired (including intangible assets) and liabilities assumed, we utilize a variety of methods. Each asset acquired and liability assumed is measured at fair value from the perspective of a market participant. The methods used to estimate the fair values of intangible assets incorporate significant estimates and assumptions regarding the estimates a market participant would make in order to evaluate an asset, including, but not limited to, a market participant's use of the asset as well as forecasts for cash flows, revenue growth, asset lives, customer attrition rates, royalty rates, income tax rates, and discount rates.

We believe that the estimated fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions that a market participant would use. While we use our best estimates and assumptions to value assets acquired and liabilities assumed

at the acquisition date, our estimates are inherently uncertain and subject to refinement. The use of different assumptions related to these uncertain factors at acquisition could result in material changes to the amounts initially recorded at acquisition, which could have a material impact on our condensed consolidated financial statements. When appropriate, we engage third-party valuation specialists to assist in determining the fair values of assets acquired and liabilities assumed.

If the initial accounting for a business combination has not been completed by the end of the reporting period in which the business combination occurs, provisional amounts are reported to present information about facts and circumstances that existed as of the acquisition date. We must complete the accounting for each business combination during its measurement period, which cannot exceed one year from the acquisition date. Adjustments made during the measurement period could have a material impact on our condensed consolidated financial statements.

Costs that are directly attributable to business combinations are expensed as incurred within other expenses, net, on the condensed consolidated statements of income and comprehensive income. The results of operations of acquisitions are included in the consolidated financial statements from the date of acquisition.

#### **Recently Issued and Adopted Accounting Standards**

A discussion of recent accounting pronouncements is included in Note 1 – *Summary of Significant Accounting Policies*, to the Interim Financial Statements included elsewhere in this report.

#### **JOBS Act Accounting Election**

In April 2012, the Jumpstart Our Business Startups Act of 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. DTI will take advantage of these exemptions until such earlier time that it is no longer an emerging growth company. DTI would cease to be an emerging growth company on the date that is the earliest of (i) the last day of the fiscal year following the fifth anniversary of the date of the completion of this offering; (ii) the last day of the fiscal year in which its total annual gross revenue is equal to or more than \$1.07 billion; (iii) the date on which it has issued more than \$1.0 billion in nonconvertible debt during the previous three years; or (iv) the date on which it is deemed to be a large accelerated filer under the rules of the Securities and Exchange Commission.

### **Item 3. 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 the financial institutions may exceed the amount of insurance provided by the Canadian Deposit Insurance Corporation and the Federal Deposit Insurance Corporation on such deposits but may be redeemed upon demand. We perform periodic evaluations of the relative credit standing of the 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*

A discussion of concentration risk is included in 1 – *Summary of Significant Accounting Policies*, to the Interim Financial Statements included elsewhere in this report.

#### *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 United States 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 have eased. Additionally, raw material and component costs are moderating due in part to a strengthening U.S. dollar and weakening steel demand. 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 are not an assurance that no cybersecurity incidents will occur.

#### **Item 4. Controls and Procedures.**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

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

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures in effect as of June 30, 2024, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of June 30, 2024, or as of the date of the filing of this Report.

Our disclosure controls and procedures were not effective as of September 30, 2024, or as of the date of filing of this Report, because all findings in connection with our preparation and the audit of our consolidated financial statements as of and for the year ended December 31, 2023 have not been fully remediated despite ongoing projects and improvements made in the current quarter. As a result, we were not able to rely upon the disclosure controls and procedures that were in place as of September 30, 2024, or as of the date of this filing, and we continue to have a material weakness in our internal control over financial reporting. This material weakness is described in more detail below.

Prior to the Merger, we had been a private company with limited accounting personnel and other resources with which to address our internal control over financial reporting. In connection with our preparation and the audit of our consolidated financial statements as of and for the year ended December 31, 2023, we identified the following deficiencies in the design or operation of our internal controls to be a material weakness:

- (1) Failure to promote effective internal control over financial reporting throughout the Company's management structure;
- (2) Failure to develop effective risk assessment controls to identify financial reporting risks and reacting to changes in the operating environment that could have a material effect on financial reporting;
- (3) Ineffective monitoring activities to assess the operation of internal control over financial reporting; and

- (4) Inadequate documentation and monitoring of information technology (“IT”) general controls and cybersecurity processes within the Company’s IT environment, including access controls and segregation of duties between key IT functions.

We are in the process of implementing a risk assessment process and measures designed to improve our internal control over financial reporting and remediate the control deficiencies that led to the material weakness, including (1) hiring more qualified staff and increasing resources with sufficient knowledge and experience to strengthen financial reporting, (2) implementing software and procedures to enhance our Company’s IT environment and (3) devoting proper time by senior management to perform comprehensive review of procedures to assess risks and enforce effective accountability. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects.

*Changes in Internal Control over Financial Reporting*

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

See Part I, Item 1, Note 14 to our consolidated financial statements entitled “Commitments and Contingencies,” which is incorporated in this item by reference.

### Item 1A. Risk Factors.

Our Annual Report filed with the SEC on March 28, 2024, describes important risk factors that could cause our business, financial condition, results of operations and growth prospects to differ materially from those indicated or suggested by forward-looking statements made in this Report or presented elsewhere by management from time to time. There have been no material changes to the risk factors that appear in the Annual Report as of the date of this Quarterly Report. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

During the three months ended September 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).



## Item 6. Exhibits.

The following exhibits are filed as part of, or incorporated by reference into, this Report.

<b>Exhibit Number</b>	<b>Description</b>
2.1†	<a href="#"><u>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 13, 2023).</u></a>
2.2	<a href="#"><u>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).</u></a>
3.1	<a href="#"><u>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).</u></a>
3.2	<a href="#"><u>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).</u></a>
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Filed herewith.

† Certain exhibits and schedules to this exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). We agree 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.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Drilling Tools International Corporation

Date: November 14, 2024

By: /s/ David R. Johnson

David R. Johnson

Chief Financial Officer

(Principal Financial and Accounting Officer)









