

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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, 2019**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

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

**Commission file number: 001-38071**

**NCS Multistage Holdings, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**46-1527455**

(IRS Employer  
Identification number)

**19450 State Highway 249, Suite 200**

**Houston, Texas**

(Address of principal executive offices)

**77070**

(Zip Code)

**Registrant's telephone number, including area code: (281) 453-2222**

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

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.01 par value	NCSM	NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer  
Smaller reporting company  
Emerging growth company

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

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

As of November 1, 2019, there were 46,813,117 shares of common stock outstanding.

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**PART I. FINANCIAL INFORMATION**

**NCS MULTISTAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)  
(Unaudited)

**ITEM 1. Financial Statements**

	September 30, 2019	December 31, 2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,518	\$ 25,131
Accounts receivable—trade, net of allowances of \$846 and \$311 at 2019 and 2018, respectively	57,826	49,984
Inventories	40,614	32,753
Prepaid expenses and other current assets	2,069	2,037
Other current receivables	5,328	4,685
Total current assets	110,355	114,590
Noncurrent assets		
Property and equipment, net	33,670	32,296
Goodwill	15,222	23,112
Identifiable intangibles, net	46,146	48,985
Deposits and other assets	7,672	1,392
Deferred income taxes, net	—	9,326
Total noncurrent assets	102,710	115,111
Total assets	\$ 213,065	\$ 229,701
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable—trade	\$ 18,122	\$ 7,167
Accrued expenses	3,194	4,084
Income taxes payable	470	184
Current contingent consideration	—	9,963
Other current liabilities	5,094	1,991
Current maturities of long-term debt	1,609	2,236
Total current liabilities	28,489	25,625
Noncurrent liabilities		
Long-term debt, less current maturities	14,693	23,455
Other long-term liabilities	4,856	1,258
Deferred income taxes, net	3,180	3,132
Total noncurrent liabilities	22,729	27,845
Total liabilities	51,218	53,470
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding at September 30, 2019 and one share issued and outstanding at December 31, 2018	—	—
Common stock, \$0.01 par value, 225,000,000 shares authorized, 46,904,232 shares issued and 46,811,855 shares outstanding at September 30, 2019 and 45,100,771 shares issued and 45,072,463 shares outstanding at December 31, 2018	469	451
Additional paid-in capital	421,583	411,423
Accumulated other comprehensive loss	(82,025)	(84,030)
Retained deficit	(196,852)	(166,206)
Treasury stock, at cost; 92,377 shares at September 30, 2019 and 28,308 shares at December 31, 2018	(667)	(337)
Total stockholders' equity	142,508	161,301
Non-controlling interest	19,339	14,930
Total equity	161,847	176,231
Total liabilities and stockholders' equity	\$ 213,065	\$ 229,701

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

**NCS MULTISTAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Product sales	\$ 43,756	\$ 44,633	\$ 110,933	\$ 122,514
Services	17,017	18,058	42,458	54,261
Total revenues	60,773	62,691	153,391	176,775
<b>Cost of sales</b>				
Cost of product sales, exclusive of depreciation and amortization expense shown below	23,796	20,275	57,032	57,600
Cost of services, exclusive of depreciation and amortization expense shown below	8,413	8,542	25,021	24,721
Total cost of sales, exclusive of depreciation and amortization expense shown below	32,209	28,817	82,053	82,321
Selling, general and administrative expenses	20,441	19,356	66,360	62,508
Depreciation	1,461	1,174	4,382	3,429
Amortization	1,153	3,255	3,451	9,859
Change in fair value of contingent consideration	—	(1,865)	37	(3,005)
Impairment	—	—	7,919	—
Income (loss) from operations	5,509	11,954	(10,811)	21,663
<b>Other income (expense)</b>				
Interest expense, net	(424)	(317)	(1,497)	(1,382)
Other income, net	259	28	349	68
Foreign currency exchange loss	(131)	(688)	(678)	(399)
Total other expense	(296)	(977)	(1,826)	(1,713)
Income (loss) before income tax	5,213	10,977	(12,637)	19,950
Income tax (benefit) expense	(1,396)	3,211	10,200	3,137
Net income (loss)	6,609	7,766	(22,837)	16,813
Net income attributable to non-controlling interest	2,988	1,443	7,809	3,565
<b>Net income (loss) attributable to NCS Multistage Holdings, Inc.</b>	<b>\$ 3,621</b>	<b>\$ 6,323</b>	<b>\$ (30,646)</b>	<b>\$ 13,248</b>
<b>Earnings (loss) per common share</b>				
Basic earnings (loss) per common share attributable to NCS Multistage Holdings, Inc.	\$ 0.08	\$ 0.14	\$ (0.66)	\$ 0.29
Diluted earnings (loss) per common share attributable to NCS Multistage Holdings, Inc.	\$ 0.08	\$ 0.13	\$ (0.66)	\$ 0.28
<b>Weighted average common shares outstanding</b>				
Basic	46,892	44,943	46,552	44,660
Diluted	46,921	47,404	46,552	47,254

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

**NCS MULTISTAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(In thousands)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 6,609	\$ 7,766	\$ (22,837)	\$ 16,813
Foreign currency translation adjustments, net of tax of \$0	(1,017)	4,371	2,005	(6,553)
Comprehensive income (loss)	5,592	12,137	(20,832)	10,260
Less: Comprehensive income attributable to non-controlling interest	2,988	1,443	7,809	3,565
Comprehensive income (loss) attributable to NCS Multistage Holdings, Inc.	\$ 2,604	\$ 10,694	\$ (28,641)	\$ 6,695

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

**NCS MULTISTAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands, except share data)  
(Unaudited)

	Nine Months Ended September 30, 2019										
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Treasury Stock		Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount		
<b>Balances as of December 31, 2018</b>	1	\$ —	45,100,771	\$ 451	\$ 411,423	\$ (84,030)	\$ (166,206)	(28,308)	\$ (337)	\$ 14,930	\$ 176,231
Share-based compensation	—	—	—	—	2,968	—	—	—	—	—	2,968
Net (loss) income	—	—	—	—	—	—	(11,966)	—	—	2,088	(9,878)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	(600)	(600)
Vesting of restricted stock	—	—	168,563	2	(2)	—	—	—	—	—	—
Shares withheld	—	—	—	—	—	—	—	(54,529)	(309)	—	(309)
Proceeds from the issuance of ESPP shares	—	—	156,486	2	675	—	—	—	—	—	677
Comblend exchangeable shares	(1)	—	1,326,935	13	(13)	—	—	—	—	—	—
Currency translation adjustment	—	—	—	—	—	1,537	—	—	—	—	1,537
<b>Balances as of March 31, 2019</b>	—	\$ —	46,752,755	\$ 468	\$ 415,051	\$ (82,493)	\$ (178,172)	(82,837)	\$ (646)	\$ 16,418	\$ 170,626
Share-based compensation	—	—	—	—	3,314	—	—	—	—	—	3,314
Net (loss) income	—	—	—	—	—	—	(22,301)	—	—	2,733	(19,568)
Currency translation adjustment	—	—	—	—	—	1,485	—	—	—	—	1,485
<b>Balances as of June 30, 2019</b>	—	\$ —	46,752,755	\$ 468	\$ 418,365	\$ (81,008)	\$ (200,473)	(82,837)	\$ (646)	\$ 19,151	\$ 155,857
Share-based compensation	—	—	—	—	2,872	—	—	—	—	—	2,872
Net income	—	—	—	—	—	—	3,621	—	—	2,988	6,609
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	(2,800)	(2,800)
Vesting of restricted stock	—	—	36,285	—	—	—	—	—	—	—	—
Shares withheld	—	—	—	—	—	—	—	(9,540)	(21)	—	(21)
Proceeds from the issuance of ESPP shares	—	—	115,192	1	346	—	—	—	—	—	347
Currency translation adjustment	—	—	—	—	—	(1,017)	—	—	—	—	(1,017)
<b>Balances as of September 30, 2019</b>	—	\$ —	46,904,232	\$ 469	\$ 421,583	\$ (82,025)	\$ (196,852)	(92,377)	\$ (667)	\$ 19,339	\$ 161,847

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

**NCS MULTISTAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands, except share data)  
(Unaudited)

	Nine Months Ended September 30, 2018										
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock		Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount		
<b>Balances as of</b>											
<b>December 31, 2017</b>	1	\$ —	43,931,484	\$ 439	\$ 399,426	\$ (66,707)	\$ 23,864	(18,348)	\$ (175)	\$ 12,144	\$ 368,991
Adoption of ASC 606	—	—	—	—	—	—	247	—	—	—	247
Share-based compensation	—	—	—	—	2,374	—	—	—	—	—	2,374
Net income	—	—	—	—	—	—	10,978	—	—	887	11,865
Exercise of stock options	—	—	275,653	3	350	—	—	—	—	—	353
Cemblend exchangeable shares	—	—	442,312	4	(4)	—	—	—	—	—	—
Currency translation adjustment	—	—	—	—	—	(6,689)	—	—	—	—	(6,689)
<b>Balances as of</b>											
<b>March 31, 2018</b>	1	\$ —	44,649,449	\$ 446	\$ 402,146	\$ (73,396)	\$ 35,089	(18,348)	\$ (175)	\$ 13,031	\$ 377,141
Share-based compensation	—	—	—	—	2,958	—	—	—	—	—	2,958
Net (loss) income	—	—	—	—	—	—	(4,053)	—	—	1,235	(2,818)
Exercise of stock options	—	—	277,216	3	446	—	—	—	—	—	449
Currency translation adjustment	—	—	—	—	—	(4,235)	—	—	—	—	(4,235)
<b>Balances as of</b>											
<b>June 30, 2018</b>	1	\$ —	44,926,665	\$ 449	\$ 405,550	\$ (77,631)	\$ 31,036	(18,348)	\$ (175)	\$ 14,266	\$ 373,495
Share-based compensation	—	—	—	—	2,865	—	—	—	—	—	2,865
Net income	—	—	—	—	—	—	6,323	—	—	1,443	7,766
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	(500)	(500)
Exercise of stock options	—	—	75,548	1	198	—	—	—	—	—	199
Vesting of restricted stock	—	—	36,721	—	—	—	—	—	—	—	—
Shares withheld	—	—	—	—	—	—	—	(9,960)	(162)	—	(162)
Currency translation adjustment	—	—	—	—	—	4,371	—	—	—	—	4,371
<b>Balances as of</b>											
<b>September 30, 2018</b>	1	\$ —	45,038,934	\$ 450	\$ 408,613	\$ (73,260)	\$ 37,359	(28,308)	\$ (337)	\$ 15,209	\$ 388,034

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

**NCS MULTISTAGE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (22,837)	\$ 16,813
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	7,833	13,288
Impairment	7,919	—
Amortization of deferred loan cost	236	251
Share-based compensation	9,380	8,197
Provision for inventory obsolescence	417	1,219
Deferred income tax expense (benefit)	9,281	(2,148)
Gain on sale of property and equipment	(300)	(39)
Change in fair value of contingent consideration	37	(3,005)
Provision for doubtful accounts	1,715	—
Payment of contingent consideration	(3,042)	—
Changes in operating assets and liabilities:		
Accounts receivable—trade	(9,552)	(10,787)
Inventories	(8,218)	(1,529)
Prepaid expenses and other assets	723	(2,237)
Accounts payable—trade	12,272	6,959
Accrued expenses	(915)	(2,371)
Other liabilities	(805)	816
Income taxes receivable/payable	671	(17,812)
Net cash provided by operating activities	<u>4,815</u>	<u>7,615</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(4,990)	(7,352)
Purchase and development of software and technology	(251)	(2,588)
Proceeds from sales of property and equipment	816	298
Net cash used in investing activities	<u>(4,425)</u>	<u>(9,642)</u>
<b>Cash flows from financing activities</b>		
Equipment note borrowings	835	1,001
Payments on equipment note and finance leases	(4,552)	(1,437)
Promissory note borrowings	—	5,053
Payments on promissory note	—	(8,366)
Payments on revolver	(7,000)	—
Payment of contingent consideration	(6,958)	—
Proceeds from the exercise of options for common stock	—	1,001
Treasury shares withheld	(330)	(161)
Distribution to noncontrolling interest	(3,400)	(500)
Proceeds from the issuance of ESPP shares	1,025	—
Payment of deferred loan cost related to senior secured credit facility	(871)	—
Net cash used in financing activities	<u>(21,251)</u>	<u>(3,409)</u>
Effect of exchange rate changes on cash and cash equivalents	248	(933)
Net change in cash and cash equivalents	(20,613)	(6,369)
Cash and cash equivalents beginning of period	25,131	33,809
Cash and cash equivalents end of period	<u>\$ 4,518</u>	<u>\$ 27,440</u>
<b>Supplemental cash flow information</b>		
Cash paid for income taxes (net of refunds)	\$ 210	\$ 22,922

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



**NCS MULTISTAGE HOLDINGS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Basis of Presentation**

**Nature of Business**

NCS Multistage Holdings, Inc., a Delaware corporation, through its wholly owned subsidiaries and subsidiaries for which we have a controlling voting interest (collectively referred to as the “Company,” “NCS,” “we,” “our” and “us”), is primarily engaged in providing engineered products and support services for oil and natural gas well completions and field development strategies. We offer our products and services primarily to exploration and production companies for use in onshore wells. We operate through service facilities principally located in Houston, Midland and Corpus Christi, Texas; Tulsa and Oklahoma City, Oklahoma; Billings, Montana; Morgantown, West Virginia; Calgary, Red Deer, Grande Prairie and Estevan, Canada; Neuquén, Argentina and Stavanger, Norway.

