



NYSE American: SDPI

2018 ANNUAL REPORT





Superior Drilling Products, Inc. is an innovative, cutting-edge drilling tool technology company providing cost saving solutions that drive production efficiencies for the oil and natural gas drilling industry. We design, manufacture, repair and sell drilling tools. Our drilling solutions include the patented Drill-N-Ream® well bore conditioning tool and the patented Strider™ oscillation system technology. In addition, we are a manufacturer and refurbisher of PDC (polycrystalline diamond compact) drill bits for a leading oil field service company. We operate a state-of-the-art drill tool fabrication facility, where we manufacture our solutions for the drilling industry, as well as customers' custom products.

Our strategy for growth is to leverage our expertise in drill tool technology and innovative, precision machining in order to broaden our product offerings and solutions for the oil and gas industry.

## Selected Financial Data

(in thousands, except per share data)

	<b>Year Ended December 31,</b>		
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Revenue	\$ 18,245	\$ 15,596	\$ 7,153
Cost of revenue	7,077	5,960	4,492
Selling, general and administrative	7,107	5,734	5,776
Depreciation and amortization	3,760	3,677	4,291
Impairment of property, plant and equipment-held for sale	-	-	840
Impairment of Goodwill	-	-	-
Operating (loss) income	300	225	(8,246)
<i>Operating margin</i>	<i>1.6%</i>	<i>1.4%</i>	<i>(115.3)%</i>
Net loss	\$ (58)	\$ (279)	\$ (9,129)
Weighted average loss per share - diluted	\$ (0.00)	\$ (0.01)	\$ (0.48)
Weighted average shares outstanding - diluted	24,609	24,268	19,156
Cash	\$ 4,265	\$ 2,375	\$ 2,242
Accounts receivable	2,273	2,667	1,039
Total assets	27,006	28,676	32,989
Total debt	10,876	12,808	16,684
Total liabilities	12,229	14,373	19,020
Total stockholders' equity	\$ 14,777	\$ 14,303	\$ 13,969

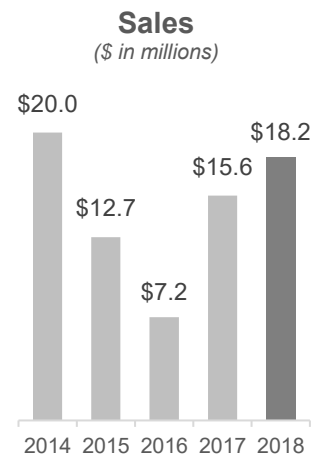
## Dear Fellow Shareholders,

**2018** was a year of substantial progress for Superior Drilling Products. We made significant strides expanding our capabilities and infrastructure to support expected growth, broadened our distribution relationships, bolstered our balance sheet, and continued building market share for our flagship Drill-N-Ream® (DNR) wellbore conditioning tool.

The DNR is gaining widespread acceptance in the marketplace and earning hard-won credibility as a tried and tested product. The tool now has over 5,000 runs, 30 of the top 50 U.S operators are using the DNR, and 47 various operators ran the tool just in the first month of 2019. We are also getting positive feedback on the tool from a large operator and service companies in the Middle East.

Sales in 2018 grew 17% to \$18.2 million, driven largely by very strong growth in royalty and repair revenue resulting from a significantly larger fleet of deployed DNR's. Other tool revenue related to royalties, maintenance and repair fees grew 67% to \$6.5 million, validating the activity of the DNR in the field. Tool sales are key to growth, and aftermarket revenue is an important element of our business model.

Operating income improved to \$300 thousand while operating margin improved 20 basis points to 1.6%, despite an increase of \$2.6 million in operating expenses related to supporting our expansion efforts in the Middle East, the addition of a new service center in Texas, and investments in the development of our Strider™ oscillation system technology. On net income, the Company essentially broke even for the year, and cash generated from 2018 operations nearly doubled to \$4.6 million.



### Improved Balance Sheet

We have strengthened our balance sheet. At the end of 2018, total debt decreased by over 15% to \$10.9 million and we ended the year with \$4.3 million in cash.

In November 2018, we restructured the note related to our 2014 acquisition of Hard Rock Solutions, extending the remaining \$6.0 million in principal payments through October 2020 at 7.25%, to be paid in equal quarterly installments of \$750 thousand, plus accrued interest.

Following the end of the year in February 2019, we secured a new \$4.3 million credit facility which included a \$0.8 million term loan and a \$3.5 million revolver. And, we also refinanced the mortgage on our Vernal, UT campus, extending the maturity by two years to February 2021 at a rate of 7.25%.

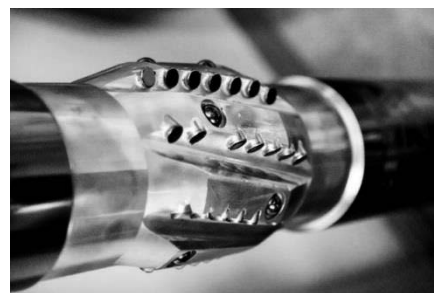
Extending the maturities of the Vernal mortgage and Hard Rock note, while also securing a revolving credit facility, significantly improved the financial flexibility of the Company and has us well positioned to finance our domestic and international expansion.

### Middle East Expansion

We have developed significant traction in the Middle East since partnering in late 2017 with Weatherford U.S., L.P. in a joint market development agreement to explore that region. In October 2018, we established in-region repair and servicing capabilities through a partnership with Smith International Gulf Services, LLC to support the tool and our customers.

And, in November 2018, we established our second Middle East joint market development agreement with Odfjell Drilling Ltd. ("Odfjell"), a highly respected oilfield services contractor with projects currently in more than 20 countries. With Odfjell, we are serving the market in Kuwait. The DNR is being accepted in the Middle East at a rapid rate and we fully expect their involvement to accelerate our penetration of the DNR in this region. In fact, we tripled the size of the fleet by the end of the first quarter of 2019.

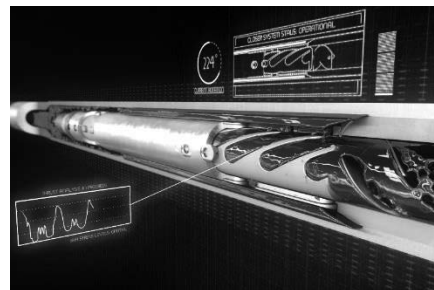
Based on drilling engineers' interest and what we have seen in the field, we believe the DNR offers a significant value proposition for the Middle East market. In fact, customers are asking for larger tools than what are used in the U.S. In response to this, we have designed and manufactured a big bore product line and will have prototypes in the field in the near term. Larger tools will realize higher prices, as well. While there was not any significant revenue during the testing and development phase, we expect our growth in 2019 will be driven by advances in the Middle East.



*Drill-N-Ream®*

### **Product Expansion**

Our Strider™ oscillation system technology has made excellent progress and we expect to spend the first half of the year running the technology through extensive third-party testing with the goal of commercialization in the second half of 2019. Although long delayed, with the strength of our financial performance we have been able to properly invest in the tools design, development and testing. This has helped us to overcome the core design hurdles which had been holding us back. The Strider™ line is expected to be a valuable addition to our product offering and growth engine. We believe the Strider™ technology is superior to current tools in the marketplace with market penetration potential similar to the DNR.



*Strider™*

### **Strong 2019 Outlook**

Our mission is to provide products and technologies that enable faster, more cost efficient and productive drilling for the oil & gas industry. Operators are continually seeking innovative technologies to increase speed and reduce production costs. We have demonstrated that the DNR is an ideal solution for operators, both domestically and internationally. Looking beyond 2019, we expect the Strider technology to be as valuable with similar market potential. Importantly, we believe that our connection to the operators, depth of knowledge of drilling techniques and our manufacturing expertise positions us well to continue to innovate and introduce more solutions for the industry.

For 2019, we expect revenue to be between \$21 million and \$23 million, which represents a 21% increase over 2018 at the midpoint of this guidance. Recent efforts to bolster our domestic and Middle East infrastructure, along with our expanded channels to market in the Middle East, are expected to facilitate our growth in 2019 and beyond.

These are exciting times for Superior Drilling Products as the Middle East gains traction, DNR furthers its solid reputation, and the Strider™ gets to commercialization. We believe our seasoned management team, game-changing technologies, go-to-market strategies and new product pipeline all contribute to excellent future potential. We hope you share in our excitement.

Sincerely,

A handwritten signature in black ink, appearing to read "Troy Meier". The signature is fluid and cursive, written over a white background.

Troy Meier  
Chairman and Chief Executive Officer

June 14, 2019

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SEC FORM 10-K

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-K**

(Mark One)

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

**For the Fiscal Year Ended December 31, 2018**

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 001-36453**

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**SUPERIOR DRILLING PRODUCTS, INC.**

(Name of registrant as specified in its charter)

**Utah**  
(State or other jurisdiction of  
incorporation or organization)

**46-4341605**  
(I.R.S. Employer  
Identification No.)

**1583 South 1700 East**  
**Vernal, Utah**  
(Address of Principal Executive Offices)

**84078**  
(Zip Code)

Issuer's Telephone Number: **435-789-0594**

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

Title of each class:  
Common Stock, \$0.001 par value

Name of each exchange on which registered:  
NYSE MKT

Securities Registered Pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange.  Yes  No

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

The registrant had issued and outstanding 25,018,098 shares of its common stock on March 13, 2019.

Documents incorporated by reference: NONE.

**SUPERIOR DRILLING PRODUCTS, INC.**  
**FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes certain statements that may be deemed to be “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements contained in all parts of this document that are not historical facts are forward-looking statements that involve risks and uncertainties that are beyond the control of Superior Drilling Products, Inc. (the “Company” or “SDPI”). You can identify the Company’s forward-looking statements by the words “anticipate,” “estimate,” “expect,” “may,” “project,” “believe” and similar expressions, or by the Company’s discussion of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurances can be given that these expectations will prove to be correct. The forward-looking statements contained in or incorporated by reference into this Form 10-K are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control, including:

- the volatility of oil and natural gas prices;
- the cyclical nature of the oil and gas industry;
- availability of financing, flexibility in restructuring existing debt and access to capital markets;
- our reliance on significant customers;
- consolidation within our customers’ industries;
- competitive products and pricing pressures;
- our ability to develop and commercialize new and/or innovative drilling and completion tool technologies;
- fluctuations in our operating results;
- our dependence on key personnel;
- costs of raw materials;
- our dependence on third party suppliers;
- unforeseen risks in our manufacturing processes;
- the need for skilled workers;
- our ability to successfully manage our growth strategy;
- unanticipated risks associated with, and our ability to integrate, acquisitions;
- current and potential governmental regulatory actions in the United States and regulatory actions and political unrest in other countries, specifically the Middle East region;
- terrorist threats or acts, war and civil disturbances;
- our ability to protect our intellectual property;
- impact of environmental matters, including future environmental regulations;
- implementing and complying with safety policies;
- breaches of security in our information systems and other cybersecurity risks;
- related party transactions with our founders; and
- risks associated with our common stock.

Many of these factors are beyond our ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect us.

In addition, management’s assumptions about future events may prove to be inaccurate. All readers are cautioned that the forward-looking statements contained in this Annual Report on Form 10-K are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or that the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to factors described in “Item 1A. Risk Factors” included elsewhere in this prospectus and in the documents that we include as exhibits to this Annual Report, and our subsequent SEC filings. All forward-looking statements speak only as of the date they are made. We do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

## PART I

### ITEM 1. BUSINESS

#### Our Company

Superior Drilling Products, Inc. (the “Company”, “SDPI”, “we”, “our” or “us”) is an innovative drilling and completion tool technology company providing cost saving solutions that drive drilling efficiencies for the oil and natural gas drilling and completions industry. Our headquarters and manufacturing operations are located in Vernal, Utah. Our drilling solutions include the patented Drill-N-Ream® well bore conditioning tool (“Drill-N-Ream tool”) and the patented Strider™ Drill String Oscillation System technology (“Strider technology” or “Strider”). In addition, the Company is a manufacturer and refurbisher of PDC (polycrystalline diamond compact) drill bits for a leading oil field services company. We operate a state-of-the-art drill tool fabrication facility, where we manufacture solutions for the drilling industry, as well as customers’ custom products.

We were incorporated on December 10, 2013 under the name SD Company, Inc. in order to facilitate (a) the reorganization of the entities that are now our consolidated subsidiaries and (b) the subsequent acquisition of Hard Rock Solutions, LLC (“HR”). We changed our name from SD Company Inc. to Superior Drilling Products, Inc. on May 22, 2014 in conjunction with closing of that reorganization and our initial public offering, which occurred on May 23, 2014 (“Offering” or “IPO”). Our corporate headquarters and manufacturing operations are located in Vernal, Utah. Our common stock trades on the NYSE MKT exchange under the ticker symbol “SDPI”.

Our subsidiaries include (a) Superior Drilling Solutions, LLC (previously known as Superior Drilling Products, LLC), a Utah limited liability company (“SDS”), together with its wholly owned subsidiary Superior Design and Fabrication, LLC, a Utah limited liability company (“SDF”), (b) Extreme Technologies, LLC, a Utah limited liability company (“ET”), (c) Meier Properties Series, LLC, a Utah limited liability company (“MPS”), (d) Meier Leasing, LLC, a Utah limited liability company (“ML”), and (e) HR.

We innovate, design, engineer, manufacture, sell, and repair drilling and completion tools in the United States, Canada, and the Middle East region.

We currently have three basic operations:

- Our PDC drill bit and other tool refurbishing and manufacturing service,
- Our emerging technologies business that manufactures the Drill-N-Ream tool, our innovative drill string enhancement tool, the Strider technology and other tools, and
- Our new product development business that conducts our research and development, and designs our horizontal drill string enhancement tools, other down-hole drilling technologies, and drilling tool manufacturing technologies.

Our strategy for growth is to leverage our expertise in drill tool technology and precision machining in order to broaden our product offerings and solutions for the oil and gas industry. We believe through our patented technologies, as well as technologies under development, that we can offer the industry the solutions it demands to improve drilling efficiencies and reduce production costs.

Our co-founder, Troy Meier, developed the first commercially-viable process for refurbishing PDC drill bits after a successful 13-year career with a predecessor of Baker Hughes Inc. He was also co-inventor of the patented Drill-N-Ream® well bore conditioning tool (“Drill-N-Ream tool” or “DnR”). We made a major strategic shift in 2016 to focus on our core competencies of innovation in manufacturing technologies, creation of solutions for the upstream oil and gas industry, drilling tool fleet maintenance and repair and the development engineering and manufacture of new tools and technologies.

For the past 24 years, we have manufactured and refurbished PDC drill bits exclusively for Baker Hughes’s oilfield operations in the Rocky Mountain, California and Alaska regions, as well as other areas as needed to support their internal operations. Effective April 1, 2018, we entered into a new Vendor Agreement (the “Agreement”) with Baker Hughes Oilfield Operations LLC (“Baker Hughes”), replacing our former Vendor Agreement, which expired on March 31, 2018. Under the agreement, we will now serve an expanded market throughout the U.S., receive a base minimum volume in drill bit refurbishment and continue to provide our drill bit refurbishment services exclusively for Baker Hughes. The agreement has a four-year term and allows for modifications in the event of market deterioration. Either party has the right to cancel the agreement with 6-months’ notice.

We have been expanding our offerings and broadening our customer base and the end-users of our technologies by demonstrating our engineering, design and manufacturing expertise of down-hole drilling tools. In addition to the patented Drill-N-Ream tool, our products include the patented Strider™ Drill String Oscillation System (“Strider technology”), the V-Stream Advanced Conditioning System and the Dedicated Reamer Stinger. We have under design and development a suite of other horizontal drill string tools, each of which addresses a different technical challenge presented by today’s horizontal drilling designs. In addition, we work with our customers to develop new products and enhancements to existing products in order to improve efficiency and safety and solve complex drilling tool problems.

In May 2016, the Company entered into an agreement with Drilling Tools International (“DTI”), under which DTI had a requirement to purchase our Drill-N-Ream tool for their rental tool business and achieve market share requirements in order to maintain exclusive marketing rights for the Drill-N-Ream. This agreement began the shift of our business model from a rental tool company to a manufacturer that designs, builds and sells tools. DTI, has exclusive rights to market the Drill-N-Ream in the U.S. and Canada, both onshore and offshore. It must achieve defined market share goals with our tool that started in June 2017 and increase through the end of 2020. We receive revenue from DTI for tool sales, tool repairs and a royalty fee based on the tools usage.

Also in 2016, the Company entered into a non-exclusive agreement with Baker Hughes to supply them with the Strider technology and related services. Tool shipments under the agreement are expected to begin late 2019. The agreement has no set expiration date or minimum shipment requirement. It will remain in force until it is canceled by either us or Baker Hughes, as stipulated in the agreement.

In December 2017, the Company entered into an agreement with Weatherford U.S., L.P. (“Weatherford”) to launch a joint market development program to introduce our Drill-N-Ream tool in the Middle East. Under the development agreement, Weatherford and SDPI will demonstrate the Drill-N-Ream’s capabilities with large Middle East operators in Saudi Arabia, Kuwait and Oman. The program ended January 31, 2019 and the companies are currently discussing next steps. SDPI and Weatherford each employ a local resident Product Champion to execute the pilot test program of 20 Drill-N-Ream tools. In November 2018, we entered into a joint market development agreement with Odfjell Drilling. Similar to the Weatherford agreement, this program will further the introduction of our Drill-N-Ream tool to large Middle East operators in Kuwait.