**Basis of Presentation**

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), issued by the Securities Exchange Commission (“SEC”) and have not been audited by our independent registered public accounting firm. The Condensed Consolidated Balance Sheet at December 31, 2018 is derived from our audited financial statements. However, certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted or condensed as permitted by the rules and regulations of the SEC, and, therefore, these interim financial statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K filed with the SEC on March 8, 2019. In the opinion of management, these condensed consolidated financial statements, which have been prepared pursuant to the rules of the SEC and GAAP for interim financial reporting, reflect all adjustments, which consisted only of normal recurring adjustments that were necessary for a fair statement of the interim periods presented. The results of operations for interim periods are not necessarily indicative of those for a full year. All intercompany accounts and transactions have been eliminated for purposes of preparing these condensed consolidated financial statements.

**Summary of New Significant Accounting Policy**

***Inventories***

Inventories consist primarily of raw material, product components, assembled products, certain components used to internally construct our frac isolation assemblies and chemicals, in raw material or finished goods, used in our tracer diagnostics services. Inventories are stated at the lower of cost or estimated net realizable value. Cost is determined at standard costs approximating the first-in first-out basis. We continuously evaluate inventories, based on an analysis of inventory levels, historical sales experience and future sales forecasts, to determine obsolete, slow-moving and excess inventory. Adjustments to reduce such inventory to its estimated recoverable value have been recorded as an adjustment to cost of sales.

**Recent Accounting Pronouncements**

***Pronouncement Adopted in 2019***

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use (“ROU”) asset and a lease liability for all leases with terms longer than 12 months. Under the new standard, lessees need to recognize leases on their balance sheets as lease liabilities with corresponding ROU assets. We adopted the standard effective January 1, 2019, using a modified retrospective transition method and applying certain optional practical expedients. NCS elected an optional transition method that allowed application of the new standard at the adoption date and the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption with no adjustment to previously reported results. We also elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the carry forward of historical lease classification as well as additional practical expedients related to land easements, short-term leases, and non-lease components. We did not elect the practical expedient related to hindsight. The standard had a material impact on our condensed consolidated balance sheet but did not materially impact our condensed consolidated statements of operations or condensed consolidated statements of cash flows. Adoption of the new standard resulted in the recording of ROU assets and lease liabilities of \$7.5 million on January 1, 2019. See “Note 8. Leases” for more information.

**NCS MULTISTAGE HOLDINGS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

***Pronouncements Not Yet Effective***

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)*. The ASU aligns the requirements to capitalize implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements to capitalize implementation costs incurred to develop or obtain internal-use software. For public entities, this guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact of the adoption of this guidance.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*. The ASU modifies, removes and adds certain disclosure requirements on fair value measurements. For public entities, this guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted for all amendments. Further, entities may early adopt eliminated or modified disclosure requirements and delay the adoption of all new disclosure requirements until the effective date. We are currently evaluating the impact of the adoption of this guidance but do not currently expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. This ASU introduces a new impairment model that is based on expected credit losses rather than incurred credit losses for financial instruments, including trade accounts receivable. It requires an entity to measure expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The new standard is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. On October 16, 2019, the FASB affirmed its decision on amendments to the effective dates for certain ASUs. The effective date for ASU 2016-13 will remain the same for public business entities that are SEC filers, excluding entities eligible to be small reporting companies (“SRC”). The effective date for all other entities, including SRCs, will begin after December 15, 2022, including interim periods within those fiscal years. The FASB expects the final ASU on effective dates will be issued in mid-November 2019. We are currently evaluating the impact of the adoption of this guidance.

**Note 2. Revenues**

**Disaggregation of Revenue**

We sell our products and services primarily in North America and in selected international markets. Revenue by geography is attributed based on the current billing address of the customer. The following table depicts the disaggregation of revenue by geographic region (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>United States</b>				
Product sales	\$ 21,639	\$ 18,125	\$ 62,272	\$ 48,011
Services	6,915	8,157	18,370	27,976
Total United States	28,554	26,282	80,642	75,987
<b>Canada</b>				
Product sales	18,531	21,215	43,953	67,653
Services	7,590	7,958	18,670	22,567
Total Canada	26,121	29,173	62,623	90,220
<b>Other Countries</b>				
Product sales	3,586	5,293	4,708	6,850
Services	2,512	1,943	5,418	3,718
Total Other Countries	6,098	7,236	10,126	10,568
<b>Total</b>				
Product sales	43,756	44,633	110,933	122,514
Services	17,017	18,058	42,458	54,261
Total revenues	<u>\$ 60,773</u>	<u>\$ 62,691</u>	<u>\$ 153,391</u>	<u>\$ 176,775</u>

**NCS MULTISTAGE HOLDINGS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Contract Balances**

When the timing of the delivery of products and provision of services is different from the timing of the customer payments, we recognize either a contract asset (performance precedes contractual due date in connection with estimates of variable consideration) or a contract liability (customer payment precedes performance) on our condensed consolidated balance sheet. We currently do not have any contract assets. The following table includes the contract liabilities as of September 30, 2019 and December 31, 2018 (in thousands):

	Contract Liabilities	
	Current	Non-Current
Balance at December 31, 2018	\$ 515	\$ —
Additions	99	—
Revenue recognized	(560)	—
Balance at September 30, 2019	\$ 54	\$ —

Our contract liability as of September 30, 2019 and December 31, 2018 is included in current liabilities on our condensed consolidated balance sheet. Our performance obligations for our product and service revenues are satisfied before the customer's payment however prepayments may occasionally be required for international sales. Revenue recognized from the contract liability balance was \$31 thousand and \$0.1 million for the three months ended September 30, 2019 and 2018, respectively, and \$0.6 million and \$0.2 million for the nine months ended September 30, 2019 and 2018, respectively.

**Practical Exemption**

We do not disclose the value of unsatisfied performance obligations when the related contract has a duration of one year or less or we recognize revenue equal to what we have the right to invoice when that amount corresponds directly with the value to the customer of our performance to date.

**Note 3. Inventories**

Inventories consist of the following as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Raw materials	\$ 2,235	\$ 2,470
Work in process	431	57
Finished goods	37,948	30,226
Total inventories	\$ 40,614	\$ 32,753

**Note 4. Property and Equipment**

Property and equipment by major asset class consist of the following as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Land	\$ 2,054	\$ 1,995
Building and improvements	11,663	5,185
Machinery and equipment	21,158	18,135
Computers and software	2,466	2,373
Furniture and fixtures	1,191	1,097
Vehicles	7,226	6,980
Service equipment	244	244
	46,002	36,009
Less: Accumulated depreciation and amortization	(13,594)	(10,270)
	32,408	25,739
Construction in progress	1,262	6,557
Property and equipment, net	\$ 33,670	\$ 32,296

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The following table presents the depreciation expense associated with the following income statement line items for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Cost of sales				
Cost of product sales	\$ 682	\$ 489	\$ 2,015	\$ 1,422
Cost of services	320	278	951	785
Selling, general and administrative expenses	459	407	1,416	1,222
Total depreciation	<u>\$ 1,461</u>	<u>\$ 1,174</u>	<u>\$ 4,382</u>	<u>\$ 3,429</u>

**Note 5. Goodwill and Identifiable Intangibles**

Changes in the carrying amount of goodwill are as follows (in thousands):

	Gross Value	Accumulated Impairment	Net
<b>At December 31, 2017</b>	\$ 184,478	\$ —	\$ 184,478
Purchase price allocation adjustment	54	—	54
Impairment	—	(154,003)	(154,003)
Currency translation adjustment	(7,417)	—	(7,417)
<b>At December 31, 2018</b>	<u>\$ 177,115</u>	<u>\$ (154,003)</u>	<u>\$ 23,112</u>
Impairment	—	(7,937)	(7,937)
Currency translation adjustment	47	—	47
<b>At September 30, 2019</b>	<u>\$ 177,162</u>	<u>\$ (161,940)</u>	<u>\$ 15,222</u>

We perform our annual impairment tests of goodwill as of December 31, or when there is an indication an impairment may have occurred.

On December 31, 2018, we performed our annual impairment test for goodwill on each of our three reporting units. As a result of unfavorable oil and gas industry market conditions in late 2018 that continued to persist into 2019 and the related impact on expected customer activity levels, particularly in Canada, as well as a decline in the quoted price of our common stock, we concluded that there had been an impairment because the carrying values exceeded the estimated fair values. We recorded impairment charges in the fourth quarter of 2018 in two reporting units, totaling \$154.0 million. As a result of the impairment loss, we have no remaining goodwill in the fracturing systems and well construction reporting unit.

During the second quarter of 2019, we performed an impairment test for goodwill and determined that the carrying value of one of our reporting units exceeded its fair value. We recorded an impairment charge of \$7.9 million for our tracer diagnostic services reporting unit as a result of a further deterioration in customer activity levels in North America. This resulted in lower demand for oilfield services driving a decrease in our market share and increased customer and competitor-driven pricing pressures in addition to a decline in the quoted price of our common stock. Following the impairment, our tracer diagnostic services reporting unit has no remaining goodwill balance.

There was no impairment recorded at any reporting unit for the three months ended September 30, 2019, and no impairment recorded in any other reporting unit for the nine months ended September 30, 2019.

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Identifiable intangibles by major asset class consist of the following (in thousands):

	Estimated Useful Lives (Years)	September 30, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Balance
Technology	8 - 18	\$ 17,559	\$ (1,933)	\$ 15,626
Trademarks	5 - 10	1,600	(333)	1,267
Customer relationships	10 - 21	28,634	(3,527)	25,107
Internally developed software	5	4,881	(735)	4,146
Total identifiable intangibles		<u>\$ 52,674</u>	<u>\$ (6,528)</u>	<u>\$ 46,146</u>

	Estimated Useful Lives (Years)	December 31, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net Balance
Technology	8 - 18	\$ 17,289	\$ (516)	\$ 16,773
Trademarks	5 - 10	1,600	(213)	1,387
Customer relationships	10 - 21	28,544	(2,339)	26,205
Internally developed software	5	4,620	—	4,620
Total identifiable intangibles		<u>\$ 52,053</u>	<u>\$ (3,068)</u>	<u>\$ 48,985</u>

Total amortization expense, which is associated with the selling, general and administrative expenses income statement line item, was \$1.2 million and \$3.3 million for the three months ended September 30, 2019 and 2018, respectively, and \$3.5 million and \$9.9 million for the nine months ended September 30, 2019 and 2018, respectively.

Identifiable intangibles with definite lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. On December 31, 2018, as a result of unfavorable oil and gas industry market conditions in late 2018 that continued to persist into early 2019 and the related impact on expected customer activity levels, particularly in Canada, as well as a decline in the quoted price of our common stock, we determined that the carrying values of certain intangible assets were no longer recoverable, which resulted in an impairment charge of \$73.5 million in our asset group that includes fracturing systems and well construction, which we recorded in the fourth quarter of 2018. There were no impairments recorded for our identifiable intangibles for the three and nine months ended September 30, 2019.

**Note 6. Accrued Expenses**

Accrued expenses consist of the following as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Accrued payroll and bonus	\$ 2,128	\$ 2,627
Property and franchise taxes accrual	425	424
Accrued other miscellaneous liabilities	641	1,033
Total accrued expenses	<u>\$ 3,194</u>	<u>\$ 4,084</u>

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**Note 7. Debt**

Our long-term debt consists of the following as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Prior Senior Secured Credit Facility	\$ —	\$ 20,000
New Senior Secured Credit Facility	13,000	—
Equipment notes	—	2,412
Finance leases	3,302	3,279
Total debt	<u>16,302</u>	<u>25,691</u>
Less: current portion	<u>(1,609)</u>	<u>(2,236)</u>
Long-term debt	<u>\$ 14,693</u>	<u>\$ 23,455</u>

The estimated fair value of total debt for the periods ended September 30, 2019 and December 31, 2018 was \$15.8 million and \$25.3 million, respectively. The carrying value of the senior secured revolving credit facility and the lines of credit approximated the fair value of debt as they can be paid at any time. The fair value for the remaining debt was estimated using Level 2 inputs by calculating the sum of the discounted future interest and principal payments through the date of maturity.

Below is a description of our prior and new credit agreements and other financing arrangements.

**Prior Senior Secured Credit Facility**

On May 4, 2017, we entered into a credit agreement (the “Prior Credit Agreement”) with a group of financial institutions which originally consisted of a (i) senior secured revolving credit facility (the “Prior U.S. Facility”) in an aggregate principal amount of \$25.0 million made available to Pioneer Investment, Inc. (the “U.S. Borrower”), of which up to \$5.0 million was available for letters of credit and up to \$5.0 million was available for swingline loans and (ii) senior secured revolving credit facility (the “Prior Canadian Facility”) (together, the “Prior Senior Secured Credit Facility”) in an aggregate principal amount of \$25.0 million made available to NCS Multistage Inc. (the “Canadian Borrower”)

We entered into Amendment No. 1 to the Prior Credit Agreement on August 31, 2017, which increased the loan commitment available to the U.S. Borrower to \$50.0 million from \$25.0 million under the Prior U.S. Facility. The loan commitment available under the Prior Canadian Facility remained at \$25.0 million. On February 16, 2018 and October 9, 2018, we entered into Amendments No.2 and No. 3, respectively, to the Prior Credit Agreement, which amended certain negative covenants contained in the Prior Credit Agreement. As of December 31, 2018, we had \$20.0 million in outstanding indebtedness under the Prior U.S. Facility and no outstanding indebtedness under the Prior Canadian Facility.

Borrowings under the Prior U.S. Facility were available in U.S. dollars, Canadian dollars or Euros and had an interest rate equal to the Adjusted Base Rate or Eurocurrency Rate (each as defined in the Prior Credit Agreement), in each case, plus an applicable interest margin as set forth in the Prior Credit Agreement. Borrowings under the Prior Canadian Facility were available in U.S. dollars or Canadian dollars and accrued interest at the Canadian (Cdn) Base Rate, Canadian (U.S.) Base Rate, Eurocurrency Rate or Discount Rate (each as defined in the Prior Credit Agreement), in each case, plus an applicable interest margin as set forth in the Prior Credit Agreement. The Adjusted Base Rate, Canadian (U.S.) Base Rate and Canadian (Cdn) Base Rate applicable margin could have been between 2.25% and 3.00% and the Eurocurrency Rate applicable margin could have been between 3.25% and 4.00%, in each case, depending on the Company’s leverage ratio.

We incurred interest expense related to the Prior Senior Secured Credit Facility, including commitment fees, of \$0.5 million and \$0.9 million for the nine months ended September 30, 2019 and 2018, respectively.

The obligations of the U.S. Borrower under the Prior U.S. Facility were guaranteed by Pioneer Intermediate, Inc. and the Company (together, the “Parent Guarantors”) and each of the other existing and future direct and indirect restricted subsidiaries of the Company organized under the laws of the United States (subject to certain exceptions) and were secured by substantially all of the assets of the Parent Guarantors, the U.S. Borrower and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens. The obligations of the Canadian Borrower under the Prior Canadian Facility were guaranteed by the Parent Guarantors, the U.S. Borrower and each of the future direct and indirect restricted subsidiaries of the Company organized under the laws of the United States and Canada (subject to certain exceptions) and were secured by substantially all of the assets of the Parent

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Guarantors, the U.S. Borrower, the Canadian Borrower and such subsidiary guarantors, in each case, subject to certain exceptions and permitted liens.

Direct costs of \$1.0 million were incurred in connection with the Prior Senior Secured Credit Facility. The costs were capitalized as an asset as they represented the benefit of being able to access capital over the contractual term. The costs were amortized over the term of the Prior Senior Secured Credit Facility using the straight-line method. As a result of our New Credit Agreement (as defined below), which was a modification of our revolving credit facility, unamortized deferred costs of \$0.3 million related to the Prior Senior Secured Credit Facility were deferred and are being amortized over the term of the new arrangement.

On May 1, 2019, we entered into a new Second Amended and Restated Credit Agreement (the “New Credit Agreement”) amending and restating the Prior Credit Agreement.

**New Senior Secured Credit Facility**

On May 1, 2019, we entered into the New Credit Agreement with Pioneer Investment, Inc., as U.S. borrower, NCS Multistage Inc., as Canadian borrower, Pioneer Intermediate, Inc. and the lenders party thereto, Wells Fargo Bank, National Association as administrative agent in respect of the New U.S. Facility (as defined below) and Wells Fargo Bank, National Association, Canadian Branch, as administrative agent in respect of the New Canadian Facility (as defined below) (the senior secured revolving credit facilities provided thereunder, the “New Senior Secured Credit Facility”). The New Credit Agreement amended and restated the Prior Credit Agreement in its entirety.

The New Senior Secured Credit Facility consists of a (i) senior secured revolving credit facility in an aggregate principal amount of \$50.0 million made available to the U.S. Borrower (the “New U.S. Facility”), of which up to \$5.0 million may be made available for letters of credit and up to \$5.0 million may be made available for swingline loans and (ii) senior secured revolving credit facility in an aggregate principal amount of \$25.0 million made available to the Canadian Borrower (the “New Canadian Facility”). The New Senior Secured Credit Facility will mature on May 1, 2023. As of September 30, 2019, we had \$13.0 million in outstanding indebtedness under the New U.S. Facility and no outstanding indebtedness under the New Canadian Facility.

Borrowings under the New U.S. Facility may be made in U.S. dollars for Adjusted Base Rate Advances, and in U.S. dollars, Canadian dollars or Euros for Eurocurrency Rate Advances (each as defined in the New Credit Agreement). Such advances bear interest at the Adjusted Base Rate or at the Eurocurrency Rate plus an applicable interest margin as set forth in the New Credit Agreement. Borrowings under the New Canadian Facility may be made in U.S. dollars or Canadian dollars and bear interest at the Canadian (Cdn) Base Rate, Canadian (U.S.) Base Rate, Eurocurrency Rate or Discount Rate (each as defined in the New Credit Agreement), in each case, plus an applicable interest margin as set forth in the New Credit Agreement. The applicable interest rate at September 30, 2019 was 5.125%. We incurred interest expense related to the New Senior Secured Credit Facility, including commitment fees, of \$0.3 million and \$0.5 million for the three and nine months ended September 30, 2019, respectively.

The obligations of the U.S. Borrower under the New U.S. Facility are guaranteed by the Parent Guarantors and each of the other existing and future direct and indirect restricted subsidiaries of the Company organized under the laws of the United States (subject to certain exceptions) and are secured by substantially all of the assets of the Parent Guarantors, the U.S. Borrower and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens. The obligations of the Canadian Borrower under the New Canadian Facility are guaranteed by the Parent Guarantors, the U.S. Borrower and each of the other future direct and indirect restricted subsidiaries of the Company organized under the laws of the United States and Canada (subject to certain exceptions) and are secured by substantially all of the assets of the Parent Guarantors, the U.S. Borrower, the Canadian Borrower and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens.

The New Credit Agreement contains financial covenants that require (i) commencing with the fiscal quarter ending June 30, 2019, compliance with a maximum leverage ratio test set at 2.50 to 1.00 as of the last day of each fiscal quarter, (ii) commencing with the fiscal quarter ending June 30, 2019, compliance with an interest coverage ratio test set at not more than 2.75 to 1.00 as of the last day of each fiscal quarter, (iii) if the leverage ratio as of the end of any fiscal quarter is greater than 2.00 to 1.00 and the amount outstanding under the New Canadian Facility at any time during such fiscal quarter was greater than \$0, compliance as of the end of such fiscal quarter with a Canadian asset coverage ratio test of at least 1.00 to 1.00 and (iv) if the leverage ratio as of the end of any fiscal quarter is greater than 2.00 to 1.00 and the amount outstanding under the New U.S. Facility at any time during such fiscal quarter was greater than \$0, compliance as of the end of such fiscal quarter with a U.S. asset coverage ratio test of at least 1.00 to 1.00. As of September 30, 2019, we were in compliance with these financial covenants. The New Credit Agreement also contains customary affirmative and negative covenants, including, among other things, restrictions on the creation of liens, the incurrence of indebtedness, investments, dividends and other restricted payments, dispositions and transactions with affiliates. The New Credit Agreement also includes customary events of default for facilities of this type (with customary grace periods, as applicable). If an

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event of default occurs, the lenders under each of the New U.S. Facility and the New Canadian Facility may elect (after the expiration of any applicable notice or grace periods) to declare all outstanding borrowings under such facility, together with accrued and unpaid interest and other amounts payable thereunder, to be immediately due and payable. The lenders under each of the New U.S. Facility and the New Canadian Facility also have the right upon an event of default thereunder to terminate any commitments they have to provide further borrowings under such facility. Further, following an event of default under each of the New U.S. Facility and the New Canadian Facility, the lenders thereunder will have the right to proceed against the collateral granted to them to secure such facility

Direct costs of \$0.9 million were incurred in connection with the New Senior Secured Credit Facility. The costs were capitalized as an asset as they represent the benefit of being able to access capital over the contractual term. Additionally, \$0.3 million of unamortized deferred costs related to the Prior Senior Secured Credit Facility are also being amortized over the term of the New Senior Secured Credit Facility using the straight-line method. Amortization expense of the deferred financing charges of \$0.1 million was included in interest expense, net for the three and nine months ended September 30, 2019.

**Promissory Note**

On February 27, 2017, Repeat Precision, LLC (“Repeat Precision”) entered into a promissory note with Security State Bank & Trust, Fredericksburg, for an aggregate borrowing capacity of \$3.8 million. It bears interest at a variable interest rate based on prime plus 1.00%. The promissory note is secured against equipment, inventory and receivables. The promissory note was renewed on February 16, 2018 for an aggregate borrowing capacity of \$4.3 million and was renewed again on February 15, 2019. The note is scheduled to mature on February 16, 2020. No other terms were changed. As of September 30, 2019 and December 31, 2018, we had no outstanding indebtedness under the promissory note.

**Equipment Notes**

In February 2017, Repeat Precision entered into an equipment note in the amount of \$0.8 million with Security State Bank & Trust, Fredericksburg. The equipment note bears interest at prime plus 1.00%, matures on February 27, 2021 and is collateralized by certain property. During the first quarter of 2019, the equipment note was paid in full and we had no outstanding indebtedness under the equipment note as of September 30, 2019. As of December 31, 2018, the outstanding balance on the equipment note was \$0.4 million.

In September 2018, Repeat Precision entered into an equipment note for an aggregate borrowing capacity of \$3.8 million with Security State Bank & Trust, Fredericksburg. The equipment note bears interest at prime plus 1.00%, matures on June 7, 2023 and is collateralized by certain property. As of September 30, 2019, we had no outstanding indebtedness under the equipment note. At December 31, 2018, the outstanding balance on the equipment note was \$2.0 million.

**Note 8. Leases**

We determine if a contract contains a lease at the inception of an arrangement. If so, ROU assets representing the right to use an underlying asset for the lease term and lease liabilities representing an obligation to make lease payments arising from the lease are included on the condensed consolidated balance sheet.

We have operating and finance leases for facilities, vehicles, and equipment. Some leases include one or more options to renew, with renewal terms that can extend the lease term from five to ten years with exercise of lease renewal options being at the sole discretion of NCS as lessee. Certain leases also include options to purchase the leased property. Some leases may include an option to terminate the contract with notice. ROU assets and lease liabilities with a term of longer than 12 months are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, our interest rate under the senior secured credit facility is used as an incremental borrowing rate applied to the present value calculation at the lease commencement date unless the implicit rate is readily determinable. Lease expense for operating leases is recognized on a straight-line basis over the lease term. At adoption, ROU assets included any lease payments already made and excluded any initial direct costs.

Our lease agreements are from a lessee perspective and do not contain (i) any leases with variable lease payments (e.g., payments that depend on a percentage of sales of a lessee or payments that increase based upon an index such as a consumer price index), (ii) residual value guarantees probable of being paid or (iii) material restrictive covenants. Lease agreements with lease and non-lease components are generally accounted for separately when practical. For leases where the lease and non-lease component are comingled and the non-lease component is determined to be insignificant when compared to the lease component, the lease and non-lease components are treated as a single lease component for all asset classes.



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As of September 30, 2019, we do not have any lessor leases. We do have additional operating leases that have not yet commenced in the amount of \$8.6 million.

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

Leases	Condensed Consolidated Balance Sheet Classification	September 30, 2019
<b>Assets</b>		
Operating lease right-of-use assets	Deposits and other assets	\$ 5,507
Finance lease right-of-use assets (1)	Property and equipment, net	3,810
Total leased right-of-use assets		<u>\$ 9,317</u>
<b>Liabilities</b>		
<i>Current</i>		
Operating lease liabilities	Other current liabilities	\$ 2,217
Finance lease liabilities	Current maturities of long-term debt	1,609
<i>Noncurrent</i>		
Operating lease liabilities	Other long-term liabilities	3,448
Finance lease liabilities	Long-term debt, less current maturities	1,693
Total lease liabilities		<u>\$ 8,967</u>

(1) Finance lease right-of-use assets are recorded net of accumulated amortization of \$2.2 million as of September 30, 2019.