## Our Products

*Drill-N-Ream Tool.* The Drill-N-Ream tool is a dual-section wellbore conditioning tool which is located approximately 150 feet behind the bottom hole assembly (BHA). The Drill-N-Ream smooths and slightly enlarges the well drift in all sections of horizontal wells, in both oil and water based mud. The Drill-N-Ream tool is available in multiple sizes and can be custom manufactured to accommodate most drill hole sizes. Concurrently as the well bore is being drilled, the Drill-N-Ream tool conditions the well bore. It reduces tortuosity resulting from the geo-steering drill bit, and the overcorrections and formation interactions that occur during directional drilling. With the well bore conditioned by the Drill-N-Ream, the drill string is then able to move through the conditioned well bore with less friction and stress. In effect, the Drill-N-Ream accelerates drilling speed and extends the horizontal distance of the well bore by:

- (a) Smoothing out ledges and doglegs left by the bit, which allows the drill string to move through a conditioned well bore with less friction and stress,
- (b) Reducing tool joint damages and trip time (i.e. the time required to remove and reinsert the drill string),
- (c) Enhancing the power available to drive the drill bit assembly,
- (d) Extending the horizontal distance that can be drilled during a run,
- (e) Improving the running of casing in the completed well much easier, and
- (f) Tripping out of the hole on elevators, rotation not required.

The number of “trips” required by the operator, or the number of times the drill string has to be removed and reinserted, is reduced as a result of the Drill-N-Ream. Each time a drilling operator has to trip the drill string and replace a bit or other drill string component, it costs the operator substantial time and money, so we believe anything that allows each run to extend further without additional tripping is of great value to our customers. Traditional methods for conditioning the well bore entails removing the drill string and running a dedicated reamer through the well bore, typically in two separate runs. The Drill-N-Ream tool eliminates the need for dedicated reamer runs, and therefore reduces the cost of drilling a horizontal well.

We believe that the Drill-N-Ream’s rapid adoption and continued use by operators validates its effectiveness and industry acceptance. In fact, leading operators have begun to standardize their drilling assembly with a Drill-N-Ream tool. In addition, we understand that a number of customers have rented the Drill-N-Ream tool after first trying competitive products. We expect the above factors to support increasing interest in, and revenue from, the Drill-N-Ream tool over the next several years as more well operators’ reports of its effectiveness are transmitted through word-of-mouth by an increasing user base to other well operators globally.

*Strider Technology.* The Strider technology utilizes its unique patented design to reduce drill string friction on horizontal wells, resulting in improved rates of penetration and cost savings. The Strider technology is designed to help dissipate the inertial drag of a horizontal drill string by generating rhythmic pulses that break the frictional connection between the drill strings and well bore greatly enhancing drilling rates. Its revolutionary engineering provides a cost-effective alternative to conventional downhole vibration tools.

The Strider technology is composed of two main parts, a hydraulic channeling chamber (HCC) and a rhythmic pulsation chamber (RPC). The RPC contains a precisely engineered, high speed pulse-valve that systematically restricts flow area. During flow restriction, or “closure”, the ideal amount of fluid is allowed to continue down hole. This perfectly controlled hydraulic flow produces an optimal pulse frequency, which is preferred for bottom hole assembly equipment. The optimal pulse frequency also allows for placement of the Strider technology closer to the bit than typical oscillation tools.

We believe that our Strider technology is at the forefront of drill string tool technological development for horizontal drilling. We also believe our Strider technology offers significant advantages over our competitors drill string stimulation tools and will be rapidly accepted in both the drilling and completion markets.

*V-Stream advanced conditioning system (“V-Stream”).* The V-Stream tool is an integral spiral blade stabilizer and is engineered to combine stabilization with reaming. A cavity or plenum in the middle of the blades facilitates enhanced fluid flow for cuttings transport and reduces torque when compared with typical stabilizers with similar overall blade length. Non-active cutters

at gauge enable the V-Stream to remove formation and condition the hole while controlling deviation. With these unique features, the V-Stream will stabilize the BHA and condition the hole simultaneously to optimize the drilling operations.

*Dedicated Reamer Stinger ("DR Stinger").* DR Stinger is designed to optimize dedicated reamer operations. DR Stinger utilized our fully-patented Drill-N-Ream tool with its dual stage eccentric reamers which conditions well bores by increasing well bore drift. The two reamer stages spaced approximately five feet apart act in unison to force each other into the formation while efficiently reducing ledges, doglegs, and well bore tortuosity. With DR Stinger, a tapered stinger is placed just below the Drill-N-Ream tool at the end of the drill string. The DR Stinger eliminates the cost of bits during the reamer operation because it is run without a bit, offering a much better indication of hole conditions. Floats are included in the DR Stinger, as well as an anti-plug port system with both features eliminating any plugging of the drill string. With no bit on the DR Stringer, the drill string will find and keep well bore center preventing unplanned side tracks.



## **Our Strategy for Growth**

We intend to pursue the following growth strategies as we seek to expand our market share and solidify our position as a competitive drilling tool manufacturer in the drilling industry:

*Leverage highly advanced tool technologies.* We currently have two differentiated advanced drilling tool technologies that address challenges encountered in the oil and gas drilling marketplace.

*Expand our channels to market.* We are leveraging existing distribution channels in the exploration and production industry. As noted earlier, in May 2016, we entered into an agreement with DTI, establishing DTI as the exclusive distributor of our patented Drill-N-Ream tool in the United States and Canada onshore and offshore markets. As a result of this agreement, our technology has penetrated the market more efficiently leveraging DTI's long-term relationships with end users. We are also evaluating opportunities to further our reach into North America market.

We are expanding our channels to market and our geographic presence, especially in the Middle East as evidenced by our joint market development agreements we entered into with Weatherford in December 2017 and Odfjell Drilling in November 2018. We expect to add additional distributors as we expand our tool offering. We also expect to leverage our distributor and customer relationships to identify needs for new tool development and to use these channels to market a broadened product offering as it is developed.

*Strengthen and support our employees.* Our experienced employees and management team are some of our most valuable resources. Attracting, training, and retaining key personnel, has been and will continue to be critical to our success. To achieve our goals, we intend to remain focused on providing our employees with training, personal and professional growth opportunities, as well as adding performance-based incentives, including opportunities for stock ownership, and other competitive benefits. We are also working with the local university and high school to develop and teach local programs in machining and engineering expertise and technical resources.

*Seek strategic acquisitions to enhance or expand our product lines.* While capital constraints are currently requiring us to focus on organic growth, we may identify new technologies to add to our arsenal of tools for the exploration and production industry. In analyzing new acquisitions, we intend to pursue opportunities that complement our existing product line and/or that are geographically situated within our current market. We believe that strategic acquisitions will enable us to exploit economies of scale in the areas of finance, human resources, marketing, administration, information technology, and legal, while also providing cross-marketing opportunities among our drill tool product offerings.

## **New Product Development and Intellectual Property**

Our sales and earnings are influenced by our ability to successfully provide the high-level service and state-of-the-art products that our customers demand, which in turn relies on our ability to develop new processes, technology, and products. We have also historically dedicated additional resources toward the development of new technology and equipment to enhance the effectiveness, safety, and efficiency of the products and services we provide. We expect that with our extensive knowledge and experience in the oilfield industry, we can identify additional challenges with directional drilling, and then design and develop tools that will help our customers with their drilling challenges. Further development of additional drill string components will become increasingly important to our business as we continue to grow through both organic expansion and strategic acquisitions.

Research and development costs were approximately \$1,265,000 for the year ended December 31, 2018, compared with \$746,000 for the year ended December 31, 2017. Costs included in research and development included payroll for engineers, materials for Strider, and third party engineering costs. Research and development costs represented 7% of our 2018 revenue as we continued to maintain our commitment to new product development.

Although we highly value our proprietary products and technology, we also depend on our technological capabilities, customer service-oriented culture, and application of our know-how to distinguish ourselves from our competitors. We also consider the services and products we provide to our customers, our customer relationships, and the technical knowledge and skill of our personnel, to be more important than our registered intellectual property in our ability to compete. While we stress the importance of our research and development programs, the technical challenges and market uncertainties associated with the development and successful introduction of new and updated products are such that we cannot assure investors that we will realize any particular amount of future revenue from the services and related products resulting from our research and development programs.

## **Suppliers and Raw Materials**

We acquire supplies, component parts, products and raw materials from suppliers, including steel suppliers, foundries, forge shops and original equipment manufacturers. The prices we pay for our raw materials may be affected by, among other things, energy, industrial diamond, steel and other commodity prices, tariffs and duties on imported materials and foreign currency exchange rates. Certain of our component parts, products or specific raw materials are only available from a limited number of suppliers.

Our ability to obtain suitable quality raw materials and components, such as PDC's, steel and flux, solder and heating elements, is critical to our ability to remanufacture Baker Hughes drill bits, and to manufacture the Drill-N-Ream tool and Strider technology tools and other future drill line products. In order to purchase raw materials and components in timely and cost-effective manner, we have developed both domestic and international sourcing connections and arrangements. We maintain quality assurance and testing programs to analyze and test these raw materials and components in order to assure their compliance with our rigorous specifications and standards. We generally try to purchase our raw materials from multiple suppliers, so we are not dependent on any one supplier, but this is not always possible.

The price and availability of commodities and components, in particular steel, can have an impact on our operations. We have no assurance that we will be able to continue to purchase these raw materials on a timely basis or at historical prices.

## **Proprietary Rights**

We rely primarily on a combination of patent, trade secret, copyright and trademark laws, confidentiality procedures, and other intellectual property protection methods to protect our proprietary technology. Mr. Meier currently has U.S. patent applications pending, and related international patent applications pending as co-inventor, and individually with respect to the Strider technology and other pending drilling tools. There is no assurance that our patent applications will result in issued patents, that the existing patents or that any future patents issued to us will provide any competitive advantages for their products or technology, or that, if challenged, the patents issued to us will be held valid and enforceable. Despite our precautions, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. Existing intellectual property laws afford only limited protection and policing violations of such laws is difficult. The laws of certain countries in which our products are or may be used by our customers do not protect our products and intellectual property rights to the same extent as do the laws of the United States. There is no assurance that these protections will be adequate or that our competitors will not independently develop similar technology, gain access to our trade secrets or other proprietary information, or design around our patents.

We may be required to enter into costly litigation to enforce our intellectual property rights or to defend infringement claims by others. Such infringement claims could require us to license the intellectual property rights of third parties. There is no assurance that such licenses would be available on reasonable terms, or at all.

In February 2019, the Company filed a patent infringement lawsuit in the United States District Court for the Western District of Louisiana Lafayette Division asserting Stabil Drill Specialties, LLC ("Stabil Drill") infringed on our patent that covers the Company's well bore conditioning tool, the Drill-N-Ream. Stabil Drill has not yet responded to the lawsuit. As of the date of this annual report, the lawsuit is in initial stages. We cannot predict the outcome of this matter, but our legal costs could have a material effect on our financial position or results of operations in future periods.

## **Competition**

*Drill Bit Refurbishing.* The primary competitors for our drill bit refurbishing services are the in-house units at Hughes Christensen, the division of Baker Hughes responsible for drill bits. Other drill bit manufacturers also have in-house refurbishing units, but they are not our competitors because of our exclusive contract with Baker Hughes.

*Drilling Enhancement Tools.* The primary competitors for our Drill-N-Ream tool are several single-section reaming tool manufacturers, including Baker Oil Tools (a division of Baker Hughes), NOV, Schlumberger and Tercel, and one dual-section reaming tool manufactured by Stabil Drill. We believe that the Drill-N-Ream tool is the only patented dual-section or dual cutting structure drill string reamer on the market today. We believe that distinction will allow us to continue building on the Drill-N-Ream tool's first-mover advantage.

We believe that our Strider technology is at the forefront of drill string tool technological development for horizontal drilling. There are existing tools that would compete with our drill string stimulation tool, such as the Agitator tool marketed by NOV. However, we believe our technology in the drill string stimulation tool offers significant advantages over the Agitator and we believe our Strider technology will be rapidly accepted in the drilling market.

## **Customers**

Our customer agreements provide certain exclusive rights in our U.S. and Canada markets and therefore result in a high concentration of revenue dependent upon a limited number of customers. For the years ended December 31, 2018 and 2017, two customers represented 95% and 97% of our total revenue, respectively.

## **Manufacturing**

We manufacture our solutions, as well as custom products, in our state-of-the-art drill tool fabrication facility where we operate a technologically-advanced PDC drill bit refurbishing facility, as well as a state-of-the-art, high-tech drilling and completion tool engineering design and manufacturing operation. We manufacture our drill string enhancement tools, including the patented Drill- N-Ream tool and the patented Strider technology, and conduct our new product research and development from this facility.

We employ a senior work force with specialized training and extensive experience related to drill bit refurbishing and drill and completion tool manufacturing. They produce our products and services using a suite of highly technical, purpose-built equipment, much of which we design and manufacture for our proprietary use. Our manufacturing equipment and products use advanced technologies that enable us to increase efficiency, enhance product integrity, improve efficiency and safety, and solve complex drilling tool problems.

## **Cyclical**

We are substantially dependent on conditions in the oil and gas industry, including the level of exploration, development and production activity of, and the corresponding capital spending by, oil and natural gas companies. The level of exploration, development and production activity is directly affected by trends in oil and natural gas prices, which has historically been volatile, and by capital spending discipline imposed by customers.

Declines, as well as anticipated declines, in oil and gas prices could negatively affect the level of these activities and capital spending, which could adversely affect demand for our products and services and, in certain instances, result in the cancellation, modification or rescheduling of existing and expected orders and the ability of our customers to pay us for our products and services. These factors could have an adverse effect on our revenue and profitability.

## **Seasonality**

Our business is not significantly impacted by seasonality, although our fourth quarter has historically been negatively impacted by holidays and our clients' budget cycles. A small portion of the revenue we generate from selected operations may benefit from higher first quarter activity levels, as operators take advantage of the winter freeze to gain access to remote drilling and production areas. In the past, some of our revenue in Alaska has declined during the second quarter due to warming weather conditions that resulted in thawing, softer ground, difficulty accessing drill sites and road bans that curtailed drilling activity.

## Environmental, Health and Safety Regulation

Our operations are subject to numerous stringent and complex laws and regulations governing the discharge of materials into the environment, health and safety aspects of our operations, or otherwise relating to human health and environmental protection, and we have put a strong focus on these issues.

We designed and built our Vernal facility as a fully-contained business park, except for the city sewer connection. Underlying our entire facility, including parking lots and runoff storage areas, is a complete capture and containment field that collects all building drainage and ground run off in isolated tanks. Captured drainage and runoff, as well as all hazardous waste generated in our manufacturing processes is regularly removed from our facility by a certified hazardous waste disposal company. Any changes in environmental laws and regulations or in enforcement policies that result in more stringent and costly waste handling, storage, transport, disposal, or remediation requirements could have a material adverse effect on our operations and financial position. Moreover, accidental releases or spills of regulated substances may occur in the course of our operations, and we cannot assure you that we will not incur significant costs and liabilities as a result of such releases or spills, including any third-party claims for damage to property, natural resources or persons. Failure to comply with these laws or regulations or to obtain or comply with permits may result in the assessment of administrative, civil and criminal penalties, imposition of remedial or corrective action requirements, and the imposition of orders or injunctions to prohibit or restrict certain activities or force future compliance.

The following is a summary of the more significant existing environmental, health and safety laws and regulations to which our business operations are subject and for which compliance could have a material adverse impact on our capital expenditures, results of operations or financial position.

*Hazardous Substances and Waste.* The Resource Conservation and Recovery Act (“RCRA”) and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. We are required to manage hazardous and non-hazardous wastes in compliance with RCRA and its state counterparts.

The Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), also known as the Superfund law, imposes joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred, and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. We currently own, lease, or operate numerous properties that have been used for manufacturing and other operations for many years. We also contract with waste removal services and landfills. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove previously disposed substances and wastes, remediate contaminated property, or perform remedial operations to prevent future contamination. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances released into the environment.

*Water Discharges.* The Federal Water Pollution Control Act (the “Clean Water Act”) and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into “Waters of the United States,” including wetlands. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. A responsible party includes the owner or operator of a facility from which a discharge occurs. The Clean Water Act and analogous state laws provide for administrative, civil and criminal penalties for unauthorized discharges and, together with the Oil Pollution Act of 1990, impose rigorous requirements for spill prevention and response planning, as well as substantial potential liability for the costs of removal, remediation, and damages in connection with any unauthorized discharges. Further, proposed revisions to the definition of “Waters of the United States” have been subject to judicial challenges and administrative action, resulting in uncertainty as to the scope of the regulatory definition. Our obligations under the Clean Water Act could be expanded when the definition of “Waters of the United States” is ultimately resolved.

*Employee Health and Safety.* We are subject to a number of federal and state laws and regulations, including OSHA and comparable state statutes, establishing requirements to protect the health and safety of workers. In addition, the OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and comparable state statutes require that information be maintained concerning hazardous materials used, stored, produced or released in our operations and that this information be provided to employees, state and local government authorities and the public. Substantial fines and penalties can be imposed and orders or injunctions limiting or prohibiting certain operations may be issued in connection with any failure to comply with laws and regulations relating to worker health and safety.

## **Insurance and Risk Management**

We maintain insurance coverage of types and amounts that we believe to be customary and reasonable for companies of our size and with similar operations. In accordance with industry practice, however, we do not maintain insurance coverage against all of the operating risks to which our business is exposed. Therefore, there is a risk our insurance program may not be sufficient to cover any particular loss or all losses.

Currently, our insurance program includes, among other things, general liability, umbrella liability, sudden and accidental pollution, personal property, vehicle, workers' compensation, directors and officers and employer's liability coverage. Our insurance includes various limits and deductibles or retentions, which must be met prior to or in conjunction with recovery.

## **Employees**

As of December 31, 2018, we had 65 full-time employees compared with 54 full-time employees at the same time in December 2017. We generally have been able to locate and engage highly qualified employees as needed. None of our employees are covered by an ongoing collective bargaining agreement, and we have experienced no work stoppages. We consider our employee relations to be good.

## **Available Information**

We are required to file annual, quarterly and current reports, proxy statements and certain other information with the SEC.

The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. Any documents filed by us with the SEC, including this Annual Report, can be downloaded from the SEC's website at [www.SEC.gov](http://www.SEC.gov).