The components of lease expense are as follows (in thousands):

Lease Cost	Condensed Consolidated Statements of Operations Classification	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	Cost of sales; Selling, general and administrative expenses	\$ 764	\$ 2,140
Finance lease cost			
Amortization of right-of-use assets	Depreciation	365	1,055
Interest on lease liabilities	Interest expense, net	63	196
Short-term lease cost	Cost of sales; Selling, general and administrative expenses	221	646
Total lease cost		<u>\$ 1,413</u>	<u>\$ 4,037</u>

Maturities of lease liabilities are as follows (in thousands):

Year Ending December 31,	Operating Leases	Finance Leases
2019 (excluding the nine months ended September 30, 2019)	\$ 783	\$ 575
2020	2,220	1,538
2021	1,584	1,041
2022	781	449
2023	267	—
Thereafter	590	—
Total lease payments	<u>\$ 6,225</u>	<u>\$ 3,603</u>
Less: interest	560	301
Present value of lease liabilities	<u>\$ 5,665</u>	<u>\$ 3,302</u>

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Lease term and discount rate consist of the following:

<b>Lease Term and Discount Rate</b>	<b>September 30, 2019</b>
<b>Weighted-average remaining lease term (years):</b>	
Operating leases	3.4
Finance leases	1.6
<b>Weighted-average discount rate:</b>	
Operating leases	5.9 %
Finance leases	5.5 %

Supplemental cash flow and other information related to leases are as follows (in thousands):

<b>Other Information</b>	<b>Nine Months Ended September 30, 2019</b>
<b>Cash paid for amounts included in measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 2,492
Operating cash flows from finance leases	196
Financing cash flows from finance leases	1,304
<b>Right-of-use assets obtained in exchange for new lease liabilities:</b>	
Operating leases	\$ 336
Finance leases	1,371

Future annual commitments at December 31, 2018 under ASC 840 are as follows:

<b>Year Ending December 31,</b>	<b>Operating Leases</b>	<b>Finance Leases</b>
2019	\$ 2,867	\$ 1,768
2020	1,276	973
2021	757	686
2022	434	198
2023	292	—
Thereafter	398	—
<b>Total lease payments</b>	<b>\$ 6,024</b>	<b>\$ 3,625</b>
Less: interest	—	346
<b>Present value of lease liabilities</b>	<b>\$ 6,024</b>	<b>\$ 3,279</b>

**Note 9. Commitments and Contingencies**

**Litigation**

In the ordinary course of our business, from time to time, we have various claims, lawsuits and administrative proceedings that are pending or threatened with respect to commercial, intellectual property and employee matters.

On July 24, 2018, we filed a patent infringement lawsuit against Kobold Corporation, Kobold Completions Inc. and 2039974 Alberta Ltd. (“Kobold”) in the Federal Court of Canada, alleging that Kobold’s fracturing tools and methods infringe on several of our Canadian patents. We previously filed a breach of contract lawsuit on March 16, 2018, against Kobold Corporation in the Court of Queen’s Bench of Alberta, alleging breach of a prior settlement agreement. Both of these lawsuits seek unspecified monetary damages and injunctive relief. On July 12, 2019, Kobold filed a counterclaim seeking unspecified damages alleging that our fracturing tools and methods infringe on their patent and that we made false and misleading statements about Kobold.

In early February 2019, we filed a lawsuit against Diamondback Industries, Inc. (“Diamondback”) in the United States District Court for the Western District of Texas, Waco Division, alleging patent infringement, breach of contract and related claims stemming from Diamondback’s breach of an exclusive license, granted by Diamondback to Repeat Precision, to a patent necessary for the manufacture and sale of a disposable setting tool. Around the same time, Diamondback filed a lawsuit against Repeat Precision and various NCS entities in an effort to invalidate the exclusive license agreement and requested monetary damages. We believe the exclusive license is enforceable and there is no basis to support the claims asserted by Diamondback and we intend to vigorously enforce our rights under the license agreement.

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In accordance with GAAP, we accrue for contingencies where the occurrence of a material loss is probable and can be reasonably estimated, based on our estimate of the expected liability. If we have any outstanding legal accruals, we may increase or decrease these in the future, on a matter-by-matter basis, to account for developments. Our assessment of the likely outcome of litigation matters is based on our judgment of a number of factors, including experience with similar matters, past history, precedents, relevant financial information and other evidence and facts specific to the matter. While the outcome of any legal proceeding cannot be predicted with any certainty, based on a consideration of relevant facts and circumstances, our management currently does not expect that the results of these legal proceedings would have a material adverse effect on our financial position, results of operations or cash flows.

**Note 10. Share-Based Compensation**

During the nine months ended September 30, 2019, we granted 1,030,216 equity-classified restricted stock units (“RSUs”) with a weighted average grant date fair value of \$5.28. Of the RSUs granted, 842,236 RSUs will vest and settle ratably in three equal annual installments beginning on the anniversary of the date of grant and 187,980 RSUs, which were granted to the nonemployee members of the Board of Directors, will generally vest on the one year anniversary of the grant date. The RSUs for the members of the Board of Directors either settle at vesting or, if the director has elected to defer the RSUs, within thirty days following the earlier of the termination of the director’s service for any reason or a change of control.

During the nine months ended September 30, 2019, we granted 625,488 equivalent stock units, or cash-settled, liability-classified RSUs (“ESUs”), with a weighted average grant date fair value of \$5.51, which will vest and settle ratably in three equal annual installments beginning on the anniversary of the date of grant. The ESUs will be settled in cash and the cash settled for any ESU will not exceed two times the fair market value of our common stock as of the day before the grant date. Compensation cost is remeasured each reporting period at fair value based upon the closing stock price of our common stock until the awards are settled.

In addition, during the nine months ended September 30, 2019, we granted 377,334 performance stock unit awards (“PSUs”), which have a performance period from January 1, 2019 to December 31, 2021. The grant date fair value of the PSUs of \$6.50 was measured using a Monte Carlo simulation. The number of PSUs ultimately issued under the program is dependent upon our total shareholder return relative to our performance peer group (“relative TSR”) over the three-year performance period. Each PSU will settle for between zero and two shares of our common stock in the first quarter of 2021. The threshold performance level (25th percentile relative TSR) starts to earn PSUs, the mid-point performance level (50th percentile relative TSR) earns 65% of the target PSUs and the maximum performance level (90th percentile relative TSR) or greater earns 200% of the target PSUs.

Our Employee Stock Purchase Plan for U.S. Employees and our Employee Stock Purchase Plan for non-U.S. Employees (together, the “ESPP”) allows eligible employees to purchase shares of our common stock at a discounted price. In July 2019, we issued 115,192 shares of our common stock to our employees in connection with the settlement of the purchase of shares for the January 1, 2019 to June 30, 2019 offering period, which increased our common stock outstanding. The ESPP was temporarily suspended for future offering periods beginning on July 1, 2019.

The total share-based compensation expense for all awards was \$2.9 million for each of the three months ended September 30, 2019 and 2018 and \$9.4 million and \$8.2 million for the nine months ended September 30, 2019 and 2018, respectively.

**Note 11. Income Taxes**

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income (or loss) for the year, projections of the proportion of income (or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired or additional information is obtained. The computation of the annual effective rate would include applicable modifications, which were projected for the year, such as certain book expenses not deductible for tax, tax credits and foreign deemed dividends.

We recorded a tax (benefit) expense of \$(1.4) million and \$3.2 million for the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, we recorded a tax expense of \$10.2 million and \$3.1 million, respectively. Included in tax expense for the nine months ended September 30, 2019 was a valuation allowance against our U.S. deferred tax asset based on management’s position that we have not met the more likely than not condition of realizing the deferred tax asset based on the existence of sufficient projected U.S. taxable income of the appropriate character to recognize the tax benefit as well as the tax effect of a non-deductible goodwill impairment. These adjustments resulted in additional tax (benefit) expense for the three and nine months ended September 30, 2019 of approximately \$(6.9) million and \$11.7 million, respectively. For the three and

**NCS MULTISTAGE HOLDINGS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

nine months ended September 30, 2018, our effective rates were 29.3% and 15.7%, respectively. The income tax expense and effective tax rates for the three and nine months ended September 30, 2018 were significantly impacted by the U.S. Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”) including administrative guidance issued by the Internal Revenue Service on April 2, 2018. This guidance along with other updates resulted in a change to the calculation of the mandatory one-time tax on accumulated earnings of foreign subsidiaries in 2017 and a tax expense (benefit) of approximately \$0.5 million and \$(2.1) million for the three and nine months ended September 30, 2018, respectively. Additionally, the effective tax rate for the nine months ended September 30, 2019 and 2018 included a tax expense (benefit) of \$0.4 million and \$(0.4) million, respectively, for the tax effect of stock awards.

The 2017 Tax Act was signed into law on December 22, 2017. The 2017 Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries as of 2017, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. Our preliminary estimate of the 2017 Tax Act and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management’s analysis related to certain matters, such as developing interpretations of the provisions of the 2017 Tax Act, changes to certain estimates and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the 2017 Tax Act may require further adjustments and changes in our estimates. Those adjustments may impact our provision for income taxes in the period in which the adjustments are made.

For our calendar year beginning in 2018 we are subject to several provisions of the 2017 Tax Act including computations under Global Intangible Low Taxed Income (“GILTI”) and Foreign Derived Intangible Income (“FDII”). We were able to make a reasonable estimate of the impact of each provision of the 2017 Tax Act on our effective tax rate for the three and nine months ended September 30, 2019 and 2018.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. The impact of an uncertain income tax position on the income tax returns must be recognized at the largest amount that is more-likely-than-not to be required to be recognized upon audit by the relevant taxing authority. This standard also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting for interim periods, disclosure and transition issues with respect to tax positions. We include interest and penalties as a component of other income (expense), net in the condensed consolidated statements of operations and recognized \$42 thousand and \$58 thousand for the nine months ended September 30, 2019 and 2018, respectively.

**NCS MULTISTAGE HOLDINGS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 12. Earnings (Loss) Per Common Share**

The following table presents the reconciliation of the numerator and denominator for calculating earnings (loss) per common share from net income (loss) (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Numerator—Basic</b>				
Net income (loss)	\$ 6,609	\$ 7,766	\$ (22,837)	\$ 16,813
Less: income attributable to participating shares	—	223	—	510
Less: income attributable to non-controlling interest	2,988	1,443	7,809	3,565
Net income (loss) attributable to NCS Multistage Holdings, Inc.—Basic	<u>\$ 3,621</u>	<u>\$ 6,100</u>	<u>\$ (30,646)</u>	<u>\$ 12,738</u>
<b>Numerator—Diluted</b>				
Net income (loss)	\$ 6,609	\$ 7,766	\$ (22,837)	\$ 16,813
Less: income attributable to non-controlling interest	2,988	1,443	7,809	3,565
Net income (loss) attributable to NCS Multistage Holdings, Inc.—Diluted	<u>\$ 3,621</u>	<u>\$ 6,323</u>	<u>\$ (30,646)</u>	<u>\$ 13,248</u>
<b>Denominator</b>				
Basic weighted average number of shares	46,892	44,943	46,552	44,660
Exchangeable shares for common stock	—	1,327	—	1,398
Dilutive effect of stock options, RSUs, PSUs and ESPP	29	1,134	—	1,196
Diluted weighted average number of shares	<u>46,921</u>	<u>47,404</u>	<u>46,552</u>	<u>47,254</u>
<b>Earnings (loss) per common share</b>				
Basic	<u>\$ 0.08</u>	<u>\$ 0.14</u>	<u>\$ (0.66)</u>	<u>\$ 0.29</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.13</u>	<u>\$ (0.66)</u>	<u>\$ 0.28</u>
Potentially dilutive securities excluded as anti-dilutive	<u>4,184</u>	<u>54</u>	<u>4,357</u>	<u>187</u>

**Note 13. Segment and Geographic Information**

We have determined that we operate in one reportable segment that has been identified based on how our chief operating decision maker manages our business.

**Note 14. Subsequent Events**

As a result of events that occurred with our customers subsequent to September 30, 2019, we expect to record a provision for doubtful accounts of up to \$1.8 million in the fourth quarter.

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

*The following discussion and analysis of our financial condition and results of our operations should be read together with our financial statements and the related notes thereto included in this Quarterly Report on Form 10-Q ("Quarterly Report") and with our audited financial statements and the related notes thereto included in our Annual Report on Form 10-K ("Annual Report"), filed with the Securities and Exchange Commission (the "SEC"). This discussion and analysis contains forward-looking statements regarding the industry outlook, estimates and assumptions concerning events and financial and industry trends that may affect our future results of operations or financial condition and other non-historical statements. These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to the risks and uncertainties described in "—Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." Our actual results may differ materially from those contained in or implied by these forward-looking statements. As used in this Quarterly Report, except where the context otherwise requires or where otherwise indicated, the terms "Company," "NCS," "we," "our" and "us" refer to NCS Multistage Holdings, Inc.*

### Overview and Outlook

We are a leading provider of highly engineered products and support services that facilitate the optimization of oil and natural gas well completions and field development strategies. We provide our products and services primarily to exploration and production ("E&P") companies for use in onshore wells, predominantly wells that have been drilled with horizontal laterals in unconventional oil and natural gas formations. Our products and services are utilized in oil and natural gas basins throughout North America and in selected international markets, including Argentina, China, Russia, the Middle East and the North Sea. We have provided our products and services to various customers, including leading large independent oil and natural gas companies and major oil companies.

Our primary offering is our fracturing systems products and services, which enable efficient pinpoint stimulation: the process of individually stimulating each entry point into a formation targeted by an oil or natural gas well. Our fracturing systems products and services are typically utilized in cemented wellbores and enable our customers to precisely place stimulation treatments in a more controlled and repeatable manner as compared with traditional completion techniques. Our fracturing systems products and services are utilized in conjunction with third-party providers of pressure pumping, coiled tubing and other services.

We sell products for well construction, including our AirLock casing buoyancy system, liner hanger systems and toe initiation sleeves. We provide tracer diagnostics services for well completion and reservoir characterization that utilize downhole chemical and radioactive tracers and consult on reservoir strategies by providing engineering services. We own a 50% interest in Repeat Precision, LLC ("Repeat Precision"), which sells composite frac plugs and related products and provides third-party manufacturing services. We operate in one reportable segment.

Based on capital budgets set by E&P companies and capital spending incurred by E&P companies year-to-date, we believe that industry drilling and completions activity in North America will be lower in 2019 than it was in 2018. Many of our customers in North America are prioritizing free cash flow and the return of capital to shareholders over production growth, which is leading to lower levels of capital expenditures. This is due to relatively low commodity prices at the time our customers established their budgets, concerns over global demand for oil and natural gas based on macroeconomic conditions and the perceived shareholder preference for E&P companies to spend within cash flow and improve returns on invested capital. We expect customer activity in the U.S. to decline on a year-over-year basis, with activity levels continuing to decline throughout 2019 from year-end 2018 and current levels. With the reduction in industry activity, we are experiencing increased competition across all of our product and services offerings in the United States, which is negatively impacting our market share and margins. We believe that customer activity in Canada in 2019 will continue to be significantly below activity levels in prior years. This is due to the factors mentioned above and to mandatory production curtailments that continue to be imposed on certain operators in Alberta. Market conditions in Canada have resulted in continued customer and competitor-driven pricing pressure for our products and services, negatively impacting our margins and market share in certain markets. We currently expect international activity to increase slightly in 2019 as compared to 2018 as market conditions remain more constructive than in North America.

### Market Conditions

#### *Oil and Natural Gas Drilling and Completion Activity*

Our products and services are primarily sold to North American E&P companies and our ability to generate revenues from our products and services depends upon oil and natural gas drilling and completion activity in North America. Oil and natural gas drilling and completion activity is directly related to oil and natural gas prices.

Oil and natural gas prices remain volatile, with WTI crude oil pricing falling to approximately \$45 per barrel in December 2018 before recovering to approximately \$54 per barrel by the end of September 2019. Crude oil pricing has been supported by voluntary oil production reductions by members of the Organization of Petroleum Exporting Countries ("OPEC"), and certain other countries,

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including Russia. Most recently, in response to continued concern over global demand and high global inventory levels OPEC and certain other countries, including Russia, agreed to extend the supply reductions that have been in place since early 2019 through March 31, 2020. There can be no assurance that the countries involved will continue to comply with the intended reductions and the amount of oil supply that may be returned to the market if the supply reductions are not extended further is unknown.

On August 6, 2018, the United States announced its intent to impose economic sanctions on Iran, following the United States’ withdrawal from an international accord intended to limit Iran’s nuclear programs. The sanctions, including secondary sanctions targeting companies that do business with Iran, were intended to reduce Iran’s level of crude oil exports and went into effect in November 2018. Temporary waivers were granted to eight countries that import oil from Iran, but those waivers expired on May 2, 2019. Other oil exporting countries, including Saudi Arabia and Russia may increase oil supplies to offset any shortfall related to a reduction in Iranian oil exports.

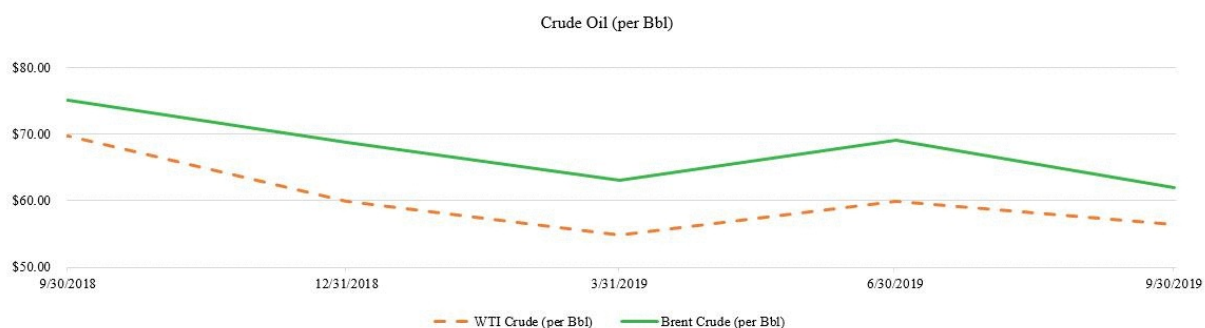
Over the course of 2018, there was an increase in the difference between the benchmark crude oil pricing in certain markets and WTI, known in the industry as differentials. Crude oil in certain areas, including West Texas, North Dakota and Canada traded at a larger discount to WTI than in historical periods due to current and forecasted production levels that are in excess of local refining demand and pipeline capacity. In response to these price differentials, many E&P companies operating in these areas reduced their drilling and completion activity in the second half of 2018 and into 2019 or chose to delay completions until additional pipeline or rail capacity is placed into service. In Canada, the Province of Alberta implemented measures intended to reduce the differential in the region, including the implementation of mandatory production curtailments for companies producing more than 10,000 barrels per day in the province, which are expected to be in place through the end of 2019 and may continue into 2020.

Natural gas pricing was at an average level of \$3.15 per MMBtu during 2018 but has fallen to an average level of \$2.38 per MMBtu during the third quarter of 2019 as supply growth has exceeded demand growth. Realized natural gas prices for Canadian E&P customers are typically at a discount to U.S. Henry Hub pricing. Spot pricing for Canadian natural gas at the AECO hub has been volatile since mid-2017, with wide discounts to Henry Hub pricing resulting from infrastructure bottlenecks. Some Canadian E&P customers have reacted to the lower prices by shutting in a portion of their natural gas production, negatively impacting their cash flows, capital spending and drilling activity.

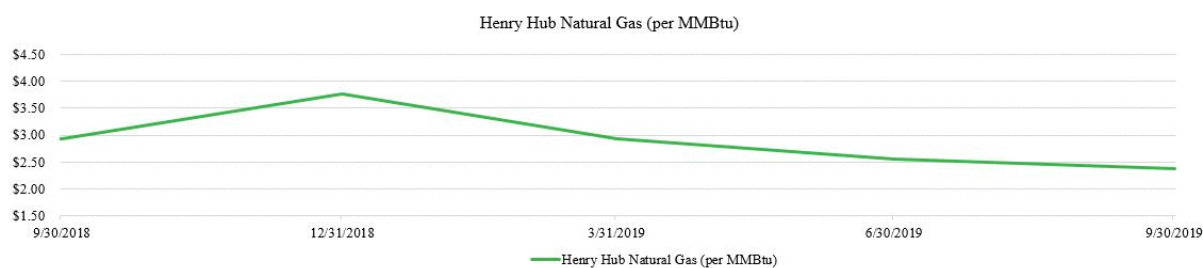
Sustained declines in commodity prices, or sustained periods of high differentials, would be expected to lead North American E&P companies to further reduce drilling and completion activity, which could negatively impact our business.

Listed and depicted below are recent crude oil and natural gas pricing trends, as provided by the Energy Information Administration (“EIA”) of the U.S. Department of Energy:

Quarter Ended	Average Price		
	WTI Crude (per Bbl)	Brent Crude (per Bbl)	Henry Hub Natural Gas (per MMBtu)
9/30/2018	\$ 69.69	\$ 75.07	\$ 2.93
12/31/2018	59.97	68.76	3.77
3/31/2019	54.82	63.10	2.92
6/30/2019	59.88	69.04	2.57
9/30/2019	56.34	61.95	2.38

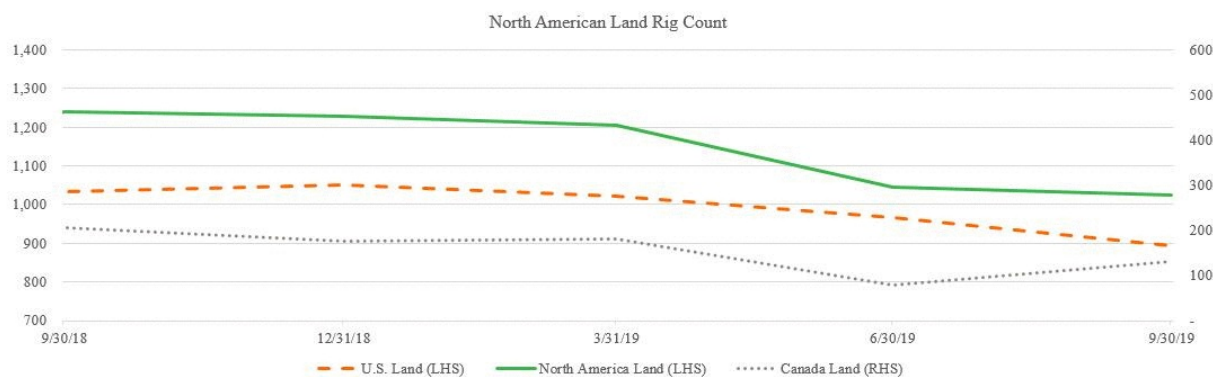


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Listed and depicted below are the average number of operating onshore rigs in the U.S. and in Canada per quarter since the third quarter of 2018, as provided by Baker Hughes Company (“Baker Hughes”). The quarterly changes in the Canadian land rig count can be partially attributed to seasonality of activity in that market

Quarter Ended	Average Drilling Rig Count		
	U.S. Land	Canada Land	North America Land
9/30/2018	1,032	207	1,239
12/31/2018	1,050	177	1,227
3/31/2019	1,023	181	1,204
6/30/2019	967	79	1,046
9/30/2019	894	130	1,024



Over the past several years, North American E&P companies have been able to reduce their cost structures and have also utilized technologies, including ours, to increase efficiency and improve well performance. After a period of declining drilling and completion activity from late 2014 through early 2016, North American E&P companies began to increase activity levels beginning in the second quarter of 2016, as evidenced by increasing rig counts in the U.S. and Canada. The rate of increase slowed in the U.S. during 2018 and began to decline in 2019. Declines have continued, with the rig count having decreased during the third quarter of 2019 from the second quarter of 2019 by 7%. The average rig count in Canada for the third quarter of 2019 was 37% lower than in the same period in 2018.

A substantial portion of our business is subject to quarterly variability. In Canada, we typically experience higher activity levels in the first quarter of each year, as our customers take advantage of the winter freeze to gain access to remote drilling and production areas. In the past, our revenue in Canada has declined during the second quarter due to warming weather conditions that result in thawing, softer ground, difficulty accessing drill sites and road bans that curtail drilling and completion activity. Access to well sites typically improves throughout the third and fourth quarters in Canada, leading to activity levels that are higher than in the second quarter, but lower than activity in the first quarter. Our business can also be impacted by a reduction in customer activity during the winter holidays in late December and early January. We anticipate that activity in Canada in the fourth quarter of 2019 will be significantly lower than in the same period of prior years due to reduced customer budgets and production curtailments that are currently in place in Alberta.

The market in Canada also continues to be impacted by logistical constraints in moving oil and natural gas from areas of production activity to demand centers. These constraints have led to lower realized pricing for our Canadian customers, which have



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been partially offset by the initiatives implemented by the Province of Alberta. As a result, industry activity and capital spending in Canada in 2019 has been, and is currently forecasted to be, materially below 2018 levels, both for producers of oil and liquids-rich natural gas and producers of natural gas. During the ten months ended October 31, 2019, the average land drilling rig count in Canada, as provided by Baker Hughes, was 32% lower than in the same period in 2018. Commodity price differentials are forecasted to remain at elevated levels for an extended period of time, which we expect to have a negative impact on customer activity in 2019 and beyond.

The industry experienced a reduction in completions activity in the United States in the second half of 2018, which has extended into 2019. In addition, capital budgets from E&P companies indicate that capital spending in 2019 is expected to be below capital spending in 2018, with a number of customers taking steps to reduce the number of rigs and completion crews that they are operating throughout the year. We currently anticipate a further reduction in customer activity during the fourth quarter of 2019.

### ***Adoption of Pinpoint Stimulation***

Traditional well completion techniques, including plug and perf and ball drop, currently account for the majority of unconventional well completions in North America and over 90% of unconventional well completions in the U.S. We believe that pinpoint stimulation provides benefits compared to these traditional well completion techniques. Our ability to grow our market share, as evidenced by the percentage of horizontal wells in North America completed using our products and services, will depend in large part on the industry's further adoption of pinpoint stimulation to complete wells, our ability to continue to innovate our technology to compete against continuing technological advances in competing traditional well completions techniques, and our ability to successfully compete with other providers of pinpoint stimulation products and services, including adjusting our pricing in certain markets to respond to customer demands and to competitors that may provide discounted pricing to our customers.