Our principal executive offices are located at 1583 South 1700 East, Vernal, Utah, 84078, and our telephone number at that address is (435) 789-0594. Our website address is [www.sdpi.com](http://www.sdpi.com). Our periodic reports and other information filed with or furnished to the SEC are available, free of charge, through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference into this Annual Report and does not constitute a part of this Annual Report.

## ITEM 1A. Risk Factors

### Risks Related to Our Business and Industry

**A decline in expenditures by the oil and gas industry could impact our revenue and income and result in an impairment of our assets.**

Our business depends upon the condition of the oil and gas industry and, in particular, the willingness of oil and gas companies to make capital expenditures on exploration, drilling and production operations. The level of capital expenditures is generally dependent on the prevailing view of future oil and gas prices, which are influenced by numerous factors affecting the supply and demand for oil and gas, including:

- worldwide economic activity;
- the level of exploration and production activity;
- interest rates and the cost of capital;
- new tariffs by the United States or other countries;
- environmental regulation;
- federal, state and foreign policies regarding exploration and development of oil and gas;
- the ability of OPEC to set and maintain production levels and pricing;
- governmental regulations regarding future oil and gas exploration and production;
- the cost of exploring and producing oil and gas;
- the cost of developing alternative energy sources;
- the availability, expiration date and price of leases;
- the discovery rate of new oil and gas reserves;
- the success of drilling for oil and gas in unconventional resource plays such as shale formations;
- technological advances;
- weather conditions.

We expect continued volatility in both crude oil and natural gas prices, as well as in the level of drilling and production related activities. Even during periods of high prices for oil and natural gas, companies exploring for oil and gas may cancel or curtail programs, seek to renegotiate contract terms, including the price of our products and services, or reduce their levels of capital expenditures for exploration and production for a variety of reasons. These risks are greater during periods of low or declining commodity prices. Continued significant or prolonged declines in hydrocarbon prices have had, and may continue to have, a material adverse effect on our results of operations.

**We may be unable to maintain adequate liquidity and make payments on our debt.**

At December 31, 2018, we had working capital of approximately \$1,700,000. Our principal uses of cash are operating expenses, working capital requirements, capital expenditures and debt service payments. Our operational and financial strategies include lowering our operating costs and capital spending to match revenue trends, managing our working capital and debt to enhance liquidity.

Our operational and financial strategies include managing our operating costs, working capital and debt to enhance liquidity. We will continue to work to grow revenue and review additional cost containment measures and be cash flow positive in 2019. If we are unable to do this, we may not be able to, among other things, (i) maintain our current general and administrative spending levels; (ii) fund certain obligations as they become due; and (iii) respond to competitive pressures or unanticipated capital requirements. We cannot provide any assurance that financing will be available to us in the future on acceptable terms.

As amended and restated effective November 21, 2018, the Hard Rock Note accrues interest at 7.25% per annum and matures and is fully payable on October 5, 2020. Under the current terms of Hard Rock Note, we are required to pay principal payments of \$750,000 (plus accrued interest) on each January 5, April 5, July 5 and October 5 in 2019 and 2020. If we are unable to make the payments required, we could lose our rights to market the Drill-N-Ream.

**Failure to generate sufficient revenue to make payments on the Hard Rock Note could result in our loss of the patents securing such note.**

The Hard Rock Note is secured by all of the patents, patents pending, other patent rights, and the Drill-N-Ream trademark purchased in the Hard Rock acquisition (the “Drill-N-Ream Collateral”). If we do not have the funds necessary to make the future payments under the Hard Rock Note and fail to make any payments as required thereunder, and we are unsuccessful in amending or restructuring the payment terms, the holder of the Hard Rock Note could conduct a foreclosure sale on the Drill-N-Ream Collateral in order to apply the proceeds thereof toward repayment of the Hard Rock Note and all foreclosure costs, and our subsidiary Superior Drilling Solutions, LLC would be liable for any shortfall or receive any excess from the sales proceeds. The failure to retain and use the Drill-N-Ream Collateral in our business could cause a significant loss of our investment and might have a material adverse effect on our financial condition and results of operation, as well as our ability to grow our drill string tool business.

**Our level of indebtedness could adversely affect our future ability to raise additional capital to fund growth, limit our ability to react to changes in our business or our industry and place us at a competitive disadvantage.**

We are required to make remaining payments on the Hard Rock Note of \$3.0 million per year (plus accrued interest) in 2019 and 2020. In addition, we are required to make monthly payments of approximately \$70,000 on our other indebtedness.

Our level of debt and debt service requirements could have important consequences. For example, it could (i) result in a foreclosure upon our key assets, (ii) increase our vulnerability to general adverse economic and industry conditions, (iii) limit our ability to fund future capital expenditures and working capital, to engage in future acquisitions or development activities, or to otherwise realize the value of our assets and opportunities fully because of the need to dedicate a substantial portion of our cash flow from operations to payments on our debt, (iv) increase our cost of borrowing, (v) restrict us from making strategic acquisitions or causing us to make non-strategic divestitures, (vi) limit our flexibility in planning for, or reacting to, changes in our business or industry in which we operate, placing us at a competitive disadvantage compared with our competitors who are less leveraged and (vii) impair our ability to obtain additional financing in the future.

**There may be significant annual and quarterly fluctuations in our operating results.**

Significant annual and quarterly fluctuations in our results of operations may be caused by, among other factors, our volume of revenue, the timing of new product or service announcements, releases by us and our competitors in the marketplace of new products or services, seasonality and general economic conditions. There can be no assurance that the level of revenue achieved by us in any particular fiscal period will not be significantly lower than in other comparable fiscal periods. We believe quarter-to-quarter comparisons of our revenue and operating results are not necessarily meaningful and should not be relied on as indicators of future performance. Our operating expenses are relatively fixed in the short term and are based on management’s expectations of future revenue. As a result, if future revenue is below expectations, net income or loss may be disproportionately affected by a reduction in revenue, as any corresponding reduction in expenses may not be proportionate to the reduction in revenue.

**Our customer base is concentrated and the loss of, or nonperformance by, one or more of our significant customers could cause our revenue to decline substantially.**

We had two large customers that comprised 95% of our total revenue in 2018 and 97% in 2017. It is likely that we will continue to derive a portion of our revenue from a relatively small number of customers in the future. If a major customer decided not to continue to use our services or has a significant reduction in its business, our revenue would decline and our operating results and financial condition could be harmed. In addition, we are subject to credit risk due to the concentration of our customer base. Any increase in the non-payment of and non-performance by our counterparties, either as a result of changes in financial and economic conditions or otherwise, could have a material effect on our business, results of operations and financial condition and could adversely affect our liquidity.

**We must continue to develop new technologies, methodologies and products on a timely and cost-effective basis to satisfy the needs of our customers.**

The drilling industry is driven primarily by cost minimization, and our strategy is aimed at reducing drilling costs through the application of new drill bit assembly and drill string tool technologies. Our continued success will depend on our ability to meet our customers' changing needs, on a timely and cost-effective basis, by successfully enhancing our current products and processes; developing, producing and marketing new products and processes; and responding to evolving industry standards and other technological changes.

We cannot assure you that our products will be able to satisfy the specifications of our customers or that we will be able to perform the testing necessary to prove that the product specifications are satisfied in the future, or that the costs of modifications to our products to satisfy their requirements will not adversely affect our results of operations. Failure to meet our customer's demand for services may adversely affect our business. We may encounter resource constraints, competition, or other difficulties that may delay our ability to expand our bit remanufacturing services to the level desired or required by our customer. If our products are unable to satisfy such requirements, or we are unable to perform any required testing, our customers may cancel their contracts and/or seek new suppliers, and our business, results of operations, cash flows or financial position may be adversely affected.

**Our related party transactions with the Meiers and their affiliated entities may cause conflicts of interests that may adversely affect us.**

We have entered into, and may, in the future, enter into various transactions and agreements with the Meiers and their affiliated entities. We believe that the transactions and agreements that we have entered into with the Meiers are on terms that are at least as favorable as could reasonably have been obtained at such time from third parties. However, these relationships could create, or appear to create, potential conflicts of interest when our board of directors is faced with decisions that could have different implications for us and the Meiers or their affiliates. The appearance of conflicts, even if such conflicts do not materialize, might adversely affect the public's perception of us, as well as our relationship with other companies and our ability to enter into new relationships in the future, which may have a material adverse effect on our ability to do business.

**Our customers' industries are undergoing continuing consolidation that may impact our results of operations.**

The oil and gas industry is rapidly consolidating and, as a result, some of our largest customers have consolidated and are using their size and purchasing power to seek economies of scale and pricing concessions. This consolidation may result in reduced capital spending by some of our customers or the acquisition of one or more of our primary customers, which may lead to decreased demand for our products and services. We cannot assure you that we will be able to maintain our level of sales to a customer that has consolidated or replace that revenue with increased business activity with other customers. As a result, the acquisition of one or more of our primary customers, such as Baker Hughes and DTI, may have a significant negative impact on our results of operations, financial position or cash flows. We are unable to predict what effect consolidations in the industry may have on price, capital spending by our customers, our market share and selling strategies, our competitive position, our ability to retain customers or our ability to negotiate favorable agreements with our customers.



**We may be unable to successfully compete with other manufacturers of drilling equipment.**

Several of our competitors are diversified multinational companies with substantially larger operating staffs and greater capital resources than ours and which have been engaged in the manufacturing business for a much longer time than us. If these competitors substantially increase the resources they devote to developing and marketing competitive products and services, we may not be able to compete effectively. Similarly, consolidation among our competitors could enhance their competing market share, product and service offerings and financial resources, further intensifying competition.

**We are dependent on key personnel who may be difficult to replace.**

Our success is dependent to a significant degree upon the business expertise and continued contributions of our founders and senior management team. In particular, we are dependent upon the efforts and services of our founders, Mr. Troy Meier, our Chairman and Chief Executive Officer, and Ms. Annette Meier, our President, because of their knowledge, experience, skills, and relationships with major clients and the other members of our management team. Our future success also depends on our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing and customer service personnel. Competition for such personnel is intense, and we cannot assure you that we will be able to successfully attract, integrate or retain sufficiently qualified personnel. Our inability to retain these types of individuals could have a material adverse effect on our business, results of operations and financial condition.

**Increases in the cost of raw materials used in our manufacturing processes could negatively impact our profitability.**

We rely on the availability of volume and quality of synthetic diamond cutters for drill bit refurbishment and manufacturing and for our drill string tool manufacturing business. In addition, we must have a reliable source of steel available for manufacturing which is both of sufficient quality, and available at a cost-effective price. We do not have fixed price contracts or arrangements for all of the raw materials and other supplies that we purchase. Baker Hughes provides the diamond cutters for our drill bit refurbishment. However, sourcing cost-effective supplies of quality steel in the relatively low volumes that our tool manufacturing requires can be challenging. Shortages of, and price increases for, steel and other raw materials and supplies that we use in our business may occur. Future shortages or price fluctuations in synthetic diamond cutters or steel could have a material adverse effect on our ability to conduct either our drill bit refurbishment or our drill tool manufacturing in a timely and cost-effective manner.

**We depend on third-party suppliers for timely deliveries of raw materials, and our results of operations could be adversely affected if we are unable to obtain adequate supplies in a timely manner.**

Our manufacturing operations depend upon obtaining adequate supplies of raw materials from third parties. Events beyond our control may impact the ability of these third parties to deliver raw materials may be affected by events beyond our control. Any interruption in the supply of raw materials needed to manufacture our products could adversely affect our business, results of operations and reputation with our customers.

**We may be exposed to unforeseen risks in our product manufacturing and processes, which could adversely affect our financial conditions and results of operations.**

We operate our business from our Vernal, Utah headquarters. A natural disaster, extended utility failure or other significant event at our facility could significantly affect our ability to manufacture sufficient quantities of key products or otherwise deliver products to meet customer demand or contractual requirements which may result in a loss of revenue and other adverse business consequences. In addition, the equipment and management systems necessary for our operations are subject to wear and tear, break down and obsolescence, which could cause them to perform poorly or fail, resulting in fluctuations in manufacturing efficiencies and production costs. Significant manufacturing fluctuations may affect our ability to deliver products to our customers on a timely basis and we may suffer financial penalties and a diminution of our commercial reputation and future product orders. Additionally, some of our business may in the future be conducted under fixed price contracts. Fluctuations in our manufacturing process, or inaccurate estimates and assumptions used in pricing our contracts, even if due to factors out of our control, may result in cost overruns which we may be required to absorb. Any shut down of our manufacturing facility, reductions in our manufacturing process or efficiency, or cost overruns could adversely affect our business, financial condition and results of operations.

**We may be unable to employ enough skilled and qualified workers to sustain or expand our current operations.**

Our operations require personnel with specialized skills and experience. The supply of skilled and experienced personnel may not be sufficient to meet current or expected demand. Any significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If any of these events were to occur, our capacity could be diminished, our ability to respond quickly to customer demands or strong market conditions may be inhibited and our growth potential impaired, any of which could have a material adverse effect on our business, financial condition and results of operations.

**If we are not able to manage our growth strategy successfully, our business, and results of operations may be adversely affected.**

Our growth strategy includes acquisitions and the development and implementation of new product designs and improvements, which presents numerous managerial, administrative, operational, and other challenges. Our ability to manage the growth of our operations will depend on our ability to develop systems and services and related technologies to meet evolving industry requirements and at prices acceptable to our customers to compete in the industry in which we operate. Our ability to compete effectively will also depend on our ability to continue to obtain patents on our proprietary technology and products. Although we do not consider any single patent to be material to our business, the inability to protect our future innovations through patents could have a material adverse effect. In addition, our growth will increase our need to attract, develop, motivate, and retain both our management and professional employees. The inability of our management to manage our growth effectively or the inability of our employees to achieve anticipated performance could have a material adverse effect on our business.

**Acquisitions and investments may not result in anticipated benefits and may present risks not originally contemplated, which could have a material adverse effect on our financial condition, results of operations and cash flows.**

Our growth strategy includes acquiring other companies that complement our service offerings or broaden our technical capabilities and geographic presence. From time to time, we evaluate purchases and sales of assets, businesses or other investments. These transactions may not result in the anticipated realization of savings, creation of efficiencies, offering of new products or services, generation of cash or income or reduction of risk. In addition, acquisitions may be financed by borrowings, requiring us to incur debt, or by the issuance of our common stock. These transactions involve numerous risks, and we cannot ensure that:

- any acquisition would be successfully integrated into our operations and internal controls;
- the due diligence conducted prior to an acquisition would uncover situations that could result in financial or legal exposure;
- the use of cash for acquisitions would not adversely affect our cash available for capital expenditures and other uses;
- any disposition, investment, acquisition or integration would not divert management resources from the operation of our business; or
- any disposition, investment, acquisition or integration would not have a material adverse effect on our financial condition, results of operations or cash flows.

**Our inability to integrate acquisitions successfully could impede us from realizing all of the benefits of the acquisitions which could have a material adverse effect on our financial condition and results of operations.**

If we are unable to successfully integrate future acquisitions, we could be impeded from realizing all of the anticipated benefits of those acquisitions and could weaken our business operations. The integration process may disrupt our business and, if implemented ineffectively, may preclude realization of the anticipated benefits expected by us and could harm our results of operations. In addition, the overall integration of the combining companies may result in unanticipated problems, expenses, liabilities and competitive responses, and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

- unanticipated issues in integration of information, communications, and other systems;
- unanticipated incompatibility of logistics, marketing, and administration methods;
- maintaining employee morale and retaining key employees;
- integrating the business cultures of both companies;
- preserving important strategic client relationships;
- coordinating geographically separate organizations; and
- consolidating corporate and administrative infrastructures and eliminating duplicative operations.

Even if the operations of an acquisition are integrated successfully, we may not realize the anticipated benefits of the acquisition, including the synergies, cost savings or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all. Failing to realize the benefits could have a material adverse effect on our financial condition and results of operations.

**Conditions in the global financial system may have impacts on our business and financial position that we currently cannot predict.**

Uncertainty in the credit markets may negatively impact the ability of our customers to finance purchases of our products and services and could result in a decrease in, or cancellation of, orders or adversely affect the collectability of our receivables. If the availability of credit to our customers is reduced, they may reduce their drilling and production expenditures, thereby decreasing demand for our products and services, which could have a negative impact on our financial position. Additionally, unsettled conditions could have an impact on our suppliers, causing them to be unable to meet their obligations to us. Although we do not currently anticipate a need to access the credit markets in the short term, a prolonged constriction on future lending by banks or investors could result in higher interest rates on future debt obligations or could restrict our ability to obtain sufficient financing to meet our long-term operational and capital needs.

**A terrorist attack or armed conflict could harm our business.**

Terrorist activities, anti-terrorist efforts and other armed conflicts involving the United States or other countries may adversely affect the United States and global economies and could prevent us from meeting our financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for our services and causing a reduction in our revenue. Oil and natural gas related facilities could be direct targets of terrorist attacks, and our operations could be adversely impacted if infrastructure integral to our customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

**Materials and minerals used in our manufacturing process may become subject to laws and regulations that may expose us to significant costs and liabilities.**

The diamonds comprising the diamond cutting discs used in our operations are synthetic and manufactured in the United States, South Africa and China. Neither those diamond cutters nor any other minerals used in our operations are currently identified as “conflict minerals” in the Dodd-Frank Wall Street Reform and Consumer Protection Act. However, we cannot predict or control if the United States Secretary of State will or will not identify one of the minerals used in our manufacturing process as a conflict mineral. Should the materials used in our manufacturing process be designated as a conflict mineral, we will be required to file Form SD with the SEC and conduct the required diligence to determine the source of the conflict mineral in connection with such disclosure. Any increased costs and expenses associated with this could have a material adverse impact on our financial condition and results of operations.

**The use and protection of our proprietary technology will affect our success. There are limitations to our intellectual property rights in our proprietary technology, and thus our right to exclude others from the use of such proprietary technology.**

Our success will be affected by our development and implementation of new product designs and improvements and by our ability to protect and maintain critical intellectual property assets related to these developments. Although in many cases our products are not protected by any registered intellectual property rights, in other cases we rely on a combination of patents and trade secret laws to establish and protect this proprietary technology.

We currently hold multiple U.S. patents and have multiple pending patent applications for products and processes in the U.S. and certain non-U.S. countries. Patent rights give the owner of a patent the right to exclude third parties from making, using, selling, and offering for sale the inventions claimed in the patents in the applicable country. Patent rights do not necessarily grant the owner of a patent the right to practice the invention claimed in a patent, but merely the right to exclude others from practicing the invention claimed in the patent. It may also be possible for a third party to design around our patents. Furthermore, patent rights have strict territorial limits. Some of our work will be conducted in international waters and therefore may not fall within the scope of any country’s patent jurisdiction. We may not be able to enforce our patents against infringement occurring in international waters and other “non-covered” territories. Also, we do not have patents in every jurisdiction in which we conduct business and our patent portfolio will not protect all aspects of our business and may relate to obsolete or unusual methods, which would not prevent third parties from entering the same market.

We attempt to limit access to and distribution of our technology by customarily entering into confidentiality and/or license agreements with our employees, customers and potential customers and suppliers. Our rights in our confidential information, trade secrets, and confidential know-how will not prevent third parties from independently developing similar information. Publicly available information (e.g. information in expired issued patents, published patent applications, and scientific literature) can also be used by third parties to independently develop technology. We cannot provide assurance that this independently developed technology will not be equivalent or superior to our proprietary technology.

Our competitors may infringe upon, misappropriate, violate or challenge the validity or enforceability of our intellectual property and we may not be able to adequately protect or enforce our intellectual property rights in the future.

**Our businesses and our customers’ businesses are subject to environmental laws and regulations that may increase our costs, limit the demand for our products and services or restrict our operations.**

Our operations and the operations of our customers are also subject to federal, state, local and foreign laws and regulations relating to the protection of human health and the environment. These environmental laws and regulations affect the products and services we design, market and sell, as well as the facilities where we manufacture our products. For example, our operations are subject to numerous and complex laws and regulations that, among other things, may regulate the management and disposal of hazardous and non-hazardous wastes; require acquisition of environmental permits related to our operations; restrict the types, quantities and concentrations of various materials that can be released into the environment; limit or prohibit operation activities in certain ecologically sensitive and other protected areas; regulate specific health and safety criteria addressing worker protection; require compliance with operational and equipment standards; impose testing, reporting and record-keeping requirements; and require remedial measures to mitigate pollution from former and ongoing operations at our facilities or at facilities where wastes generated by our operations have been disposed. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties or other enforcement, and criminal prosecution. We are required to invest financial and managerial resources to comply with such environmental, health and safety laws and regulations and anticipate that we will continue to be required to do so in the future. In addition, environmental laws and regulations could limit our customers’ exploration and

production activities. These laws and regulations change frequently, which makes it impossible for us to predict their cost or impact on our future operations. For example, there has been a wide-ranging policy debate, both nationally and internationally, regarding the impact of greenhouse gases and possible means for their regulation. In addition, efforts have been made and continue to be made in the international community toward the adoption of international treaties or protocols that would address global climate change issues, such as the annual United Nations Climate Change Conferences. Following a finding by the EPA that certain greenhouse gases represent a danger to human health, the EPA has expanded its regulations relating to those emissions and has adopted rules imposing permitting and reporting obligations. The results of the permitting and reporting requirements could lead to further regulation of these greenhouse gases by the EPA. To date, there has been no significant legislative progress in cap and trade proposals or greenhouse gas emission reductions. The adoption of legislation or regulatory programs to reduce greenhouse gas emissions could also increase the cost of consuming, and thereby reduce demand for, the hydrocarbons that our customers produce. Consequently, such legislation or regulatory programs could have an adverse effect on our financial condition and results of operations. It is too early to determine whether, or in what form, further regulatory action regarding greenhouse gas emissions may ultimately be adopted or what specific impact a new regulatory action might have on us or our customers. Generally, the anticipated regulatory actions do not appear to affect us in any material respect that is different, or to any materially greater or lesser extent, than other companies that are our competitors. However, our business and prospects could be adversely affected to the extent laws are enacted or modified or other governmental action is taken that prohibits or restricts our customers' exploration and production activities or imposes environmental protection requirements that result in increased costs to us or our customers.

Environmental laws may provide for "strict liability" for damages to natural resources or threats to public health and safety, rendering a party liable for environmental damage without regard to negligence or fault on the part of such party. Some environmental laws and regulations provide for joint and several strict liability for remediation of spills and releases of hazardous substances. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, as well as damage to natural resources. These laws and regulations also may expose us to liability for the conduct of or conditions caused by others, or for our acts that were in compliance with all applicable laws and regulations at the time such acts were performed. Any of these laws and regulations could result in claims, fines or expenditures that could be material to results of operations, financial position and cash flows.

**Our failure to implement and comply with our safety program could adversely affect our operating results or financial condition.**

Our safety program is a fundamental element of our overall approach to risk management, and the implementation of the safety program is a significant issue in our dealings with our clients. Unsafe job sites and office environments have the potential to increase employee turnover, increase the cost of a project to our clients, expose us to types and levels of risk that are fundamentally unacceptable, and raise our operating costs. The implementation of our safety processes and procedures are monitored by various agencies and rating bureaus, and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. If we fail to comply with safety regulations or maintain an acceptable level of safety at our facilities we may incur fines, penalties or other liabilities, or may be held criminally liable. We may incur additional costs to upgrade equipment or conduct additional training, or otherwise incur costs in connection with compliance with safety regulations. Failure to maintain safe operations or achieve certain safety performance metrics could disqualify us from doing business with certain customers, particularly major oil companies.

**Our products are used in operations that are subject to potential hazards inherent in the oil and gas industry and, as a result, we are exposed to potential liabilities that may affect our financial condition and reputation.**

Our products are used in potentially hazardous drilling, completion and production applications in the oil and gas industry where an accident or a failure of a product can potentially have catastrophic consequences. Risks inherent to these applications, such as equipment malfunctions and failures, equipment misuse and defects, explosions, blowouts and uncontrollable flows of oil, natural gas or well fluids and natural disasters, on land or in deep water or shallow-water environments, can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, surface water and drinking water resources, equipment and the environment. In addition, we provide certain services that could cause, contribute to or be implicated in these events. If our products or services fail to meet specifications or are involved in accidents or failures, we could face warranty, contract or other litigation claims, which could expose us to substantial liability for personal injury, wrongful death, property damage, loss of oil and gas production, and pollution and other environmental damages. Our insurance policies may not be adequate to cover all liabilities. Further, insurance may not be generally available in the future or, if available, insurance premiums may make such insurance commercially unjustifiable. Moreover, even if we are successful in defending a claim, it could be time-consuming and costly to defend.

In addition, the frequency and severity of such incidents could affect operating costs, insurability and relationships with customers, employees and regulators. In particular, our customers may elect not to purchase our products or services if they view our safety record as unacceptable, which could cause us to lose customers and substantial revenue. In addition, these risks may be greater for us because we may acquire companies that have not allocated significant resources and management focus to quality, or safety requiring rehabilitative efforts during the integration process. We may incur liabilities for losses associated with these newly acquired companies before we are able to rehabilitate such companies' quality, safety and environmental programs.

**Our information systems may experience an interruption or breach in security.**

We rely on our proprietary production management technology which has changed how users connect to our knowledge and other information technology ("IT") systems to conduct our business. Despite our security and back-up measures, our IT systems are vulnerable to computer viruses, natural disasters and other disruptions or failures. The failure of our IT systems to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous adverse consequences, including reduced effectiveness and efficiency of our operations and those of our customers, inappropriate disclosure of confidential information, increased overhead costs, loss of intellectual property and damage to our reputation, which could have a material adverse effect on our business and results of operations. In addition, we may be required to incur significant costs to prevent or respond to damage caused by these disruptions or security breaches in the future.

**Cybersecurity breaches and other disruptions could compromise our information and operations, and expose us to liability, which would cause our business and reputation to suffer.**

In the ordinary course of our business, we collect and store sensitive data in our data centers and on our networks, including intellectual property, proprietary business information, information regarding our customers, suppliers and business partners, and personally identifiable information of our employees. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption of our operations, damage to our reputation, and loss of confidence in our services, which could adversely affect our business.

Our information technology infrastructure is critical to the efficient operation of our business and essential to our ability to perform day-to-day operations. Breaches in our information technology infrastructure or physical facilities, or other disruptions, could result in damage to our assets, safety incidents, damage to the environment, potential liability or the loss of contracts, and have a material adverse effect on our operations, financial position and results of operations.

**Possible new tariffs could have a material adverse effect on our business.**

The United States has recently announced the implementation of new tariffs on imported steel, and is also considering tariffs on additional items. There is a concern that the imposition of additional tariffs by the United States could result in the adoption of additional tariffs by other countries as well. Any resulting trade war could negatively impact the global market for oil field products and services and could have a significant adverse effect on our business. While it is too early to predict how the recently enacted tariffs on steel will impact our business, the imposition of tariffs on items we import from other countries could increase our costs and could result in lowering our gross margin on products sold.

## **Risks Relating to Our Common Stock**

**As a smaller reporting company, we are subject to scaled disclosure requirements that may make it more challenging for investors to analyze our results of operations and financial prospects.**

Currently, we are a “smaller reporting company,” meaning that our outstanding common stock held by non-affiliates had a market value of less than \$250 million as of June 30, 2018. As a “smaller reporting company,” we are able to provide simplified executive compensation disclosures in our filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in our SEC filings, including, being required to provide only two years of audited financial statements in annual reports. Consequently, it may be more challenging for investors to analyze our results of operations and financial prospects.

**We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.**

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years following the completion of our initial public offering in May 2014. We will cease to be an emerging growth company upon the earliest of: (a) the end of the fiscal year following the fifth anniversary of our initial public offering, (b) the first fiscal year after our annual gross revenue exceeds \$1.0 billion, (c) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities or (d) the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to adopt new or revised accounting standards at such times as applicable to other non-emerging grown public companies.

Furthermore, a material weakness in internal controls may remain undetected for a longer period because of our extended exemption from the auditor attestation requirements under Section 404(b) of Sarbanes-Oxley.

**As long as we are substantially controlled by the Meiers, the ability of our stockholders to influence the outcome of matters will be limited.**

The Meiers continue to own a substantial portion of our outstanding common stock and serve on our Board of Directors. As long as they have substantial voting control of our company, SDPI will have the ability to take many stockholder actions, including the election or removal of directors, irrespective of the vote of, and without prior notice to, any other stockholder. As a result, the Meiers will have the ability to influence or control all matters affecting us, including:

- the composition of our board of directors and, through our board of directors, decision-making with respect to our governance and business direction and policies, including the appointment and removal of our officers;
- any determinations with respect to acquisitions of businesses, mergers or other business combinations and change of control transactions;
- our acquisition or disposition of assets; and
- our capital structure.

**The market price of our common stock has been and may continue to be volatile.**

The trading price of our common stock and the price at which we may sell common stock in the future are subject to large fluctuations in response to any of the following:

- limited trading volume in our common stock;
- quarterly variations in operating results;
- general financial market conditions;
- the prices of natural gas and oil;
- announcements by us and our competitors;
- our liquidity;
- changes in government regulations;
- our ability to raise additional funds;
- our involvement in litigation; and
- other events.

**We do not anticipate paying dividends on our common stock in the near future.**

We have not paid any dividends in the past and do not intend to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain any earnings for the future operation and development of our business. In addition, under Utah law no distribution may be made if, after giving it effect: (a) we would be unable to pay our debts as they come due, or (b) our total assets would be less than our total liabilities. We can provide no assurance that those restrictions will not prevent us from paying a dividend in future periods.

**We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.**

Our articles of incorporation authorize us to issue, without the approval of our shareholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

**Certain provisions in our organizational documents could delay or prevent a change in control.**

The existence of some provisions in our organizational documents could delay or prevent a change in control of our company, even if that change would be beneficial to our shareholders. Our articles of incorporation and bylaws contain provisions that may make acquiring control of our company difficult, including:

- provisions regulating the ability of our shareholders to nominate directors for election or to bring matters for action at annual meetings of our shareholders;
- limitations on the ability of our shareholders to call a special meeting and act by written consent;
- the authorization given to our board of directors to issue and set the terms of preferred stock; and
- establishment of a classified board of directors.



**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable to smaller reporting companies

**ITEM 2. PROPERTIES**

The Company owns five buildings as part of its Vernal, Utah offices, which are used for manufacturing and executive offices. The Company’s management believes its current manufacturing and office facility is sufficient for its current operations. The Company leases a commercial property in Abilene, Texas. This lease term will expire in August 2021.

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to litigation that arises from time to time in the ordinary course of our business activities. In February 2019, the Company filed a patent infringement lawsuit in the United States District Court for the Western District of Louisiana Lafayette Division asserting Stabil Drill Specialties, LLC (“Stabil Drill”) infringed on our patent that covers the Company’s well bore conditioning tool, the Drill-N-Ream. Stabil Drill has not yet responded to the lawsuit. As of the date of this annual report, the lawsuit is in initial stages and, as we cannot predict the outcome of this matter, our legal costs could have a material effect on our financial position or results of operations in future periods. We are not currently involved in any other litigation which management believes could have a material effect on our financial position or results of operations.

**ITEM 4. MINE SAFETY DISCLOSURES**

**Not applicable**

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Approximate Number of Equity Security Holders

As of February 22, 2019 there were 2,551 stockholders of record and 2,551 beneficial owners of the Company's common stock.

The Company's common stock trades on the NYSE MKT market under the symbol "SDPI".

#### Dividends

The Company does not presently pay dividends on its common stock. The Company intends for the foreseeable future to continue the policy of not paying dividends and retaining earnings, if any, to finance the development and growth of its business.

#### Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	Equity Compensation Plan Information		
	Number of restricted shares and securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	1,229,016(1)	1.44	845,679(2)
Equity compensation plans not approved by security holders	-	-	-
<b>Total as of December 31, 2018</b>	<b>1,229,016</b>		<b>845,679</b>

(1) Consists of 1,229,016 shares under the 2015 Employee Stock Incentive Plan.

(2) Consists of 845,679 shares remaining available for future issuance under the 2015 Employee Stock Incentive Plan. The 2014 Employee Stock Incentive Plan was frozen by the Board of Directors such that no future grants of awards will be made and the 2014 Employee Stock Incentive Plan remains effective only with respect to awards outstanding as of June 15, 2015 until they expire according to their terms.

### ITEM 6. SELECTED FINANCIAL DATA

Not applicable

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

Superior Drilling Products, Inc. is an innovative drilling and completion tool technology company providing cost saving solutions that drive production efficiencies for the oil and natural gas drilling and completions industry. The Company innovates, designs, engineers, manufactures, sells, and repairs drilling and completion tools. Our drilling solutions include the patented Drill-N-Ream® well bore conditioning tool (“Drill-N-Ream tool”) and the patented Strider™ Drill String Oscillation System technology (“Strider technology” or “Strider”). In addition, the Company is a manufacturer and refurbisher of PDC (polycrystalline diamond compact) drill bits for a leading oil field services company. We operate a state-of-the-art drill tool fabrication facility, where we manufacture solutions for the drilling industry, as well as customers’ custom products.

Our strategy for growth is to leverage our expertise in drill tool technology and precision machining in order to broaden our product offerings and solutions for the oil and gas industry. We believe through our patented technologies, as well as technologies under development, that we can offer the industry the solutions it demands to improve drilling efficiencies and reduce production costs.

### **Industry Trends and Market Factors**

Our business is highly dependent upon the vibrancy of the oil and gas drilling operations primarily in the U.S. Oil and gas prices have historically been volatile. The total U.S. rig count for 2018 as reported by Baker Hughes based on a monthly average was 1,078 rigs, an increase relative to the 2017 monthly average of 930 rigs. Production of oil in the U.S. has increased to record levels of roughly 11.7 million barrels per day which makes the U.S. the number one oil producing country in the world. Oil production in the U.S. has grown at a faster rate than the increased rig count because of better rig technology and higher rates of productivity per rig. With the increase in market activity, we have seen an increase in demand for our product and services, while we have seen only a slight increase in pricing. As we expand into international markets, we will become more subject to changes in the industry in the countries in which we operate, such as Saudi Arabia, Kuwait and Oman. Worldwide military, political and economic events have contributed to oil and natural gas price volatility and are likely to continue to do so in the future.

Although the Company has seen demand for its oil and gas related products and services in the United States and Canada impacted by these industry conditions, we continue to aggressively market our drilling products. The oil and gas industry is increasingly using directional (e.g., horizontal) drilling in their exploration and production activities because of significantly improved recovery rates that can be achieved with these methods. With the rise of this type of drilling, traditional drill string tools used for vertical drilling do not necessarily provide the best performance or are not well suited for directional drilling. In addition, current and expected oil and natural gas prices combined with more technically challenging horizontal drilling has driven the demand for new technologies. We believe the value of our Drill-N-Ream tool has proven to provide significant operational efficiencies and costs savings for horizontal drilling activity and, combined with our low market penetration, provide us sales opportunities in soft as well as robust markets. Early results of our Strider technology has also delivered a similar outcome.

### **How We Generate our Revenue**

We are a drilling and completion tool technology company and we generate revenue from the refurbishment, manufacturing, repair, and sale of drill string tools. Our manufactured products are produced in a standard manufacturing operation, even when produced to our customer’s specifications. We also earn royalty fees under certain arrangements for the tools we sell. In May 2016, the Company entered into an agreement with DTI to be our exclusive distributor of the Drill-N-Ream tool in the United States and Canada. This agreement began the change of direction of our business from renting tools to selling tools.

#### ***Tool sales, rentals and other related revenue***

*Tool and Product Sales:* Revenue for tool and product sales is recognized upon shipment of tools or products to the customer. Shipping and handling costs related to tool and product sales are recorded gross as a component of both the sales price and cost of the product sold.