### ***Increasing Well Complexity and Focus on Completion Optimization***

In recent years, E&P companies have drilled longer horizontal wells and completed more hydraulic fracturing stages per well to maximize the volume of hydrocarbon recoveries per well. This trend towards longer and more complex wells has resulted in us selling more sliding sleeves or composite frac plugs per well on average, which increases our revenue opportunity per well completion and has led to increased sales of our AirLock casing buoyancy systems. Additionally, E&P companies have become increasingly focused on well productivity through optimization of completion designs and we believe this trend may further the adoption of pinpoint stimulation, and in turn, increase the opportunity for sales of our products and services if our customers observe operational benefits and long-term production results from the application of pinpoint stimulation. This trend towards more complex well completions has also resulted in increased use of tracer diagnostics services, which can be utilized to assess the effectiveness of various well completion techniques and well spacing strategies in support of completion and field development optimization efforts.

### **How We Generate Revenues**

We derive the majority of our revenues from the sale of our fracturing systems products and the provision of related services. The remainder of our revenues are generated from sales of our AirLock casing buoyancy system, liner hanger systems and toe initiation sleeves products and tracer diagnostics and reservoir strategies services. Repeat Precision generates revenue through the sale of composite frac plugs and related products and the provision of third-party manufacturing services.

Product sales represented 72% and 71% of our revenue for the three months ended September 30, 2019 and 2018, respectively and 72% and 69% for the nine months ended September 30, 2019 and 2018, respectively. Most of our sales are on a just-in-time basis, as specified in individual purchase orders, with a fixed price for our products. We occasionally supply our customers with large orders that may be filled on negotiated terms. Services represented 28% and 29% of our revenues for the three months ended September 30, 2019 and 2018, respectively, and 28% and 31% for the nine months ended September 30, 2019 and 2018, respectively. Services include our tool charges and associated services related to our fracturing systems, reservoir strategies consulting and our tracer diagnostics services and Repeat Precision's provision of third-party manufacturing (which are classified together as "services" in our financial results). Services are provided at agreed rates we charge to our customers for the provision of our downhole frac isolation assembly, our personnel and for the provision of tracer diagnostics services.

During periods of low drilling and well completion activity or as may be needed to compete in certain markets we will, in certain instances, lower the prices of our products and services. Our revenues are also impacted by well complexity, with wells with more stages resulting in longer jobs and increased revenue attributable to selling more sliding sleeves or composite frac plugs and the provision of our services.

The percentages of our revenue derived from sales in Canada and denominated in Canadian dollars were approximately 43% and 47% for the three months ended September 30, 2019 and 2018, respectively, and approximately 41% and 51% for the nine months ended September 30, 2019 and 2018, respectively. Because our Canadian contracts are typically invoiced in Canadian dollars, the effects of foreign currency fluctuations impact our revenues and are regularly monitored.

Although most of our sales are to North American E&P companies, we do have sales to customers outside of North America and expect sales to international customers to increase over time. These international sales are made through local NCS entities or to our local operating partners on a free on board or free carrier basis with a point of sale in the United States. Some of the locations in which we have operating partners or sales representatives include China and the Middle East. Our operating partners and representatives do not have authority to contractually bind our company, but market our products in their respective territories as part of their product or service offering.

### **Costs of Conducting our Business**

Our cost of sales is comprised of expenses relating to the manufacture of our products in addition to the costs of our support services. Manufacturing cost of sales includes payments made to our suppliers for raw materials and payments made to machine shops for the manufacturing of components used in our products and costs related to our employees that perform quality control analysis, assemble and test our products. Our strategic 50% purchase of Repeat Precision has allowed us to reduce our costs for certain product categories. We review forecasted activity levels in our business and either directly procure or ensure that our vendors procure the required raw materials with sufficient lead time to meet our business requirements. On March 8, 2018, the President of the United States signed an order to impose a tariff of 25% on steel imported from certain countries. On July 1, 2018, Canada implemented retaliatory tariffs on certain U.S. imports, including steel. These tariffs have resulted in an increase in our cost of sales. On September 24, 2018, the United States implemented a tariff of 10% on a significant number of commodities originating from China, including certain chemicals utilized in our tracer diagnostics business. The tariffs were subsequently increased to 25% in May 2019. The increased tariffs have resulted in an increase in our cost of sales. We will strive to pass through some of the increases in raw material costs directly resulting from the tariffs to our customers, however there can be no assurance that we will be able to do so. Cost of sales for support services includes compensation and benefit-related expenses for employees who provide direct revenue generating services to customers in addition to the costs incurred by these employees for travel and subsistence while on site. Cost of sales includes other variable manufacturing costs, such as shrinkage, obsolescence and revaluation or scrap related to our existing inventory and costs related to the chemicals and laboratory analysis associated with our tracer diagnostics services.

Our selling, general and administrative (“SG&A”) expenses are comprised of compensation expense, which includes compensation and benefit-related expenses for our employees who are not directly involved in revenue generating activities, including those involved in our research and development activities, as well as our general operating costs. These general operating costs include, but are not limited to: rent and occupancy for our facilities, information technology infrastructure, software licensing, advertising and marketing, third party research and development, risk insurance and professional service fees for audit, legal and other consulting services. As a result of being a public company, our legal, accounting and other expenses have increased and will further increase for costs associated with our compliance with the Sarbanes-Oxley Act.

The percentage of our costs, defined as cost of sales, excluding depreciation and amortization, and including SG&A, denominated in Canadian dollars were approximately 22% and 26% for the three months ended September 30, 2019 and 2018, respectively, and approximately 20% and 23% for the nine months ended September 30, 2019 and 2018, respectively.

**Results of Operations**

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

The following table summarizes our revenues and expenses for the period presented (dollars in thousands):

	Three Months Ended September 30,		Variance	
	2019	2018	\$	%
<b>Revenues</b>				
Product sales	\$ 43,756	\$ 44,633	\$ (877)	(2.0)%
Services	17,017	18,058	(1,041)	(5.8)%
Total revenues	60,773	62,691	(1,918)	(3.1)%
<b>Cost of sales</b>				
Cost of product sales, exclusive of depreciation and amortization expense shown below	23,796	20,275	3,521	17.4 %
Cost of services, exclusive of depreciation and amortization expense shown below	8,413	8,542	(129)	(1.5)%
Total cost of sales, exclusive of depreciation and amortization expense shown below	32,209	28,817	3,392	11.8 %
Selling, general and administrative expenses	20,441	19,356	1,085	5.6 %
Depreciation	1,461	1,174	287	24.4 %
Amortization	1,153	3,255	(2,102)	(64.6)%
Change in fair value of contingent consideration	—	(1,865)	1,865	100.0 %
Income from operations	5,509	11,954	(6,445)	(53.9)%
<b>Other income (expense)</b>				
Interest expense, net	(424)	(317)	(107)	(33.8)%
Other income, net	259	28	231	NM%
Foreign currency exchange loss	(131)	(688)	557	81.0 %
Total other expense	(296)	(977)	681	69.7 %
Income before income tax	5,213	10,977	(5,764)	(52.5)%
Income tax (benefit) expense	(1,396)	3,211	(4,607)	(143.5)%
Net income	6,609	7,766	(1,157)	(14.9)%
Net income attributable to noncontrolling interest	2,988	1,443	1,545	107.1 %
<b>Net income attributable to NCS Multistage Holdings, Inc.</b>	<b>\$ 3,621</b>	<b>\$ 6,323</b>	<b>\$ (2,702)</b>	<b>(42.7)%</b>

(1) NM – Percentage not meaningful

*Revenues*

Revenues were \$60.8 million for the three months ended September 30, 2019 as compared to \$62.7 million for the three months ended September 30, 2018. This decrease was primarily attributable to a decrease in the volume of sales of our fracturing systems products and services and our well construction products in the U.S., partially offset by increased sales of our Repeat Precision products. Product sales for the three months ended September 30, 2019 were \$43.8 million as compared to \$44.6 million for the three months ended September 30, 2018. Our service revenue was \$17.0 million for the three months ended September 30, 2019 as compared to \$18.1 million for the three months ended September 30, 2018.

*Cost of sales*

Cost of sales was \$32.2 million, or 53.0% of revenues, for the three months ended September 30, 2019 as compared to \$28.8 million, or 46.0% of revenues, for the three months ended September 30, 2018. Cost of sales was a higher percentage of revenues due to reductions in the pricing of our products and services, the use of third-party machining capacity, and higher cost of sales in tracer diagnostics, related to field service staffing levels and increased chemical costs associated with tariffs imposed on certain imports from China in September 2018 and later increased in May 2019. These increases were partially offset by increased sales at Repeat Precision, which enabled better fixed cost utilization. Cost of product sales was \$23.8 million, or 54.4% of product sales revenue, and cost of services was \$8.4 million, or 49.4% of service revenue, for the three months ended September 30, 2019. For the three months ended September 30, 2018, cost of product sales was \$20.3 million, or 45.4% of product sales revenue, and cost of services was \$8.5 million, or 47.3% of service revenue.

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### *Selling, general and administrative expenses*

Selling, general and administrative expenses were \$20.4 million for the three months ended September 30, 2019 as compared to \$19.4 million for the three months ended September 30, 2018. The increase was due to higher professional services expenses, most notably litigation expenses, and a one-time severance charge of \$0.7 million related to a reduction in workforce partially offset by lower research and development expenses.

### *Depreciation*

Depreciation was \$1.5 million for the three months ended September 30, 2019 as compared to \$1.2 million for the three months ended September 30, 2018. The increase is primarily attributable to capital expenditures made during 2018.

### *Amortization*

Amortization was \$1.2 million for the three months ended September 30, 2019 as compared to \$3.3 million for the three months ended September 30, 2018. The decrease in amortization was related to non-cash impairment charges of \$73.5 million in customer relationships and technology during the fourth quarter of 2018, which reduced the carrying values of those intangible assets.

### *Change in fair value of contingent consideration*

We had no change in fair value of contingent consideration for the three months ended September 30, 2019. Change in fair value of contingent consideration was \$(1.9) million for the three months ended September 30, 2018 due to the revaluation of the earn-out obligations for Repeat Precision and Spectrum Tracer Services, LLC (“Spectrum”), of which the fair value measures included the impact of both actual results and forecasted future earnings at the time.

### *Foreign currency exchange loss*

Foreign currency exchange loss was \$(0.1) million for the three months ended September 30, 2019 as compared to a loss of \$(0.7) million for the three months ended September 30, 2018. The change was primarily due to the movement in the foreign currency exchange rates between the periods.

### *Income tax (benefit) expense*

Income tax (benefit) expense was \$(1.4) million for the three months ended September 30, 2019 as compared to \$3.2 million for the three months ended September 30, 2018. Included in tax expense for the three months ended September 30, 2019 was a valuation allowance against our U.S. deferred tax asset based on management’s position that we have not met the more likely than not condition of realizing the deferred tax asset based on the existence of sufficient projected U.S. taxable income of the appropriate character to recognize the tax benefit as well as the tax effect of a non-deductible goodwill impairment. These adjustments resulted in additional tax (benefit) in the amount of approximately \$(6.9) million for the three months ended September 30, 2019. For the three months ended September 30, 2018, our effective income tax rate was 29.3%. The income tax expense and effective tax rate for the three months ended September 30, 2018 was impacted by the U.S. Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”).

The 2017 Tax Act significantly changes how the U.S. taxes corporations. The 2017 Tax Act requires complex computations to be performed that were not previously required by U.S. tax law, significant judgments to be made in interpretation of the provisions of the 2017 Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The ultimate impact of the 2017 Tax Act may differ from our estimates, possibly materially, due to changes in the interpretations and assumptions made as well as additional regulatory guidance that may be issued and actions we may take as a result of the 2017 Tax Act.

The 2017 Tax Act was signed into law on December 22, 2017. The 2017 Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries as of 2017, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. Our preliminary estimate of the 2017 Tax Act and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management’s analysis related to certain matters, such as developing interpretations of the provisions of the 2017 Tax Act, changes to certain estimates and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the 2017 Tax Act may require further adjustments and changes in our estimates. Those adjustments may impact our provision for income taxes in the period in which the adjustments are made.

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For our calendar year beginning in 2018 we are subject to several provisions of the 2017 Tax Act including computations under Global Intangible Low Taxed Income (“GILTI”) and Foreign Derived Intangible Income (“FDII”). We were able to make a reasonable estimate of the impact of each provision of the 2017 Tax Act on our effective tax rate for the three months ended September 30, 2019 and 2018.

On a longer term basis, certain aspects of the 2017 Tax Act are expected to have a positive impact on our future income tax expense, including the reduction in the U.S. corporate income tax rate.

As a result of the geographic mix of earnings and losses, including discrete items, our tax rate has been and will continue to be volatile.

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

The following table summarizes our revenues and expenses for the period presented (dollars in thousands):

	Nine Months Ended September 30,		Variance	
	2019	2018	\$	% (1)
	(in thousands)			
<b>Revenues</b>				
Product sales	\$ 110,933	\$ 122,514	\$ (11,581)	(9.5)%
Services	42,458	54,261	(11,803)	(21.8)%
Total revenues	153,391	176,775	(23,384)	(13.2)%
<b>Cost of sales</b>				
Cost of product sales, exclusive of depreciation and amortization expense shown below	57,032	57,600	(568)	(1.0)%
Cost of services, exclusive of depreciation and amortization expense shown below	25,021	24,721	300	1.2 %
Total cost of sales, exclusive of depreciation and amortization expense shown below	82,053	82,321	(268)	(0.3)%
Selling, general and administrative expenses	66,360	62,508	3,852	6.2 %
Depreciation	4,382	3,429	953	27.8 %
Amortization	3,451	9,859	(6,408)	(65.0)%
Change in fair value of contingent consideration	37	(3,005)	3,042	101.2 %
Impairment	7,919	—	7,919	100.0 %
(Loss) income from operations	(10,811)	21,663	(32,474)	(149.9)%
<b>Other income (expense)</b>				
Interest expense, net	(1,497)	(1,382)	(115)	(8.3)%
Other income, net	349	68	281	NM%
Foreign currency exchange loss	(678)	(399)	(279)	(69.9)%
Total other expense	(1,826)	(1,713)	(113)	(6.6)%
(Loss) income before income tax	(12,637)	19,950	(32,587)	(163.3)%
Income tax expense	10,200	3,137	7,063	225.2
Net (loss) income	(22,837)	16,813	(39,650)	(235.8)%
Net income attributable to noncontrolling interest	7,809	3,565	4,244	119.0 %
<b>Net (loss) income attributable to NCS Multistage Holdings, Inc.</b>	<b>\$ (30,646)</b>	<b>\$ 13,248</b>	<b>\$ (43,894)</b>	<b>(331.3)%</b>

(2) NM – Percentage not meaningful

*Revenues*

Revenues were \$153.4 million for the nine months ended September 30, 2019 as compared to \$176.8 million for the nine months ended September 30, 2018. This decrease was primarily attributable to a decrease in the volume of sales of our fracturing systems products and services, especially in the U.S. and Canada and lower tracer diagnostics revenue in the U.S., partially offset by increased sales of our well construction and Repeat Precision products. Product sales for the nine months ended September 30, 2019 were \$110.9 million as compared to \$122.5 million for the nine months ended September 30, 2018. Our service revenue was \$42.5 million for the nine months ended September 30, 2019 as compared to \$54.3 million for the nine months ended September 30, 2018.

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### *Cost of sales*

Cost of sales was \$82.1 million, or 53.5% of revenues, for the nine months ended September 30, 2019 as compared to \$82.3 million, or 46.6% of revenues, for the nine months ended September 30, 2018. Cost of sales was a higher percentage of revenues due to reduced fixed cost utilization related to lower sales volumes for fracturing systems products and services, especially in the U.S. and Canada, reductions in the pricing of our products and services, higher-than-anticipated use of third-party machining capacity in 2019, and higher cost of sales in tracer diagnostics, related to field service staffing levels and increased chemical costs associated with tariffs imposed on certain imports from China in September 2018 and later increased in May 2019. These increases were partially offset by increased sales of well construction products and increased sales at Repeat Precision, which enabled better fixed cost utilization. Cost of product sales was \$57.0 million, or 51.4% of product sales revenue, and cost of services was \$25.0 million, or 58.9% of service revenue, for the nine months ended September 30, 2019. For the nine months ended September 30, 2018, cost of product sales was \$57.6 million, or 47.0% of product sales revenue, and cost of services was \$24.7 million, or 45.6% of service revenue.

### *Selling, general and administrative expenses*

Selling, general and administrative expenses were \$66.4 million for the nine months ended September 30, 2019 as compared to \$62.5 million for the nine months ended September 30, 2018. The increase was due to higher professional services expenses, most notably litigation expenses, and support for our new enterprise resource planning (“ERP”) system, higher share-based compensation expense, a one-time severance charge of \$0.7 million related to a reduction in workforce and an increase in bad debt expense, partially offset by lower compensation and research and development expenses.

### *Depreciation*

Depreciation was \$4.4 million for the nine months ended September 30, 2019 as compared to \$3.4 million for the nine months ended September 30, 2018. The increase is primarily attributable to capital expenditures made during 2018.

### *Amortization*

Amortization was \$3.5 million for the nine months ended September 30, 2019 as compared to \$9.9 million for the nine months ended September 30, 2018. The decrease in amortization was related to non-cash impairment charges of \$73.5 million in customer relationships and technology during the fourth quarter of 2018, which reduced the carrying values of those intangible assets.

### *Change in fair value of contingent consideration*

Change in fair value of contingent consideration was \$37 thousand for the nine months ended September 30, 2019 compared to \$(3.0) million for the nine months ended September 30, 2018. The change for the nine months ended September 30, 2019 was related to the passage of time from December 31, 2018 to January 31, 2019 when the \$10.0 million cash payment for the Repeat Precision earn-out was paid to the joint venture partner. No payment was made for the Spectrum earnout. The change for the nine months ended September 30, 2018 was due to the revaluation of the earn-out obligations for Repeat Precision and Spectrum, of which the fair value measures included the impact of both actual results and forecasted future earnings at the time.

### *Impairment*

During the second quarter of 2019, we performed an impairment test for goodwill and determined that the carrying value of one of our reporting units exceeded its fair value. We recorded an impairment charge of \$7.9 million for our tracer diagnostic services reporting unit as a result of a further deterioration in customer activity levels in North America. This resulted in lower demand for oilfield services driving a decrease in our market share and increased customer and competitor-driven pricing pressures in addition to a decline in the quoted price of our common stock. In addition to goodwill, we also assessed our identifiable intangibles for impairment during the second quarter of 2019 and determined those assets were not impaired. There were no additional indications of impairment during the third quarter of 2019. See “Note 5. Goodwill and Intangibles” of our consolidated financial statements for additional detail.

### *Income tax expense*

Income tax expense was \$10.2 million for the nine months ended September 30, 2019 as compared to \$3.1 million for the nine months ended September 30, 2018. Included in tax expense for the nine months ended September 30, 2019 was a valuation allowance against our U.S. deferred tax asset based on management’s position that we have not met the more likely than not condition of realizing the deferred tax asset based on the existence of sufficient projected U.S. taxable income of the appropriate character to recognize the tax benefit as well as the tax effect of a non-deductible goodwill impairment. These adjustments resulted in additional tax expense in the nine months ended September 30, 2019 of approximately \$11.7 million. The income tax expense and effective tax rate for the nine months ended September 30, 2018 was significantly impacted by the 2017 Tax Act including administrative guidance

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issued by the Internal Revenue Service on April 2, 2018. This guidance resulted in a final change to the calculation of the mandatory one-time tax on accumulated earnings of foreign subsidiaries in the 2017 tax return filing and a tax benefit of \$2.1 million for the nine months ended September 30, 2018 was recorded in tax expense with a corresponding reduction in the effective tax rate of 10.6%

The 2017 Tax Act significantly changes how the U.S. taxes corporations. The 2017 Tax Act requires complex computations to be performed that were not previously required by U.S. tax law, significant judgments to be made in interpretation of the provisions of the 2017 Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The ultimate impact of the 2017 Tax Act may differ from our estimates, possibly materially, due to changes in the interpretations and assumptions made as well as additional regulatory guidance that may be issued and actions we may take as a result of the 2017 Tax Act.

The 2017 Tax Act was signed into law on December 22, 2017. The 2017 Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries as of 2017, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. Our preliminary estimate of the 2017 Tax Act and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the 2017 Tax Act, changes to certain estimates and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the 2017 Tax Act may require further adjustments and changes in our estimates. Those adjustments may impact our provision for income taxes in the period in which the adjustments are made.

For our calendar year beginning in 2018 we are subject to several provisions of the 2017 Tax Act including computations under GILTI and FDII. We were able to make a reasonable estimate of the impact of each provision of the 2017 Tax Act on our effective tax rate for the nine months ended September 30, 2019 and 2018.

On a longer term basis, certain aspects of the 2017 Tax Act are expected to have a positive impact on our future income tax expense, including the reduction in the U.S. corporate income tax rate.

As a result of the geographic mix of earnings and losses, including discrete items, our tax rate has been and will continue to be volatile.

### **Liquidity and Capital Resources**

Our primary sources of liquidity are our existing cash and cash equivalents, cash provided by operating activities and borrowings under our New Senior Secured Credit Facility (defined below). As of September 30, 2019, we had cash and cash equivalents of \$4.5 million and potential availability under the New Senior Secured Credit Facility of \$62.0 million. Our total indebtedness was \$16.3 million as of September 30, 2019. The New Senior Secured Credit Facility consists of revolving credit facilities in aggregate principal amount of \$75.0 million. Our principal liquidity needs have been, and are expected to continue to be, capital expenditures, working capital, debt service and potential mergers and acquisitions.

Our capital expenditures for the nine months ended September 30, 2019 and 2018 were \$5.2 million and \$9.9 million, respectively. We plan to incur approximately \$6.0 million to \$7.0 million in capital expenditures during 2019, which includes capital expenditures related to (i) additional machining capacity at Repeat Precision, (ii) additional production equipment and instrumentation to support tracer diagnostics services, (iii) machinery and equipment utilized in manufacturing and engineering and (iv) our research and development facility. We believe our cash on hand, cash flows from operations and potential borrowings under our New Senior Secured Credit Facility will be sufficient to fund our capital expenditure and liquidity requirements for the next twelve months.

We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of additional indebtedness, the proceeds of equity issuances, or a combination thereof. We cannot assure you that we will be able to obtain this additional liquidity on reasonable terms, or at all. Our liquidity and our ability to meet our obligations and fund our capital requirements are also dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. Accordingly, we cannot assure you that our business will generate sufficient cash flow from operations or that funds will be available from additional indebtedness, the capital markets or otherwise to meet our liquidity needs. If we decide to pursue one or more significant acquisitions, we may incur additional debt or sell additional equity to finance such acquisitions, which could result in additional expenses or dilution.

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**Cash Flows**

The following table provides a summary of cash flows from operating, investing and financing activities for the periods presented (in thousands):

	Nine Months Ended	
	September 30,	
	2019	2018
Net cash provided by operating activities	\$ 4,815	\$ 7,615
Net cash used in investing activities	(4,425)	(9,642)
Net cash used in financing activities	(21,251)	(3,409)
Effect of exchange rate changes on cash and cash equivalents	248	(933)
Net change in cash and cash equivalents	\$ (20,613)	\$ (6,369)

*Operating Activities*

Net cash provided by operating activities was \$4.8 million and \$7.6 million for the nine months ended September 30, 2019 and 2018, respectively. The reduction in cash flow was primarily driven by lower net income and unfavorable changes in inventories, partially offset by favorable changes in accounts payable, prepaid expenses and other assets, deferred tax (expense) benefit and income tax receivable/payable.

*Investing Activities*

Net cash used in investing activities was \$4.4 million and \$9.6 million for the nine months ended September 30, 2019 and 2018, respectively. The decrease in cash used in investing activities during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 was primarily related to capital expenditures, including property, equipment, software and technology, of \$5.2 million in the nine months ended September 30, 2019 compared to \$9.9 million for the same period in 2018.

*Financing Activities*

Net cash used in financing activities was \$21.3 million and \$3.4 million for the nine months ended September 30, 2019 and 2018, respectively. The increase was primarily related to the \$10.0 million cash payment to the joint venture partner for the Repeat Precision earn-out consideration on January 31, 2019, of which \$7.0 million was classified as a financing activity to reflect the acquisition date fair value of the contingent consideration liability and \$3.0 million was included in operating activities as the liability was settled at an amount greater than the acquisition date fair value. We also made cash payments totaling \$7.0 million on our New Senior Secured Credit Facility (as defined below) during the second and third quarters of 2019 and made distributions to our joint venture partner of \$3.4 million during the nine months ended September 30, 2019 as compared to \$0.5 million of distributions for the same period in 2018.

**Financing Arrangements**

*Prior Senior Secured Credit Facility*

On May 4, 2017, we entered into an Amended and Restated Credit Agreement (the "Prior Credit Agreement") with Pioneer Investment, Inc., as borrower (the "U.S. Borrower"), NCS Multistage Inc., as borrower (the "Canadian Borrower"), Pioneer Intermediate, Inc. (together with the Company, the "Parent Guarantors") and the lenders party thereto, Wells Fargo Bank, National Association as administrative agent in respect of the Prior U.S. Facility (as defined below) and Wells Fargo Bank, National Association, Canadian Branch as administrative agent in respect of the Prior Canadian Facility (as defined below) (the senior secured revolving credit facilities provided thereunder, the "Prior Senior Secured Credit Facility").

The Prior Senior Secured Credit Facility consisted of a (i) senior secured revolving credit facility in an aggregate principal amount of \$50.0 million made available to the U.S. Borrower (the "Prior U.S. Facility"), of which up to \$5.0 million could be made available for letters of credit and up to \$5.0 million could be made available for swingline loans and (ii) senior secured revolving credit facility in an aggregate principal amount of \$25.0 million made available to the Canadian Borrower (the "Prior Canadian Facility"). We amended and restated the Prior Senior Secured Credit Facility. See "Note 7. Debt" to our unaudited condensed consolidated financial statements for additional details regarding our Prior Senior Secured Credit Facility.