*Tool Rental:* Rental revenue is recognized upon completion of the customer’s job for which the tool was rented. While the duration of the rents vary by job and number of runs, these rents are generally less than one month. The rental agreements are typically based on the price per run or footage drilled and do not have any minimum rental payments or term.

*Other Related Revenue:* We receive revenue from the repair of tools upon delivery of the repaired tool to the customer. We earn royalty commission revenue when our customer invoices their customer for the use of our tools.

### **Contract Services**

*Drill Bit Manufacturing and Refurbishment:* Since 1996, we have refurbished PDC drill bits for Baker Hughes. We are currently operating under a four-year vendor agreement with Baker Hughes that was renewed in 2018 (the “Vendor Agreement”). We recognize revenue for our PDC drill bit services upon shipment of the drill bit. Shipping and handling costs related to refurbishing services are paid directly by Baker Hughes at the time of shipment. By contract, we can only refurbish and manufacture oil or gas drill bits for Baker Hughes, but we are not contractually prohibited from manufacturing drill bits for the mining industry.

### **Costs of Conducting Our Business**

The principal elements of cost of sales for manufacturing, repair, rental and sale of tools (“product”) are the direct and indirect costs to manufacture, repair and supply the product, including labor, materials, utilities, equipment repair, lease expense related to our facilities, supplies and freight.

Selling, general and administrative expense is comprised of costs such as new business development, technical product support, research and development costs, compensation expense for general corporate operations including accounting, human resources, risk management, etc., information technology expenses, safety and environmental expenses, legal and professional fees and other related administrative functions.

Other income (expense), net is comprised primarily of interest expense associated with outstanding borrowings net of interest income or gains (losses) of disposed assets.

## **RESULTS OF OPERATIONS**

The following table represents our condensed consolidated statement of operations for the periods indicated:

<b>(in thousands)</b>	<b>For the Years Ended December 31,</b>			
	<b>2018</b>		<b>2017</b>	
Revenue	\$ 18,245	100%	\$ 15,595	100%
Operating costs and expenses	17,945	99%	15,371	98%
Income (Loss) from continuing operations	300	1%	224	2%
Other expense	(355)	(2)%	(503)	(3)%
Income tax expense	(3)	(0)%	-	
Net loss	(58)	0%	\$ (279)	(2)%

Material changes of certain items in our statements of operations included in our financial statements for the comparative periods are discussed below.

### *Revenue*

Our revenue increased approximately \$2,650,000, during the year ended December 31, 2018 compared with the same period in 2017. Tool revenue for 2018 increased \$2,545,000 to \$13,142,000 from \$10,597,000 during 2017. Tool revenue for 2018 grew as a result of an increase in other related revenue, which includes royalty fees and repair of tools, which was driven by our distributor’s increase in market share, a larger deployed fleet of tools and the increase in the U.S. drilling activity from 2017 to 2018. This increase was partially offset by a slight decline in tool rental and sales revenue.

Tool revenue in 2018 was comprised of approximately \$6,580,000 of tool sales and rental revenue and approximately \$6,562,000 of other related revenue. Tool revenue for 2017 was approximately \$10,597,000 and was comprised of approximately \$6,691,000 of tool rental and sales revenue and approximately \$3,906,000 of other related revenue.

Contract services revenue was approximately \$5,104,000 for the year ended December 31, 2018 compared with approximately \$4,998,000 for the year ended December 31, 2017. The increase in contract services revenue was due to an increase in drill bit refurbishment activity.

### *Operating Costs and Expenses*

Total operating costs and expenses increased approximately \$2,574,000 during the year ended December 31, 2018 compared with the same period in 2017.

- Cost of revenue increased approximately \$1,117,000 for the year ended December 31, 2018 in comparison with the same period in 2017, primarily due to our Abilene, Texas service center expense and our impairment charge associated with our raw material inventory. As a percentage of revenue, cost of sales was 38% for both 2018 and 2017.
- Selling, general and administrative expenses increased approximately \$1,373,000 for the year ended December 31, 2018 compared with the same period in 2017. The increase was primarily due to an increase in research and development costs, costs associated with our international market development, and higher salaries.

### *Other Income (Expenses)*

Other income and expense primarily consists of rent income, interest income, interest expense and gain on disposition of assets.

- Interest Income. For the year ended December 31, 2018 and 2017, interest income was approximately \$432,000 and \$347,000, respectively. The increase was mainly due to interest received from the Tronco related party note receivable as the interest rate on the note is tied to the prime lending rate.
- Interest Expense. Interest expense for the year ended December 31, 2018 and 2017 was approximately \$774,000 and \$906,000, respectively. Lower interest expense was due primarily to the reduction in the balance outstanding on the Hard Rock Note.

### **Liquidity and Capital Resources**

At December 31, 2018, we had working capital of approximately \$1,700,000. Our principal uses of cash are operating expenses, working capital requirements, capital expenditures and debt service payments. Our operational and financial strategies include lowering our operating costs and capital spending to match revenue trends, managing our working capital and debt to enhance liquidity.

Our operational and financial strategies include managing our operating costs, working capital and debt to enhance liquidity. We will continue to work to grow revenue and review additional cost containment measures and be cash flow positive in 2019. If we are unable to do this, we may not be able to, among other things, (i) maintain our current general and administrative spending levels; (ii) fund certain obligations as they become due; and (iii) respond to competitive pressures or unanticipated capital requirements. We cannot provide any assurance that financing will be available to us in the future on acceptable terms.

As amended and restated effective November 21, 2018, the remaining \$6.0 million Hard Rock Note accrues interest at 7.25% per annum and matures and is fully payable on October 5, 2020. Under the current terms of Hard Rock Note, we are required to pay principal payments of \$750,000 (plus accrued interest) on each January 5, April 5, July 5 and October 5 in 2019 and 2020. We made all the required principal and accrued interest payments related to the note for 2018, as well as the January 5, 2019 payment.

Subsequent to the end of 2018, we entered into a \$4.3 million lending agreement comprised of a \$0.8 million term loan and a \$3.5 million asset-backed revolving credit facility.

## Contractual Obligations

The following table presents our contractual obligations as of December 31, 2018. Our obligations to make payments in the future may vary due to certain assumptions including the duration of our obligations and anticipated actions by third parties according to the following table (in thousands):

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
Debt (1)	\$ 5,143	\$ 3,827	\$ 2,638	\$ 63	\$ 42	\$ 102	\$11,815
Operating Leases	130	77	-	-	-	-	207
Total	<u>\$ 5,273</u>	<u>\$ 3,904</u>	<u>\$ 2,638</u>	<u>\$ 63</u>	<u>\$ 42</u>	<u>\$ 102</u>	<u>\$12,022</u>

(1) Amounts represent the expected cash payments of principal and interest amounts associated with our long-term debt obligations.

The aggregate outstanding balance of our notes payable obligations net of discounts as of December 31, 2018, was approximately \$10.9 million with interest rates ranging from 0% to 8.4%.

## Cash Flow

### *Operating Cash Flows*

For the year ended December 31, 2018, net cash provided by our operating activities was approximately \$4,630,000. The Company had approximately \$58,000 of net loss, an approximately \$394,000 decrease in accounts receivable, approximately \$519,000 of stock-based compensation expense, and depreciation and amortization expense of approximately \$3,760,000.

### *Investing Cash Flows*

For the year ended December 31, 2018, the Company used approximately \$745,000 in investing activities for property, plant and equipment purchases.

### *Financing Cash Flows*

For the year ended December 31, 2018, net cash used in our financing activities was approximately \$2,000,000 and related to principal payments on debt.

## Off Balance Sheet Arrangements

None

## Critical Accounting Policies

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions, including those discussed below. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. While we believe that the estimates and assumptions used in the preparation of our consolidated financial statements are appropriate, actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements. Our estimates and assumptions are evaluated periodically and adjusted when necessary. Described below are the most significant policies we apply in preparing our consolidated financial statements, some of which are subject to alternative treatment under GAAP. We also describe the most significant estimates and assumptions we make in applying these policies. See Note 1 to our consolidated financial statements.

Segment reporting is not applicable to us as we have a single, company-wide management team that administers the Company as a whole, rather than by discrete business units. While we have three business product lines and report the revenues by product line internally and externally, we do not capture expenses by product line and as such, we do not maintain complete separate financial statement information by product line. We evaluate our business performance as a single segment and we report as a single segment. We operate in the United States and the Middle East. Our operations in the Middle East represented less than 10% of our consolidated operations for all periods presented in these consolidated financial statements.

### ***Revenue Recognition***

We are a drilling and completion tool technology company and we generate revenue from the manufacturing, repair, rental and sale of drilling and completion tools. Our manufactured products are produced in a standard manufacturing operation, even when produced to our customer's specifications. We earn royalty commission revenue when our customer invoices their customer for the use of the tools.

### ***Stock-Based Compensation***

Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized ratably as an expense over the vesting period of the award. Determining the appropriate fair value model and calculating the fair value of stock-based payment awards require the use of subjective assumptions, including the expected life of the stock-based payment awards and stock price volatility. Management uses the Black-Scholes option pricing model to value award grants and determine the related compensation expense. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and management uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. The Company expects to continue to grant stock-based awards in the future, and to the extent that the Company does, its actual stock-based compensation expense recognized in future periods will likely increase.

### ***Concentration of Credit Risk***

Substantially all of our revenue is derived from our refurbishing of PDC drill bits for Baker Hughes and from the sale of our Drill-N-Ream tool to DTI.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable are generally due within 60 days of the invoice date. No interest is charged on past-due balances. We grant credit to our customers based upon an evaluation of each customer's financial condition. We periodically monitor the payment history and ongoing creditworthiness of our customers. An allowance for doubtful accounts is established at a level estimated by management to be adequate based upon various factors including historical experience, aging status of customer accounts, payment history and financial condition of our customers. The allowance for doubtful accounts was \$9,288 and \$18,450 at December 31, 2018 and 2017, respectively.

### ***Intangible Assets***

Annually, and more often as necessary, we will perform an evaluation of our intangible assets for indications of impairment. If indications exist, we will perform an evaluation of the fair value of the intangible assets and, if necessary, record an impairment charge. As of December 31, 2018, the Company performed an evaluation of the intangible assets. Based on this assessment, we have determined no impairment was needed.

### ***Valuation of Inventories***

Inventories consist of raw materials, work-in-process and finished goods and are stated at the lower of cost, determined using the weighted-average cost method, or net realizable value. Finished goods inventories include raw materials, direct labor and production overhead. The Company regularly reviews inventories on hand and current market conditions to determine if the cost of finished goods inventories exceed current market prices and impairs the cost basis of the inventory accordingly. The Company recorded an impairment loss in the cost of sales of \$116,396 during the year ended December 31, 2018 relating to slow moving inventory and steel inventory sold to a third-party wholesaler for no gain or loss.

## ***Property, Plant and Equipment***

Property, plant and equipment is stated at cost. The cost of ordinary maintenance and repair is charged to operating expense, while replacement of critical components and major improvements are capitalized. Depreciation or amortization of property, plant and equipment, is calculated using the straight-line method over the asset's estimated useful life as follows:

Buildings and leasehold improvements	2-39 years
Machinery, equipment and rental tools	18 months -10 years
Office equipment, fixtures and software	3-7 years
Transportation equipment	5 - 30 years

Property, plant and equipment is reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of an asset or asset group may not be recoverable. Indicative events or circumstances include, but are not limited to, matters such as a significant decline in market value or a significant change in business climate. An impairment loss is recognized when the carrying value of an asset exceeds the estimated undiscounted future cash flows from the use of the asset and its eventual disposition. The amount of impairment loss recognized is the excess of the asset's carrying value over its fair value. Assets to be disposed of are reported at the lower of the carrying value or the fair value less cost to sell. There were no impairment losses related to fixed assets during the years ended December 31, 2018 and 2017. Upon sale or other disposition of an asset, the Company recognizes a gain or loss on disposal measured as the difference between the net carrying value of the asset and the net proceeds received.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We do not maintain any derivative instruments such as interest rate swap arrangements, hedging contracts, futures contracts or the like.

*Concentration of Credit Risk* — We are dependent on just a few main customers. The Company had two significant customers that represented 95% of our revenue for the year ended December 31, 2018. These customers had approximately \$1,863,000 in accounts receivable at December 31, 2018. We had two significant customers that represented 97% of our revenue for the year ended December 31, 2017, and had approximately \$2,523,000 in accounts receivable at December 31, 2017.

We are continuing to develop new products and tools which we believe will broaden our customer base, which should have a positive effect on diversifying our concentration of credit risk.

The Company had one vendor that represented 11% of our purchases for the year ended December 31, 2018. This vendor had approximately \$158,000 in accounts payable at December 31, 2018. We had one significant vendor that represented 17% of our purchases for the year ended December 31, 2017, and had approximately \$151,000 in accounts payable at December 31, 2017.



**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS**

**SUPERIOR DRILLING PRODUCTS, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of  
Superior Drilling Products, Inc.

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of Superior Drilling Products, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, shareholders’ equity and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ Moss Adams LLP*

Dallas, Texas  
March 13, 2019

We have served as the Company’s auditor since 2017.

**SUPERIOR DRILLING PRODUCTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 4,264,767	\$ 2,375,179
Accounts receivable, net	2,273,189	2,667,042
Prepaid expenses	133,607	111,530
Inventories	1,003,623	1,196,813
<b>Total current assets</b>	<b>7,675,186</b>	<b>6,350,564</b>
Property, plant and equipment, net	8,226,009	8,809,348
Intangible assets, net	3,686,111	6,132,778
Related party Note receivable	7,367,212	7,367,212
Other noncurrent assets	51,887	15,954
<b>Total assets</b>	<b>\$ 27,006,405</b>	<b>\$ 28,675,856</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 721,361	\$ 1,021,469
Accrued expenses	631,860	543,758
Current portion of long-term debt, net of discounts	4,578,759	6,101,678
<b>Total current liabilities</b>	<b>5,931,980</b>	<b>7,666,905</b>
Long-term debt, less current portion, net of discounts	6,296,994	6,706,375
<b>Total liabilities</b>	<b>12,228,974</b>	<b>14,373,280</b>
<b>Commitments and contingencies (Notes 6 and 7)</b>		
<b>Shareholders' equity</b>		
Common stock - \$0.001 par value; 100,000,000 shares authorized; 25,018,098 and 24,535,334 shares outstanding, respectively	25,018	24,535
Additional paid-in-capital	39,440,611	38,907,864
Accumulated deficit	(24,688,198)	(24,629,823)
<b>Total shareholders' equity</b>	<b>14,777,431</b>	<b>14,302,576</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 27,006,405</b>	<b>\$ 28,675,856</b>

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

**SUPERIOR DRILLING PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Revenue</b>	\$ 18,245,212	\$ 15,595,659
<b>Operating cost and expenses</b>		
Cost of revenue	7,077,344	5,960,223
Selling, general, and administrative expenses	7,107,432	5,734,315
Depreciation and amortization expense	3,760,231	3,676,598
<b>Total operating costs and expenses</b>	<u>17,945,007</u>	<u>15,371,136</u>
<b>Operating income</b>	<u>300,205</u>	<u>224,523</u>
<b>Other income (expense)</b>		
Interest income	432,753	346,926
Interest expense	(773,680)	(905,990)
Other income	-	43,669
Gain (loss) on disposition of assets	(14,013)	12,167
<b>Total other expense</b>	<u>(354,940)</u>	<u>(503,228)</u>
<b>Loss before income taxes</b>	<u>(54,735)</u>	<u>(278,705)</u>
Income tax expense	(3,640)	-
<b>Net loss</b>	<u>(58,375)</u>	<u>\$ (278,705)</u>
<b>Basic loss per common share</b>	<u>(0.00)</u>	<u>\$ (0.01)</u>
<b>Basic weighted average common shares outstanding</b>	<u>24,608,967</u>	<u>24,268,409</u>
<b>Diluted loss per common share</b>	<u>(0.00)</u>	<u>\$ (0.01)</u>
<b>Diluted weighted average Common shares outstanding</b>	<u>24,608,967</u>	<u>24,268,409</u>

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

**SUPERIOR DRILLING PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders Equity</u>
	<u>Shares</u>	<u>Par Value</u>			
<b>Balance - December 31, 2016</b>	<u>24,120,695</u>	<u>\$ 24,120</u>	<u>\$ 38,295,428</u>	<u>\$ (24,351,118)</u>	<u>\$ 13,968,430</u>
Share-based compensation expense	414,639	415	612,436	-	612,851
Net loss	-	-	-	(278,705)	(278,705)
<b>Balance - December 31, 2017</b>	<u>24,535,334</u>	<u>\$ 24,535</u>	<u>\$ 38,907,864</u>	<u>\$ (24,629,823)</u>	<u>\$ 14,302,576</u>
Stock-based compensation expense	482,764	483	518,473	-	518,956
Stock issued in stock option exercise	-	-	14,274	-	14,274
Net loss	-	-	-	(58,375)	(58,375)
<b>Balance - December 31, 2018</b>	<u>25,018,098</u>	<u>\$ 25,018</u>	<u>\$ 39,440,611</u>	<u>\$ (24,688,198)</u>	<u>\$ 14,777,431</u>

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

**SUPERIOR DRILLING PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (58,375)	\$ (278,705)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	3,760,231	3,676,598
Amortization of debt discount	77,641	79,424
Share based compensation expense	518,956	612,851
Impairment of inventories	116,396	-
Loss (gain) on disposition of assets	14,013	(12,167)
Changes in operating assets and liabilities:		
Accounts receivable	393,853	(1,628,378)
Inventories	77,760	(29,121)
Prepaid expenses and other current assets	(58,010)	(21,757)
Accounts payable and accrued expenses	(212,006)	13,990
Other long-term liabilities	-	(53,355)
<b>Net Cash Provided by (Used In) Operating Activities</b>	<u>4,630,459</u>	<u>2,359,380</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property, plant and equipment	(745,204)	(936,118)
Proceeds from sale of fixed assets	-	2,483,921
<b>Net Cash Provided by Investing Activities</b>	<u>(745,204)</u>	<u>1,547,803</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on debt	(2,009,941)	(3,482,311)
Principal payments on capital lease obligations	-	(217,302)
Principal payments on related party debt	-	(74,293)
Proceeds from exercised stock options	14,274	-
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>(1,995,667)</u>	<u>(3,773,906)</u>
<b>Net Increase in Cash</b>	1,889,588	133,277
<b>Cash at Beginning of Period</b>	<u>2,375,179</u>	<u>2,241,902</u>
<b>Cash at End of Period</b>	<u>4,264,767</u>	<u>\$ 2,375,179</u>
<b>Supplemental information:</b>		
Cash paid for Interest	\$ 577,814	\$ 851,671
Non-cash payment of other long-term liabilities and interest by offsetting related-party note receivable	\$ 377,746	\$ 1,267,711
Acquisition of equipment by issuance of note payable	\$ -	\$ 16,557

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

**SUPERIOR DRILLING PRODUCTS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Operations**

Superior Drilling Products, Inc. (the “Company”, “SDPI”, “we”, “our” or “us”) is an innovative drilling and completion tool technology company providing cost saving solutions that drive production efficiencies for the oil and natural gas drilling industry. The Company innovates, designs, engineers, manufactures, sells, rents and repairs drilling and completion tools.