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### *New Senior Secured Credit Facility*

On May 1, 2019, we entered into a Second Amended and Restated Credit Agreement (the “New Credit Agreement”) with Pioneer Investment, Inc., as U.S. borrower, NCS Multistage Inc., as Canadian borrower, Pioneer Intermediate, Inc. and the lenders party thereto, Wells Fargo Bank, National Association as administrative agent in respect of the New U.S. Facility (as defined below) and Wells Fargo Bank, National Association, Canadian Branch, as administrative agent in respect of the New Canadian Facility (as defined below) (the senior secured revolving credit facilities provided thereunder, the “New Senior Secured Credit Facility”). The New Credit Agreement amended and restated the Prior Credit Agreement in its entirety.

The New Senior Secured Credit Facility consists of a (i) senior secured revolving credit facility in an aggregate principal amount of \$50.0 million made available to the U.S. Borrower (the “New U.S. Facility”), of which up to \$5.0 million may be made available for letters of credit and up to \$5.0 million may be made available for swingline loans and (ii) senior secured revolving credit facility in an aggregate principal amount of \$25.0 million made available to the Canadian Borrower (the “New Canadian Facility”). The New Senior Secured Credit Facility will mature on May 1, 2023. At September 30, 2019, we had \$13.0 million in outstanding indebtedness under the New U.S. Facility and no outstanding indebtedness under the New Canadian Facility.

Borrowings under the New U.S. Facility may be made in U.S. dollars for Adjusted Base Rate Advances, and in U.S. dollars, Canadian dollars or Euros for Eurocurrency Rate Advances (each as defined in the New Credit Agreement). Such advances bear interest at the Adjusted Base Rate or at the Eurocurrency Rate plus an applicable interest margin as set forth in the New Credit Agreement. Borrowings under the New Canadian Facility may be made in U.S. dollars or Canadian dollars and bear interest at the Canadian (Cdn) Base Rate, Canadian (U.S.) Base Rate, Eurocurrency Rate or Discount Rate (each as defined in the New Credit Agreement), in each case, plus an applicable interest margin as set forth in the New Credit Agreement. The Adjusted Base Rate, Canadian (U.S.) Base Rate, Canadian (Cdn) Base Rate and Eurocurrency Rate applicable margin will be between 2.75% and 3.50%, in each case, depending on the Company’s leverage ratio. The applicable interest rate at September 30, 2019 was 5.125%.

The obligations of the U.S. Borrower under the New U.S. Facility are guaranteed by the Parent Guarantors and each of the other existing and future direct and indirect restricted subsidiaries of the Company organized under the laws of the United States (subject to certain exceptions) and are secured by substantially all of the assets of the Parent Guarantors, the U.S. Borrower and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens. The obligations of the Canadian Borrower under the New Canadian Facility are guaranteed by the Parent Guarantors, the U.S. Borrower and each of the other future direct and indirect restricted subsidiaries of the Company organized under the laws of the United States and Canada (subject to certain exceptions) and are secured by substantially all of the assets of the Parent Guarantors, the U.S. Borrower, the Canadian Borrower and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens.

The New Credit Agreement contains financial covenants that require (i) commencing with the fiscal quarter ending June 30, 2019, compliance with a maximum leverage ratio test set at 2.50 to 1.00 as of the last day of each fiscal quarter, (ii) commencing with the fiscal quarter ending June 30, 2019, compliance with an interest coverage ratio test set at not more than 2.75 to 1.00 as of the last day of each fiscal quarter, (iii) if the leverage ratio as of the end of any fiscal quarter is greater than 2.00 to 1.00 and the amount outstanding under the New Canadian Facility at any time during such fiscal quarter was greater than \$0, compliance as of the end of such fiscal quarter with a Canadian asset coverage ratio test of at least 1.00 to 1.00 and (iv) if the leverage ratio as of the end of any fiscal quarter is greater than 2.00 to 1.00 and the amount outstanding under the New U.S. Facility at any time during such fiscal quarter was greater than \$0, compliance as of the end of such fiscal quarter with a U.S. asset coverage ratio test of at least 1.00 to 1.00. As of September 30, 2019, we were in compliance with these financial covenants. The New Credit Agreement also contains customary affirmative and negative covenants, including, among other things, restrictions on the creation of liens, the incurrence of indebtedness, investments, dividends and other restricted payments, dispositions and transactions with affiliates. The New Credit Agreement also includes customary events of default for facilities of this type (with customary grace periods, as applicable). If an event of default occurs, the lenders under each of the New U.S. Facility and the New Canadian Facility may elect (after the expiration of any applicable notice or grace periods) to declare all outstanding borrowings under such facility, together with accrued and unpaid interest and other amounts payable thereunder, to be immediately due and payable. The lenders under each of the New U.S. Facility and the New Canadian Facility also have the right upon an event of default thereunder to terminate any commitments they have to provide further borrowings under such facility. Further, following an event of default under each of the New U.S. Facility and the New Canadian Facility, the lenders thereunder will have the right to proceed against the collateral granted to them to secure such facility.

### ***Contractual Obligations***

There have been no material changes in our contractual obligations and commitments disclosed in the Annual Report for the year ended December 31, 2018.

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### ***Off-Balance Sheet Arrangements***

We have no off-balance sheet financing arrangements.

### **Critical Accounting Policies**

See “Note 1. Basis of Presentation” to our unaudited condensed consolidated financial statements for our new significant accounting policy. We have also updated our lease accounting policies in conjunction with our adoption of ASU 2016-02 and its related amendments (collectively known as “ASC 842”) as further described in “Note 8. Leases” in our unaudited condensed consolidated financial statements. There are no other material changes to our critical accounting policies from those included in the Annual Report for the year ended December 31, 2018.

### **Recently Issued Accounting Pronouncements**

See “Note 1. Basis of Presentation” to our unaudited condensed consolidated financial statements for discussion of the accounting pronouncement we recently adopted and the accounting pronouncements recently issued by the Financial Accounting Standards Board.

### **Emerging Growth Company and Smaller Reporting Company Status**

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). We will remain an emerging growth company until the earlier of (1) the last day of our fiscal year (a) following the fifth anniversary of the completion of our initial public offering, (b) in which we have total annual gross revenue of at least \$1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700.0 million as of the last business day of our most recently completed second fiscal quarter, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period. Additionally, we are also a “smaller reporting company” as defined by Section 12b-2 of the Securities Exchange Act of 1934, as amended (“Exchange Act”), meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have a public float of less than \$250 million. As an emerging growth company and a smaller reporting company, we may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies that do not qualify for those classifications.

### **Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects” and similar references to future periods, or by the inclusion of forecasts or projections. Examples of forward-looking statements include, but are not limited to, statements we make regarding the outlook for our future business and financial performance, such as those contained in this Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause our actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- declines in the level of oil and natural gas exploration and production activity within Canada and the United States;
- oil and natural gas price fluctuations;
- loss of significant customers;
- inability to successfully implement our strategy of increasing sales of products and services into the United States;
- significant competition for our products and services;
- our inability to accurately predict customer demand;
- impairment in the carrying value of long-lived assets and goodwill;
- our inability to successfully develop and implement new technologies, products and services;
- our inability to protect and maintain critical intellectual property assets;

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- currency exchange rate fluctuations;
- losses and liabilities from uninsured or underinsured business activities;
- our failure to identify and consummate potential acquisitions;
- our inability to integrate or realize the expected benefits from acquisitions;
- impact of severe weather conditions;
- restrictions on the availability of our customers to obtain water essential to the drilling and hydraulic fracturing processes;
- our inability to meet regulatory requirements for use of certain chemicals by our tracer diagnostics business;
- change in trade policy, including the impact of additional tariffs;
- changes in legislation or regulation governing the oil and natural gas industry, including restrictions on emissions of greenhouse gases;
- failure to comply with or changes to federal, state and local and non-U.S. laws and other regulations, including environmental regulations and the 2017 Tax Act;
- loss of our information and computer systems;
- system interruptions or failures, including cyber-security breaches, identity theft or other disruptions that could compromise our information;
- our failure to establish and maintain effective internal control over financial reporting;
- complications with the design and implementation of our new enterprise resource planning system;
- our success in attracting and retaining qualified employees and key personnel; and
- our inability to satisfy technical requirements and other specifications under contracts and contract tenders.

For the reasons described above, as well as factors identified in “Item 1A. Risk Factors” in this Quarterly Report and the section of the Annual Report entitled “Risk Factors,” we caution you against relying on any forward-looking statements. Any forward-looking statement made by us in this Quarterly Report speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

### **Item 3. Qualitative and Quantitative Disclosures About Market Risk**

For our quantitative and qualitative disclosures about market risk, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report for the fiscal year ended December 31, 2018. With the exception of our New Senior Secured Credit Facility, which has similar terms and conditions to our Prior Senior Secured Credit Facility, our exposure to market risk has not changed materially since December 31, 2018.

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

#### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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

On January 2, 2019, we implemented our ERP system, which was designed to upgrade our technology and improve our financial and operational information. In connection with this ERP system implementation, we updated our internal controls over financial reporting, as necessary, to accommodate modifications to our business processes and accounting procedures. We will continue to evaluate and test these control changes in order to provide certification as of our fiscal year ending December 31, 2019 on the effectiveness of our internal control over financial reporting.

There were no other changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In the ordinary course of our business, from time to time, we have various claims, lawsuits and administrative proceedings that are pending or threatened with respect to commercial, intellectual property and employee matters.

On July 24, 2018, we filed a patent infringement lawsuit against Kobold Corporation, Kobold Completions Inc. and 2039974 Alberta Ltd. (“Kobold”) in the Federal Court of Canada, alleging that Kobold’s fracturing tools and methods infringe on several of our Canadian patents. We previously filed a breach of contract lawsuit on March 16, 2018, against Kobold Corporation in the Court of Queen’s Bench of Alberta, alleging breach of a prior settlement agreement. Both of these lawsuits seek unspecified monetary damages and injunctive relief. On July 12, 2019, Kobold filed a counterclaim seeking unspecified damages alleging that our fracturing tools and methods infringe on their patent and that we made false and misleading statements about Kobold.

In early February 2019, we filed a lawsuit against Diamondback Industries, Inc. (“Diamondback”) in the United States District Court for the Western District of Texas, Waco Division, alleging patent infringement, breach of contract and related claims stemming from Diamondback’s breach of an exclusive license, granted by Diamondback to Repeat Precision, to a patent necessary for the manufacture and sale of a disposable setting tool. Around the same time, Diamondback filed a lawsuit against Repeat Precision and various NCS entities in an effort to invalidate the exclusive license agreement and requested monetary damages. We believe the exclusive license is enforceable and there is no basis to support the claims asserted by Diamondback and we intend to vigorously enforce our rights under the license agreement.

While the outcome of any legal proceeding cannot be predicted with any certainty, based on a consideration of relevant facts and circumstances, our management currently does not expect that the results of these legal proceedings would have a material adverse effect on our financial position, results of operations or cash flows.

### **Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in our Annual Report for the year ended December 31, 2018.

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**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
† <a href="#">10.1</a>	<a href="#">Second Amendment to NCS Multistage Holdings, Inc. Employee Stock Purchase Plan for U.S. Employees (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-38071) filed on August 6, 2019).</a>
† <a href="#">10.2</a>	<a href="#">Second Amendment to NCS Multistage Holdings, Inc. Employee Stock Purchase Plan for Non-U.S. Employees (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (File No. 001-38071) filed on August 6, 2019).</a>
* <a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
* <a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
** <a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
** <a href="#">32.2</a>	<a href="#">Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
*** 101.INS	XBRL Instance Document
*** 101.SCH	XBRL Taxonomy Extension Schema
*** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*** 101.DEF	XBRL Taxonomy Extension Definition Linkbase
*** 101.LAB	XBRL Taxonomy Extension Label Linkbase
*** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase

† Management contracts or compensatory plans or arrangements.

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* Submitted electronically with this Report.

**SIGNATURES**

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

Date: November 5, 2019

NCS Multistage Holdings, Inc.

By: /s/ Ryan Hummer  
Ryan Hummer  
Chief Financial Officer

(Principal Financial Officer and Authorized  
Signatory)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Robert Nipper, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this“report”) of NCS Multistage Holdings, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 5, 2019

/s/ Robert Nipper

Robert Nipper  
Chief Executive Officer

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Ryan Hummer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this “report”) of NCS Multistage Holdings, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 5, 2019

/s/ Ryan Hummer  
Ryan Hummer  
Chief Financial Officer

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**CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER UNDER SECTION 906 OF THE  
SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350**

In connection with the Quarterly Report of NCS Multistage Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert Nipper, Chief Executive Officer and Director of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 5, 2019

/s/ Robert Nipper

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Robert Nipper

Chief Executive Officer

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**CERTIFICATION OF  
CHIEF FINANCIAL OFFICER UNDER SECTION 906 OF THE  
SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350**

In connection with the Quarterly Report of NCS Multistage Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ryan Hummer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 5, 2019

/s/ Ryan Hummer

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Ryan Hummer

Chief Financial Officer

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