Our subsidiaries include (a) Superior Drilling Solutions, LLC (previously known as Superior Drilling Products, LLC), a Utah limited liability company (“SDS”), together with its wholly owned subsidiary Superior Design and Fabrication, LLC, a Utah limited liability company (“SDF”), (b) Extreme Technologies, LLC, a Utah limited liability company (“ET”), (c) Meier Properties Series, LLC, a Utah limited liability company (“MPS”), (d) Meier Leasing, LLC, a Utah limited liability company (“ML”), and (e) Hard Rock Solutions, LLC (“HR” or “Hard Rock”).

**Basis of Presentation**

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of Superior Drilling Products Inc. and all of its wholly-owned subsidiaries. All significant intercompany accounts have been eliminated in consolidation. The Company does not have investments in any unconsolidated subsidiaries.

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for implementing new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to nonissuers. We have elected to delay such adoption of new or revised accounting standards, and as a result, we may not implement new or revised accounting standards on the relevant dates on which adoption of such standards is required for other issuer companies.

Subject to certain conditions set forth in the JOBS Act, as an emerging growth company, we intend to rely on certain of these exemptions, including without limitation, providing an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404 and implementing any requirement that may be adopted regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (auditor discussion and analysis). We will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds \$700.0 million as of June of that year, (ii) the end of the fiscal year in which we have total annual gross revenues of \$1.07 billion or more during such fiscal year, (iii) the date on which we issue more than \$1.0 billion in non-convertible debt in a three-year period or (iv) January 1, 2020.

**Segment Reporting**

We operate as a single operating segment, which reflects how we manage our business. We operate in the United States and the Middle East. Our operations in the Middle East represented less than 10% of our consolidated operations for all periods presented in these consolidated financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant items subject to estimates and assumptions include the carrying amount and useful lives of property and equipment and intangible assets, impairment assessments, share-based compensation expense, and valuation allowances for accounts receivable, inventories, and deferred tax assets.

## **Revenue Recognition**

We are a drilling and completion tool technology company and we generate revenue from the manufacturing, repair, rental and sale of drilling and completion tools. Our manufactured products are produced in a standard manufacturing operation, even when produced to our customer's specifications. We also earn royalty fees under certain arrangements for the tools we sell.

### ***Tool sales, rentals and other related revenue***

*Tool and Product Sales:* Revenue for tool and product sales is recognized upon shipment of tools or products to the customer. Shipping and handling costs related to tool and product sales are recorded gross as a component of both the sales price and cost of the product sold.

*Tool Rental:* Rental revenue is recognized upon completion of the customer's job for which the tool was rented. While the duration of the rents vary by job and number of runs, these rents are generally less than one month. The rental agreements are typically based on the price per run or footage drilled and do not have any minimum rental payments or term.

*Other Related Revenue:* We receive revenue from the repair of tools upon delivery of the repaired tool to the customer. We earn royalty commission revenue when our customer invoices their customer for the use of our tools.

### ***Contract Services***

*Drill Bit Manufacturing and Refurbishment:* Since 1996, we have refurbished PDC drill bits for Baker Hughes. We are currently operating under a four-year vendor agreement with Baker Hughes that was renewed in 2018 (the "Vendor Agreement"). We recognize revenue for our PDC drill bit services upon shipment of the drill bit. Shipping and handling costs related to refurbishing services are paid directly by Baker Hughes at the time of shipment. By contract, we can only refurbish and manufacture oil or gas drill bits for Baker Hughes, but we are not contractually prohibited from manufacturing drill bits for the mining industry.

## **Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit. We maintain cash deposits with financial institutions that may exceed federally insured limits at times. We have chosen credible institutions and believe our risk of loss is negligible.

## **Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, receivables, payables, and bank debt. The Company believes that the carrying values of these instruments on the accompanying consolidated balance sheets approximate their fair values.

## **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are generally due within 60 days of the invoice date. No interest is charged on past-due balances. We grant credit to our customers based upon an evaluation of each customer's financial condition. We periodically monitor the payment history and ongoing creditworthiness of our customers. An allowance for doubtful accounts is established at a level estimated by management to be adequate based upon various factors including historical experience, aging status of customer accounts, payment history and financial condition of our customers. The allowance for doubtful accounts was \$9,288 and \$18,450 as of December 31, 2018, and 2017, respectively.

## **Inventories**

Inventories consist of raw materials, work-in-process and finished goods and are stated at the lower of cost, determined using the weighted-average cost method, or net realizable value. Finished goods inventories include raw materials, direct labor and production overhead. The Company regularly reviews inventories on hand and current market conditions to determine if the cost of finished goods inventories exceed current market prices and impairs the cost basis of the inventory accordingly.



## Property, Plant and Equipment

Property, plant and equipment is stated at cost. The cost of ordinary maintenance and repair is charged to operating expense, while replacement of critical components and major improvements are capitalized. Depreciation or amortization of property and equipment, is calculated using the straight-line method over the asset's estimated useful life as follows:

Buildings and leasehold Improvements	2-39 years
Machinery, equipment and rental tools	18 months -10 years
Office equipment, fixtures and software	3-7 years
Transportation equipment	5 - 30 years

Property, plant and equipment is reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of an asset or asset group may not be recoverable. Indicative events or circumstances include, but are not limited to, matters such as a significant decline in market value or a significant change in business climate. An impairment loss is recognized when the carrying value of an asset exceeds the estimated undiscounted future cash flows from the use of the asset and its eventual disposition. The amount of impairment loss recognized is the excess of the asset's carrying value over its fair value. Assets to be disposed of are reported at the lower of the carrying value or the fair value less cost to sell. Upon sale or other disposition of an asset, the Company recognizes a gain or loss on disposal measured as the difference between the net carrying value of the asset and the net proceeds received.

## Impairment of Long-Lived Assets

We review the recoverability of long-lived assets, such as property and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and the carrying value. We concluded there were no indicators evident or other circumstances present that these assets were not recoverable and accordingly, no impairment charges of long-lived assets were recognized for 2018 and 2017.

## Intangible Assets

The Company's intangible assets with finite lives consist of developed technology, customer contracts and relationships, and trade names and trademarks.

The cost of intangible assets with finite lives is amortized using the straight-line method over the estimated period of economic benefit, ranging from 3 to 17 years. Asset lives are adjusted whenever there is a change in the estimated period of economic benefit. No residual value has been assigned to these intangible assets.

Intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. These conditions may include a change in the extent or manner in which the asset is being used or a change in future operations. The Company assesses the recoverability of the carrying amount by preparing estimates of future revenue, margins, and cash flows. If the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, an impairment loss is recognized. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. Fair value of these assets may be determined by a variety of methodologies, including discounted cash flow models.

## Research and Development

We expense research and development costs as they are incurred. For the years ended December 31, 2018 and 2017, these expenses were approximately \$1,265,000 and \$746,000, respectively, and are included in the selling, general, and administrative expenses in the statement of operations.

## **Earnings (Loss) Per Share**

Basic earnings (loss) per common share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding, including potentially dilutive common share equivalents, if the effect is dilutive. Potentially dilutive common shares equivalents include stock options and warrants. Approximately 30,502 options to purchase our common stock were excluded from this calculation because they were antidilutive for the year ended December 31, 2018.

## **Income Taxes**

The Company recognizes an asset or liability for the deferred tax consequences of all temporary differences between the tax basis of assets or liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the asset or liabilities are recovered or settled and for operating loss carry forwards. These deferred tax assets and liabilities are measured using the enacted tax rates that will be in effect when the differences are expected to reverse and the carry forwards are expected to be realized. Deferred tax assets are reviewed periodically for recoverability and a valuation allowance is provided as necessary.

## **Debt Issuance Costs**

Costs related to debt issuance are capitalized and amortized as interest expense over the term of the related debt using the straight-line method, which approximates the effective interest method. Upon the repayment of debt, the Company accelerates the recognition of an appropriate amount of the costs as interest expense. Debt issuance costs related to the Hard Rock Note are presented as a direct reduction from the carrying amount of the note payable. As of December 31, 2018 and 2017, the amortized debt issuance costs were \$77,641 and \$79,424, respectively.

## **Share Based Compensation**

Share based compensation expense for share based payments, related to stock option and restricted stock awards, is recognized based on their grant-date fair values. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award.

## **Concentrations and Credit Risk**

The Company has two significant customers that represented 95% and 97% of our revenue for the years ended December 31, 2018 and 2017, respectively. These customers had approximately \$1,863,000 and \$2,523,000 in accounts receivable at December 31, 2018 and 2017, respectively.

The Company had one vendor that represented 11% of our purchases for the year ended December 31, 2018. This vendor had approximately \$158,000 in accounts payable at December 31, 2018. We had one significant vendor that represented 17% of our purchases for the year ended December 31, 2017, and had approximately \$151,000 in accounts payable at December 31, 2017.

## **Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board (the "FASB") issued an accounting standards update for "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in "Topic 605, Revenue Recognition." This accounting standard update provides new guidance concerning recognition and measurement of revenue and requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. We adopted this pronouncement on January 1, 2019 using the full retrospective method. Our evaluation efforts to determine the impact of this standard on our consolidated financial statements included identifying revenue streams with similar contract structures, performing a detailed review of key contracts by revenue stream, and comparing and analyzing historical policies and practices to the new standard. Based on our assessment performed, we have determined that our revenue recognition methodology does not materially change and the adoption of this pronouncement will not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which introduces the recognition of lease assets and lease liabilities by lessees for all leases which are not short-term in nature. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosure and will adopt this standard on January 1, 2020.

## NOTE 2. INVENTORIES

Inventories were comprised of the following:

	December 31, 2018	December 31, 2017
Raw material	\$ 738,330	\$ 1,040,795
Work in progress	217,158	77,702
Finished goods	48,135	78,316
	<u>\$ 1,003,623</u>	<u>\$ 1,196,813</u>

The Company recorded an impairment loss in the cost of sales of \$116,396 during the year ended December 31, 2018 relating to slow moving inventory and steel inventory sold to a third-party wholesaler for no gain or loss.

There were no impairment losses recorded by the Company during the year ended December 31, 2017.

## NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following:

	December 31, 2018	December 31, 2017
Land	\$ 880,416	\$ 880,416
Buildings	4,847,778	4,847,778
Leasehold improvements	755,039	717,232
Machinery and equipment	8,816,880	8,216,237
Office equipment, fixtures and software	518,806	507,557
Transportation assets	811,378	811,378
	<u>16,630,297</u>	<u>15,980,598</u>
Accumulated depreciation	(8,404,288)	(7,171,250)
	<u>\$ 8,226,009</u>	<u>\$ 8,809,348</u>

Depreciation expense related to property, plant and equipment for the year ended December 31, 2018 and 2017 was \$1,313,564 and \$1,229,932 respectively.

## NOTE 4. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	December 31, 2018	December 31, 2017
Developed technology	\$ 7,000,000	\$ 7,000,000
Customer contracts	6,400,000	6,400,000
Trademarks	1,500,000	1,500,000
	<u>14,900,000</u>	<u>14,900,000</u>
Accumulated amortization	(11,213,889)	(8,767,222)
	<u>\$ 3,686,111</u>	<u>\$ 6,132,778</u>

Amortization expense related to intangible assets for the years ended December 31, 2018 and 2017 was \$2,446,667 and \$2,446,666, respectively.

These intangible assets will be amortized over their expected useful lives using the straight-line method, which is a weighted-average amortization period of 6.3 years. As of December 31, 2018, the Company will recognize the following amortization expense for the respective periods ending December 31 noted below:

2019	1,700,000
2020	1,166,667
2021	583,334
2022	166,667
2023	69,443
Total	<u>\$ 3,686,111</u>

During the years ended December 31, 2018 and 2017, there were no impairments recognized related to other intangible assets.

#### **NOTE 5. RELATED PARTY NOTE RECEIVABLE**

In January 2014, we entered into a Note Purchase and Sale Agreement under which we agreed to purchase a loan made to Tronco Energy Corporation (“Tronco”), a party related to us through common control, in order to take over the legal position as Tronco’s senior secured lender. That agreement provided that, upon our full repayment of the Tronco loan from the proceeds of the Offering, the lender would assign to us all of its rights under the Tronco loan, including all of the collateral documents. On May 30, 2014, we closed our purchase of the Tronco loan for a total payoff of \$8.3 million, including principal, interest, and early termination fees. As a result of that purchase, we became Tronco’s senior secured lender, and as a result are entitled to receive all proceeds from sales of the Tronco-owned collateral, as discussed below.

The interest rate on the note is 5.5%. We earned interest of \$377,746 and \$338,204 in the years ending December 31, 2018 and 2017, respectively.

On December 18, 2018, the Board of Directors approved a bonus to Troy and Annette Meier with an approximate value of \$587,500. The Board and the Meiers decided a portion of the dollar value of such awards would be used to pay the annual interest on the Tronco Note of \$211,741 and \$190,045 remitted for taxes on the Meiers behalf. The remainder of \$185,714 was given to the Meiers in the form of restricted stock units. See Note 10 – Share-Based Compensation.

On March 28, 2017, Tronco finalized an agreement with a third party and pursuant to this agreement, the third party acquired all of the Ohio assets of Tronco for \$550,000. As Tronco’s senior secured lender, we agreed to release our lien and security interest on these assets in accordance with the agreement. The Company agreed to a non-cash receipt of the \$550,000 from Tronco by reducing our bonus accrual liabilities, which was earned by the Meiers in 2014, but not paid, and was recorded in other long-term liability. As a result of this agreement, we reduced both the other long-term liability and the Tronco related party note receivable during the first quarter of 2017.

On August 8, 2017, the Board of Directors agreed to extend the terms of the Tronco loan to interest only payments due December 31, 2017, 2018, 2019, 2020, and 2021, with a balloon payment of all unpaid interest and principal due upon full maturity on December 31, 2022.

On December 4, 2017, as part of the annual awards made to employees of the Company, the Board of Directors approved grants of restricted stock units to Troy and Annette Meier with an approximate value of \$587,500. The Board and the Meiers decided in lieu of making such awards, the dollar value of such awards would be used to pay the annual interest on the Tronco note of \$34,992, and the principal on the Tronco note of \$379,507 in 2017. The remainder of approximately \$173,000 were remitted for taxes on the Meiers behalf. See Note 10 – Share-Based Compensation.

We have the direct legal right to enforce the collateral and guaranty agreements entered into in connection with the Tronco loan and to collect Tronco’s collateral sales proceeds, in order to recover the loan purchase amount. The Tronco loan continues to be secured by the guarantees of Troy and Annette Meier (the “Meier Guaranties”), which are directly payable to and legally enforceable by us. In addition, the Meiers have provided us with stock pledges in which they pledge a portion of their shares of our common stock held by their family entities (the “Meier Stock Pledge”), as collateral for the Meiers guaranties until full repayment of Tronco loan. The pledged shares, which are subject to insider timing requirements and volume limitations under Rule 144 of the Securities Act and required periodic black-out periods, are being held in third-party escrow by the Company’s attorneys until full repayment of the Tronco loan, the balance of which is \$7,367,212. The Company holds 8,267,860 shares as collateral for the Tronco note as of December 31, 2018. The Company believes the market value of the 8,267,860 shares is sufficient collateral for the note.

## NOTE 6. LONG-TERM DEBT

Long-term debt is comprised of the following:

	December 31, 2018	December 31, 2017
Real estate loans	\$ 4,255,152	\$ 4,518,424
Hard Rock Note, net of discount	6,000,000	7,422,912
Machinery loans	327,879	513,317
Transportation loans	292,722	353,400
	<u>10,875,753</u>	<u>12,808,053</u>
Current portion of long-term debt	(4,578,759)	(6,101,678)
	<u>\$ 6,296,994</u>	<u>\$ 6,706,375</u>

### Real Estate Loans

On February 1, 2019, we signed a loan agreement for \$3,129,861 related to our commercial bank loan for our Vernal, Utah Campus. We paid \$1,000,000 towards the previous loan that was scheduled to mature on February 15, 2019, upon refinancing. The loan requires monthly payments of approximately \$43,000, including principal and interest at 7.25%, and is secured by the land and buildings at our Vernal, Utah Campus. A balloon payment of \$2,500,000 is due upon maturity on February 15, 2021.

### Hard Rock Note

In 2014, the Company purchased all of the interests of Hard Rock. Consideration consisted of \$12.5 million paid in cash at closing and a \$12.5 million seller's note (the "Hard Rock Note"). The Hard Rock Note and subsequent amendments are secured by the patents, patents pending, other patent rights, and trademarks transferred to Hard Rock by Hard Rock in the closing of the acquisition. At issuance, the fair value of the Hard Rock Note was determined to be \$11,144,000, which was less than the face value due to a below-market interest rate. The resulting discount of \$1,356,000 is amortized to interest expense using the effective interest method, totaling approximately \$78,000 and \$76,000 during 2018 and 2017, respectively.

On November 21, 2018, certain of our subsidiaries entered into an amended and restated note with the seller in our acquisition of Hard Rock Solutions, LLC. As amended and restated, the Hard Rock Note accrues interest at 7.25% per annum and matures on October 5, 2020. We made all the required principal and accrued interest payments related to the note for 2018. Under the current terms of Hard Rock Note, we are required to pay principal payments of \$750,000 (plus accrued interest) on each January 5, April 5, July 5 and October 5 in 2019 and 2020. On January 10, 2019, the Company made a principal payment of \$750,000 and an interest payment of \$183,411.

### Transportation Loans

#### *Vehicles*

Our loans for Company vehicles and other transportation are with various financing parties we have engaged with in connection with the acquisition of the vehicles. As of December 31, 2018, the loans bear interest ranging from 0%-8.29% with maturity dates ranging from October 2019 through October 2021, and are collateralized by the vehicles. Our cumulative monthly payment under these loans as of December 31, 2018 was approximately \$2,200, including principal and interest.

#### *Airplane Loan*

Our loan for the Company airplane bears interest at 7.35%, requires monthly payments of principal and interest of approximately \$3,500, matures in May of 2026 and is collateralized by the airplane.

**Future annual maturities of total debt are as follows (1) :**

<b>Year</b>		
2019		\$ 4,578,760
2020		3,519,077
2021		2,599,458
2022		51,962
2023		33,520
Total debt		<u>\$ 10,782,777</u>

(1) Excludes discounts for debt issuance costs.

**NOTE 7. COMMITMENTS AND CONTINGENCIES**

We are subject to litigation that arises from time to time in the ordinary course of our business activities. In February 2019, the Company filed a patent infringement lawsuit in the United States District Court for the Western District of Louisiana Lafayette Division asserting Stabil Drill Specialties, LLC (“Stabil Drill”) infringed on our patent that covers the Company’s well bore conditioning tool, the Drill-N-Ream. Stabil Drill has not yet responded to the lawsuit. As of the date of this annual report, the lawsuit is in initial stages . We cannot predict the outcome of this matter, but our legal costs could have a material effect on our financial position or results of operations in future periods. We are not currently involved in any other litigation which management believes could have a material effect on our financial position or results of operations.

**NOTE 8. RELATED PARTY TRANSACTIONS***Notes Payable*

In 2014, the Company issued notes payable to related parties in the amount of \$2 million. The notes bear interest at 7.5% and were scheduled to mature on January 2, 2017. The Company did not pay these notes upon maturity as the Company and the related parties informally agreed to offset these notes payable with the related-party note receivable. During the year ended December 31, 2017, the Company made principal payments and interest payments of \$80,000 related to the notes payable. Additionally, the Company applied \$207,942 in principal and interest due to the Company on the related party note receivable (see Note 5 – Related Party Note Receivable) during the year ended December 31, 2017 and reduced the balance to \$0 as of December 31, 2017.

*Related Party Note Receivable*

The Company holds 8,267,860 shares as collateral for the Tronco Note (see Note 5 – Related Party Note Receivable).

**NOTE 9. INCOME TAXES**

Components of income tax benefit are as follows:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Current income taxes:		
Federal	\$ -	\$ -
State	-	-
Current provision for income taxes	<u>3,640</u>	<u>-</u>
Deferred provision (benefit) for income taxes:		
Federal	-	-
State	-	-
Deferred provision (benefit) for income taxes	<u>-</u>	<u>-</u>
Provision for income taxes	<u>\$ 3,640</u>	<u>\$ -</u>

The non-current deferred tax assets and liabilities consist of the following:

Deferred tax assets:			
263A adjustment	\$	12,295	\$ 14,326
Accrued expenses		-	-
Stock compensation		81,133	48,489
Stock option		58,102	44,922
Amortization of intangibles		2,965,622	2,796,867
Net operating loss		2,458,939	2,999,467
Others		39,752	12,660
Total non-current deferred tax assets		<u>5,615,843</u>	<u>5,916,731</u>
Deferred tax liabilities:			
Prepaid expenses		(13,781)	(23,301)
Depreciation on fixed assets		(697,478)	(853,089)
Total non-current deferred tax liabilities		<u>(711,259)</u>	<u>(876,390)</u>
Net non-current deferred tax assets/liabilities		4,904,584	5,040,341
Less: Valuation Allowance		(4,904,584)	(5,040,341)
Total deferred tax liabilities	\$	<u>-</u>	\$ <u>-</u>

Reconciliation of the tax rate to the U.S. federal statutory tax rate which relate to the year ended December 31, 2018 and 2017 is as follows:

	<u>For the Year Ended</u> <u>December 31, 2018</u>	<u>For the Year Ended</u> <u>December 31, 2017</u>
Tax at federal statutory rate	\$ (11,494)	\$ (80,922)
State income taxes	2,875	-
Permanent differences	61,495	118,253
Change in valuation allowance	(135,758)	(2,436,734)
Other - State rate effect	(2,044)	(9,578)
Change in status	104,960	2,408,980
Other	(16,394)	-
Provision for income taxes	<u>\$ 3,640</u>	<u>\$ -</u>

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the 2017 Tax Cuts and Jobs Act (“2017 Tax Reform”). The 2017 Tax Reform significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U. S. corporate income tax rates and implementing a territorial tax system.

We have reasonably estimated the effects of the 2017 Tax Reform and recorded provisional amounts in our financial statements as of December 31, 2017. This amount is primarily comprised of the re-measurement of federal net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate to 21% from 35%. We also recorded a corresponding decrease in our valuation allowance for the impact of the 2017 Tax Reform of approximately \$5.040 million, with minimal to no effect of our current statement of operations.

During the year ended December 31, 2018, the Company reviewed additional tax guidance provided, and implemented new internal policies to eliminate business entertainment expenses, other than business meals. We determined no revisions were necessary to the tax provision for the year ended December 31, 2017. The tax provision for the year ended December 31, 2018 is consistent with prior years and at the current U.S. corporate tax rate of 21%.

## NOTE 10. SHARE-BASED COMPENSATION

In 2014, the Company's Board of Directors approved that the Directors stock compensation would be included in the Employee Stock Incentive Plan ("Stock Plan") that reserves 1,724,128 shares of common stock for issuance. Equity and equity-based compensation plans are intended to make available incentives that will assist us in attracting, retaining, and motivating employees, officers, consultants, and directors by allowing them to acquire an ownership interest in our business, and, as a result, encouraging them to contribute to our success. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units, and other cash-based or stock-based awards. As a result, we expect to incur non-cash, stock-based compensation expenses in future periods. The Board of Directors has frozen the 2014 Incentive Plan, such that no future grants of awards will be made and the 2014 Incentive Plan shall only remain in effect with respect to awards under that Plan outstanding as of June 15, 2015 until they expire according to their terms.

In 2015, our stockholders approved the Superior Drilling Company, Inc. 2015 Long Term Incentive Plan (the "2015 Incentive Plan"). The purpose of the 2015 Incentive Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Company and its affiliates and by motivating such persons to contribute to the growth and profitability of the Company and our affiliates. In 2017, the Company's board of directors approved an additional 1,440,000 shares of the Company's common stock to be added to the 2015 Incentive Plan. Subject to adjustment as provided in the 2015 Incentive Plan, the maximum aggregate number of shares of the Company's common stock that may be issued with respect to awards under the 2015 Incentive Plan is 2,992,905. As of December 31, 2018, there were 845,679 shares outstanding with respect to awards granted under the Company's 2015 Incentive Plan.

### *Restricted stock units*

On August 3, 2018, the Board of Directors granted 189,038 restricted stock units from the Company's 2015 incentive plan to executive management and directors based on the average price of the Company's common stock on the date of the grant. These restricted units will vest over a three - year period.

On December 18, 2018, the Board of Directors granted 147,391 restricted stock units from the Company's 2015 incentive plan to Troy and Annette Meier based on the average price of the Company's common stock on the date of the grant. These restricted units will vest over a three - year period (see Note 6-Related Party Note Receivable).

On December 4, 2017, the Board of Directors granted 267,443 restricted stock units from the Company's 2015 incentive plan to executive management and directors based on the closing price of the Company's common stock on the date of the grant. These restricted units will vest over a three - year period.

On December 4, 2017, the Board of Directors approved grants of restricted stock units to Troy and Annette Meier with an approximate value of \$587,500. The Board and the Meiers decided in lieu of making such awards, the dollar value of such awards would be used to pay interest and principal on the Tronco Note (see Note 5-Related Party Note Receivable ).

Compensation expense recognized for grants vesting under the 2014 Incentive Plan was \$0 and approximately \$142,000 for the years ending December 31, 2018 and 2017, respectively. Compensation expense recognized for grants of restricted stock vesting under the 2015 Incentive Plan was approximately \$458,000 and \$456,000 for the years ending December 31, 2018 and 2017, respectively. The Company recognized compensation expense and recorded it as share-based compensation in the consolidated statement of operations.

Total unrecognized compensation expense related to unvested restricted stock units expected to be recognized over the remaining weighted vesting period of 1.44 years equaled approximately \$622,000 at December 31, 2018. These shares vest over three years.



The following table summarizes RSU activity for the years ended December 31, 2018 and 2017:

	2018		2017	
	Number of Restricted Stock Units	Weighted - Average Grant Date Fair Value	Number of Restricted Stock Units	Weighted - Average Grant Date Fair Value
Unvested RSU's at beginning of period	647,195	\$ 1.12	702,608	\$ 1.31
Granted	336,429	1.60	282,578	1.27
Forfeited	-	-	-	-
Vested	(286,579)	1.12	(337,991)	1.64
Unvested RSU's at end of period	697,048	\$ 1.35	647,195	\$ 1.12

### Stock Options

On October 8, 2018, the Board of Directors granted 5,000 stock options from the Company's 2015 Incentive Plan to officers and employees based on the Company's common stock on the date of grant, which was \$4.05. These options vest 33% on the first anniversary of the grant date, 33% on the second anniversary of the grant date, and 34% on the third anniversary of the grant date.

On December 7, 2018, the Board of Directors granted 75,000 stock options from the Company's 2015 Incentive Plan to officers and employees based on the Company's common stock on the date of grant, which was \$1.69. These options vest 33% on the first anniversary of the grant date, 33% on the second anniversary of the grant date, and 34% on the third anniversary of the grant date.

On December 1, 2017, the Board of Directors granted 67,500 stock options from the Company's 2015 Incentive Plan to officers and employees based on the Company's common stock on the date of grant, which was \$1.30. These options vest 33% on the first anniversary of the grant date, 33% on the second anniversary of the grant date, and 34% on the third anniversary of the grant date.

Compensation expense recognized for option grants vesting under the 2015 Incentive Plan was approximately \$61,000 and \$15,000 for the years ending December 31, 2018 and 2017. The Company recognized compensation expense and recorded it as share-based compensation in the consolidated condensed statement of operations.

The following table summarizes stock options outstanding and changes during the years ended December 31, 2018 and 2017:

	2018		2017	
	Number of Stock Options	Weighted - Average Exercise Price	Number of Stock Options	Weighted - Average Exercise Price
Stock options outstanding at beginning of period	458,827	\$ 1.50	425,000	\$ 1.52
Granted	93,206	1.80	67,500	1.30
Exercised	(9,364)	1.52	-	-
Expired	(10,135)	1.76	(6,701)	1.44
Canceled or forfeited	(566)	1.26	(26,972)	1.28
Stock options outstanding at end of period	531,968	1.56	458,827	\$ 1.50
Stock options exercised at end of period	-	\$ -	-	\$ -

The fair value of stock options granted to employees and directors in 2018 was estimated at the grant date using the Black-Scholes option pricing model using the following assumptions:

Expected volatility	56.7%
Discount rate	2.71%
Expected life (years)	3
Dividend yield	N/A

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Expected price volatility is based on the historical volatility of our common stock. Changes in the subjective input assumptions can materially affect the fair value estimate. The expected term of the options granted is derived from the output of the option pricing model and represents

the period of time that the options granted are expected to be outstanding. The discount rate for the periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the date of grant.

#### **NOTE 11. SUBSEQUENT EVENTS**

In February 2019, the Company entered into a \$4.3 million financing agreement comprised of a \$0.8 million term loan and a \$3.5 million asset-based revolving credit facility. The interest rate for the term loan and the revolver is prime plus 2%. The obligations of the borrowers, which includes the Company and its subsidiaries, under the agreement are secured by a security interest in substantially all of the tangible and intangible assets of the borrowers, other than any assets owned by the borrowers that constitute real property (and fixtures affixed to such real property), certain excluded equipment, intellectual property, or aircraft. The credit facility matures on February 20, 2023, subject to early termination pursuant to the terms of the agreement or extension as may be agreed by the parties.

Also in February 2019, the Company filed a patent infringement lawsuit in the United States District Court for the Western District of Louisiana Lafayette Division asserting Stabil Drill infringed on our patent that covers the Company's well bore conditioning tool, the Drill-N-Ream. Stabil Drill has not yet responded to the lawsuit. As of the date of this annual report, the lawsuit is in initial stages. We cannot predict the outcome of this matter, but our legal costs could have a material effect on our financial position or results of operations in future periods.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Annual Report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2018.

### **Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). The Company’s internal control over financial reporting is designed 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.

Under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as set forth in Internal Control - Integrated Framework. Based on our evaluation under that framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

### **Changes in Internal Controls over Financial Reporting**

There have been no changes over financial reporting that occurred during the fourth quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### **Internal Controls and Procedures**

This Annual Report does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of the Company’s registered public accounting firm due to a transition period established by the rules of the Securities and Exchange Commission for newly public companies, and will not be required to include an attestation report for so for as long as we are an “emerging growth company” pursuant to the provisions of the JOBS Act.

## **ITEM 9B. OTHER INFORMATION**

None

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following table sets forth information concerning our directors, executive officers and significant employees as of December 31, 2018:

<u>Name</u>	<u>Age</u>	<u>Position</u>
G. Troy Meier	57	Board Chair, Class III Director and Chief Executive Officer
Annette Meier	56	Class II Director, President and Chief Operating Officer
James R.Lines	57	Class II Director
Robert Iversen	64	Class III Director
Michael V. Ronca	65	Class I Director
Christopher D. Cashion	63	Chief Financial Officer

**G. Troy Meier.** Mr. Meier has served as our Board Chair, one of our Class III Directors and Chief Executive Officer since 2014. Mr. Meier has over 38 years of experience in the oil and gas industry. Mr. Meier and co-founder Annette Meier founded our predecessor company in 1999. Since that time through the present, Mr. Meier has spearheaded the development of our new manufacturing business and our research and development activities. As our chief innovator, Mr. Meier has been responsible for not only inventing, but also designing, engineering and manufacturing industry specific machinery and processes and has several patent applications pending. Previously, in 1993, Mr. Meier started our predecessor company, Rocky Mountain Diamond, after thirteen years with Christensen Diamond and its successors. At Christensen Diamond, Mr. Meier established overseas factories in Ireland, Venezuela and China. In addition, Mr. Meier designed tools to improve efficiency both in the plants and in the field. Previously, Mr. Meier had been Christensen Diamond's first drill bit fabricator specialist and by age 28, was made the Northern Region design engineer responsible for designing drill bits, core systems, centric bits, nozzle systems and related products. As the co-founder, Mr. Meier for the last seven years has focused 100% of his attention on our development and growth.

Mr. Meier was selected to serve on our Board of Directors and as the Board Chair because of his extensive industry experience, his role as our co-founder and chief innovator, and his and Ms. Meier's majority shareholding. Mr. Meier is married to Annette Meier.

**Annette Meier.** Ms. Meier has served as our Class II Director, President and Chief Operating Officer since 2014. Ms. Meier has over 23 years of experience in the oil and gas industry. Since our inception in 1999 to the present, Ms. Meier has managed all of our day-to-day operations and business. In 2008, Ms. Meier envisioned and co-created "CHUCK," our custom shop management and inventory program software. Ms. Meier was also instrumental to the development of the "nucleus grinding system" that is currently utilized in our new manufacturing processes. In 2005, Ms. Meier served as the creator and chief architect of the Ropers Business Park, the state-of-the-art campus that houses our remanufacturing and new manufacturing facilities in Vernal, Utah. Ms. Meier's understanding of our business processes resulted in her designing and facilitating the SMART FACILITY layout, process and control systems within the manufacturing plant. Previously, in 1993, Ms. Meier co-founded and managed our predecessor company, Rocky Mountain Diamond. As the co-founder, Ms. Meier for the last seven years has focused 100% of her attention on our development and growth. In 2015, Ms. Meier was elected to serve on the Governors Office of Economic Development Board (GOED) for the state of Utah. Ms. Meier has been the recipient of numerous state, local and industry awards over the years that recognized her for innovation and leadership.

Ms. Meier was selected to serve on our Board of Directors because of her extensive industry experience, her role as our co-founder and substantial knowledge of our day-to-day operations, and her and Mr. Meier's majority shareholding. Ms. Meier is married to G. Troy Meier.

**James Lines.** Mr. Lines has served as a Class II director since December 2016, and is Chairman of the Audit Committee. He also serves on the Compensation Committee and the Nominating and Governance Committee of our Board of Directors. Mr. Lines has served as President and Chief Executive Officer of Graham Corporation since January 2008. Graham designs, manufactures and sells critical equipment for the energy, defense and chemical/petrochemical industries. Previously, Mr. Lines served as Graham's President and Chief Operating Officer since June 2006. Mr. Lines has served Graham in various capacities since 1984, including Vice President and General Manager, Vice President of Engineering and Vice President of Sales and Marketing. Prior to joining its management team, he served Graham as an application engineer and sales engineer as well as a product supervisor. Mr. Lines holds a B.S. in Aerospace Engineering from the State University of New York at Buffalo.

Mr. Lines was selected to serve on the Board of Directors due to his extensive experience in growing a midsize business, as well as his background in manufacturing and engineering in the energy industry.

**Robert E. Iversen.** Mr. Iversen has served as a Class III Director since 2014, Lead Director since December 2016 and has been the Chairman of the Compensation Committee since joining the Board. He has also been a member of the Audit Committee and the Nominating and Governance Committee since 2014. Mr. Iversen has broad executive and operational management experience in the sales, service, and manufacturing sectors of the global upstream oil and gas industry. Currently, Mr. Iversen is a partner and president of CTI Energy Services, LLC of Springtown, Texas, a drilling services company he started in 2011. Mr. Iversen has strong experience in the development and commercialization of new technology products and in company marketing and advertising programs. Previously, Mr. Iversen collaborated with G. Troy Meier as a partner and senior vice president in Tronco Energy Services from 2008 to 2011. From 2002 to 2008, he served as President and other C-level positions with Ulterra Drilling Technologies (Fort Worth, Texas), INRG (Houston, Texas) and NQL Energy Services (Nisku, Alberta). In 1994, Mr. Iversen and partners purchased the U.S. division of DBS Stratabit, a small, underperforming diamond bit company, where, as President until 2002, he built it into a top tier provider of high technology products. Mr. Iversen previously held numerous executive positions in marketing, technology and engineering at various divisions of the Baker Hughes companies, and their predecessors, from 1980 through 1994. Mr. Iversen holds a Bachelor of Science Petroleum Engineering, Montana Tech, as well as numerous technical and executive post-graduate certifications.

Mr. Iversen was selected to serve on our Board of Directors because of his strong experience with start-up companies and the development and commercialization of new technology products. Mr. Iversen further brings his broad executive and operational management expertise in the oil and gas industry.

**Michael Ronca.** Mr. Ronca has served as a Class I director since 2014, and is Chairman of the Nominating and Governance Committee. He also serves on the Audit Committee and Compensation Committee of our Board of Directors. Mr. Ronca has over 30 years of experience as an executive building and monetizing businesses. Since 2009, Mr. Ronca has served as President and Chief Executive Officer of EagleRidge Energy, LLC, an oil and gas exploration and development company active in north and central Texas. Previously, he served as Chairman of BAS Oil & Gas, a private company active in developing reserves in the Barnett Shale trend in North Texas. Mr. Ronca has a long history of participating in the energy industry starting with his time at Tenneco Inc., where he served as the Assistant to the Chairman and CEO and later established a new oil and gas division which operated throughout the offshore and onshore Gulf Coast region. He later executed a leveraged buyout with the backing of private equity and soon after took the company public on the NYSE under the name of Domain Energy where he also served as President and CEO. In 1998, Domain Energy merged into Range Resources where Mr. Ronca served as Chief Operating Officer for several years. Mr. Ronca has a BS degree from Villanova University and an MBA in Finance from Drexel University.

Mr. Ronca was selected to serve on our Board of Directors because of his strong experience within the oil and gas industry.

**Christopher D. Cashion.** Mr. Cashion has over 38 years of experience in the fields of accounting, finance and private equity. Mr. Cashion joined us in March 2014 to serve as our Chief Financial Officer on a full-time basis. Previously, Mr. Cashion worked as an independent financial and business consultant since 1998. From January 2013 through February 2014, Mr. Cashion was the Chief Financial Officer for Surefire Industries USA LLC, a Houston-based hydraulic fracturing equipment manufacturing company. Previously, from January 2005 to August 2012, Mr. Cashion provided chief financial officer services to five start-up portfolio companies owned by the Shell Technology Venture Fund, a private equity fund. Prior to his tenure with the start-up portfolio companies, Mr. Cashion worked for the First Reserve Corporation, a private equity firm, from 1991 to 1993. Mr. Cashion worked with Baker Hughes, Inc. from 1981 to 1991 and with Ernst & Young from 1977 to 1981. Mr. Cashion holds a B.S. in Accounting from the University of Tennessee and an M.B.A. in Finance and International Business from the University of Houston. Mr. Cashion has been a Certified Public Accountant since 1979.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) requires our directors and executive officers, and persons who own more than 10% of our equity securities, to file initial reports of ownership and reports of changes in ownership of our common stock with the SEC and to furnish us a copy of each filed report.

To our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2018, our officers, directors and greater than 10% beneficial owners timely filed all required Section 16(a) reports.

## **Material Changes in Director Nominations Process**

There have not been any material changes to the procedures by which shareholders may recommend nominees to our Board.

### **Audit Committee**

Our Audit Committee is comprised solely of “independent” directors, as defined under and required by Rule 10A-3 of the Exchange Act and the NYSE MKT rules. Our Audit Committee is directly responsible for, among other things, the appointment, compensation, retention and oversight of our independent registered public accounting firm. The oversight of our independent public accounting firm includes reviewing the plans and results of the audit engagement with the firm, approving any additional professional services provided by the firm and reviewing the independence of the firm. Commencing with our first report on internal controls over financial reporting, the Committee will be responsible for discussing the effectiveness of the internal controls over financial reporting with our independent registered public accounting firm and relevant financial management. The members of this Committee are Messrs. Iversen, Ronca, and Lines with Mr. Lines serving as committee chair. Our Board of Directors has determined that Mr. Lines qualifies as an “audit committee financial expert,” as defined by the rules under the Exchange Act. The Audit Committee held five meetings in 2018.

### **Code of Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, as well as each member of our Board. The Code of Business Conduct and Ethics is available under “Corporate Governance” at the “Investors” section of our website at [www.sdpi.com](http://www.sdpi.com). We intend to post amendments to or waivers from the Code of Business Conduct and Ethics (to the extent applicable to our principal executive officer, principal financial officer or principal accounting officer) at this location on our website.

### **Corporate Governance**

The charters for our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and our Code of Business Conduct and Ethics are available under “Corporate Governance” at the “Investors” section of our website at [www.sdpi.com](http://www.sdpi.com). Copies of these documents are also available in print form at no charge by sending a request to Christopher Cashion, our Chief Financial Officer, Superior Drilling Products, Inc., 1583 South 1700 East, Vernal, Utah 84078, telephone (435) 789-0594.

## ITEM 11. EXECUTIVE COMPENSATION.

### Summary Compensation Table

The following table provides information concerning compensation paid or accrued during the fiscal years ended December 31, 2018 and 2017, to our principal executive officer, our chief operating officer and our principal financial officer, to whom we sometimes refer together as our “named executive officers.”

Name and Principal Position	Year	Salary	Bonus	Stock	Option	Non-Equity	All Other	Total
				Awards	Awards	Incentive Plan	Compensation	
				(7)		Compensation	Compensation	
G. Troy Meier	2018	\$475,000	\$393,614(2)	\$105,106(8)	\$ —	\$ —	\$ 11,773(11)	\$ 985,493
Chief Executive Officer	2017	\$332,500(1)	\$701,219(3)	\$ —	\$ —	\$ —	\$ 12,271(11)	\$1,045,990
Annette Meier	2018	\$425,000	\$323,142(4)	\$ 80,608(8)	\$ —	\$ —	\$ 6,306(12)	\$ 835,056
President and Chief Operating Officer	2017	\$297,500(1)	\$584,906(5)	\$ —	\$ —	\$ —	\$ 7,934(12)	\$ 890,340
Christopher Cashion	2018	\$300,000	\$ —	\$122,301(9)	\$ —	\$ —	\$ 12,756(13)	\$ 435,057
Chief Financial Officer	2017	\$210,000(1)	\$ 97,031(6)	\$120,000(10)	\$ —	\$ —	\$ 12,003(13)	\$ 439,034

- (1) For 2017, Mr. Meier, Ms. Meier, and Mr. Cashion’s annual base salaries were \$475,000, \$425,000 and \$300,000, respectively, and were reduced for the entire year by 30% due to the downturn in the Oil and Gas Industry.
- (2) Relates to \$227,394 bonus made in 2018 in lieu of granting annual incentive compensation awards. Also relates to \$166,250 bonus made in 2018. \$207,450 was applied to the annual interest on the related party note receivable. See Note 8 - Related Party Transactions to our consolidated financial statements included herein.
- (3) Relates to \$368,719 bonus earned in 2014 and paid in 2017. Also relates to \$332,500 bonus made in 2017 in lieu of granting annual incentive compensation awards. Both bonuses were used to pay down interest and principal on related party note receivable. See Note 8 - Related Party Transactions to our consolidated financial statements included herein.
- (4) Relates to \$174,392 bonus made in 2018 in lieu of granting annual incentive compensation awards. Also relates to \$148,750 bonus made in 2018. \$170,296 was applied to the annual interest on the related party note receivable. See Note 8 - Related Party Transactions to our consolidated financial statements included herein.
- (5) Relates to \$329,906 bonus earned in 2014 and paid in 2017. Also relates to \$255,000 bonus made in 2017 in lieu of granting annual incentive compensation awards. Both bonuses were used to pay down interest and principal on related party note receivable. See Note 8 - Related Party Transactions to our consolidated financial statements included herein.
- (6) Relates to bonus earned in 2014 and paid in 2017.
- (7) Reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. See Note 10 Share-Based Compensation to our consolidated financial statements included herein.
- (8) The grant date fair value for restricted stock awards in 2018 was based on the average price of our common stock on the grant date (December 18, 2018), which was \$1.26 per share. The restricted stock awards will vest in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock will vest on December 18, 2019, 33 1/3% of the shares of restricted common stock will vest on December 18, 2020 and 33 1/3% of the shares of restricted common stock will vest on December 18, 2021.
- (9) The grant date fair value for restricted stock awards in 2018 was based on the average price of our common stock on the grant date (August 3, 2018), which was \$1.86 per share. The restricted stock awards will vest in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock will vest on August 3, 2019, 33 1/3% of the shares of restricted common stock will vest on August 3, 2020 and 33 1/3% of the shares of restricted common stock will vest on August 3, 2021.
- (10) The grant date fair value for restricted stock awards in 2017 was based on the closing price of our common stock on the grant date (December 4, 2017), which was \$1.29 per share. The restricted stock awards will vest in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on December 4, 2018, 33 1/3% of the shares of

restricted common stock will vest on December 4, 2019 and 33 1/3% of the shares of restricted common stock will vest on December 4, 2020.

- (11) Represents certain company paid health care costs for G. Troy and Annette Meier, life insurance costs, and personal use of a company vehicle.
- (12) Represents life insurance costs and personal use of a company vehicle.
- (13) Represents certain company paid health care costs and life insurance costs.

#### **Narrative Disclosure to Summary Compensation Table**

See the footnotes to the Summary Compensation Table and “Employment Agreements and Potential Benefits Upon Termination or Change-in-Control” for narrative disclosure with respect to the table, as well as the below discussion.

#### **Employment Agreements and Potential Benefits Upon Termination or Change-in-Control**

In connection with our initial public offering, we planned to enter into employment agreements with each of our named executive officers, and the forms of those agreements were filed with the SEC as exhibits to our registration statement on Form S-1. However, management and the Board have continued to discuss and negotiate the final terms of those agreements and as of the date hereof, the agreements have not been executed. As a result, none of the named executive officers currently has a contractual right to any of the benefits described below. The employment agreements to be entered into with our named executive officers will provide for, among other things, the payment of base salary, reimbursement of certain costs and expenses, and for each named executive officer’s participation in our bonus plan and employee benefit plans.

With the exception of G. Troy Meier’s and Annette Meier’s employment agreements, each agreement will provide for a term of employment commencing on the date of the agreement and continuing (a) until we or the executive provide 30-days written notice of termination to the other party, (b) upon termination by us for cause, or (c) upon the executive’s death or disability. Except with respect to certain items of compensation, as described below, the terms of each agreement will be similar in all material respects.

In addition to the base salaries shown above,

- Mr. Meier’s form of employment agreement provides for an annual review by our Board of Directors, and a performance bonus of 70% to 110% of his base salary based on criteria to be established by the Compensation Committee and participate in our incentive plans.
- Ms. Meier’s form of employment agreement provides for an annual review by our Board of Directors, and a performance bonus of 70% to 110% of her base salary based on criteria to be established by the Compensation Committee and participate in our incentive plans.
- Mr. Cashion’s form of employment agreement entitles him to receive a performance bonus based on criteria established by the Compensation Committee, and to participate in our incentive plans.

Each of the Meiers’ employment agreements will provide for customary and usual fringe benefits generally available to our executive officers, and reimbursement for reasonable out-of-pocket business expenses, including the use of a company vehicle.

*Change of Control Provisions.* Each named executive officer’s employment agreement will also provide that in the event of a Change in Control (as defined below), during the term of executive’s employment, (a) we are obligated to pay such executive a single lump sum payment, within 30 days of the termination of such executive officer’s employment, equal to one year salary, and (b) the executive’s equity awards, if any, shall immediately vest. “Change in Control” means approval by our stockholders of:

- (1) (a) a reorganization, merger, consolidation or other form of corporate transaction or series of transactions, in each case, with respect to which persons who were our stockholders immediately prior to such transaction do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company’s then outstanding voting securities, in substantially the same proportions as their ownership immediately prior to such transaction, (b) our liquidation or dissolution, or (c) the sale of all or substantially all of our assets (unless such reorganization, merger, consolidation or other corporate transaction, liquidation, dissolution or sale is subsequently abandoned); or



(2) the acquisition in a transaction or series of transactions by any person, entity or “group”, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, of more than 50% of either the then outstanding shares of common stock or the combined voting power of our then outstanding voting securities entitled to vote generally in the election of directors (a “Controlling Interest”), excluding any acquisitions by (a) us or our subsidiaries, (b) any person, entity or “group” that as of the date of the amendments to the employment agreements owns beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act of a Controlling Interest, or (c) any of our employee benefit plans.

G. Troy Meier’s and Annette Meier’s employment agreements will provide that (a) the non-competition covenant does not apply following the termination of employment if their employment is terminated without cause or for good reason, (b) the non-solicitation of employees covenant applies with respect to any current employee or any former employee who was employed by us within the prior six months, and (c) the non-solicitation of customers covenant applies to all actual or targeted prospective clients of ours to the extent solicited on behalf of any person or entity in connection with any business competitive with our business.

As consideration and compensation to our executive officers for, and subject to each executive officer’s adherence to, the above covenants and limitations, we have agreed to continue to pay the executive officer’s base salary in the same manner as if they continued to be employed by us during the one-year non-competition period following the executive officer’s termination.

*Payments on Termination.* Except as noted above, upon termination of employment under these agreements, (a) we are only required to pay each executive officer that portion of their respective annual base salary that have accrued and remain unpaid through the effective date of the executive officer’s termination, and (b) we have no further obligation whatsoever to the executive officer other than reimbursement of previously incurred expenses which are appropriately reimbursable under our expense reimbursement policy. However, if employment termination is due to the executive’s death, we will continue to pay the executive’s annual base salary for the period through the end of the calendar month in which death occurs to the executive’s estate.

## Outstanding Equity Awards for Year Ended December 31, 2018

The following table shows the number of shares covered by exercisable and unexercisable options awards and stock awards held by our named executive officers on December 31, 2018 that were made under the 2015 Long Term Incentive Plan

Name (a)	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h) (1)	Unearned Shares, Units or Other Rights That Have Not Vested (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j)
G. Troy Meier									
(6)	22,033	—	—	1.90	03/04/2021				
	22,844	—	—	1.84	03/18/2021				
	27,867	—	—	1.51	03/31/2021				
						69,020	\$ 66,949(2)	—	—
						83,417	\$105,105(3)	—	—
Annette Meier									
(6)	19,517	—	—	1.90	03/04/2021				
	20,236	—	—	1.84	03/18/2021				
	24,685	—	—	1.51	03/31/2021				
						51,463	\$ 49,919(2)	—	—
						63,974	\$ 80,607(3)	—	—
Christopher Cashion (7)									
(7)	11,995	—	—	1.73	03/04/2026				
	12,416	—	—	1.67	03/18/2026				
	15,057	—	—	1.37	03/31/2026				
						25,429	\$ 24,666(2)	—	—
						62,046	\$ 80,039(4)	—	—
						65,753	\$122,301(5)	—	—

(1) See Note 10 – Share-Based Compensation in the consolidated financial statements included herein.

(2) The grant date fair value for restricted stock awards is based on the closing price of our common stock on the grant date (November 10, 2016), which was \$0.97 per share. The restricted stock awards have the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on November 10, 2017, 33 1/3% of the shares of restricted common stock vested on November 10, 2018 and 33 1/3% of the shares of restricted common stock will vest on November 10, 2019.

(3) The grant date fair value for restricted stock awards is based on the average price of our common stock on the grant date (December 18, 2018), which was \$1.26 per share. The restricted stock awards will vest in accordance with the following

vesting schedule: 33 1/3% of the shares of restricted common stock vested on December 18, 2019, 33 1/3% of the shares of restricted common stock will vest on December 18, 2020 and 33 1/3% of the shares of restricted common stock will vest on December 18, 2021.

- (4) The grant date fair value for restricted stock awards is based on the closing price of our common stock on the grant date (December 4, 2017), which was \$1.29 per share. The restricted stock awards will vest in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on December 4, 2018, 33 1/3% of the shares of restricted common stock will vest on December 4, 2019 and 33 1/3% of the shares of restricted common stock will vest on December 4, 2020.
- (5) The grant date fair value for restricted stock awards is based on the average price of our common stock on the grant date (August 3, 2018), which was \$1.86 per share. The restricted stock awards will vest in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock will vest on August 3, 2019, 33 1/3% of the shares of restricted common stock will vest on August 3, 2020 and 33 1/3% of the shares of restricted common stock will vest on August 3, 2021.
- (6) During March 2016, each of the named executive officers agreed to receive awards of stock options in lieu of base salary. The grant date fair value for the stock option awards was based on the closing price of our common stock on the grant date of a) March 4, 2016, which was \$1.90 per share; b) March 18, 2016, which was \$1.84 per share; and c) March 31, 2016, which was \$1.51 per share. All options vested 100% on the grant date and have a ten year term expiring on March 4, 2021, March 18, 2021 and March 31, 2021, respectively. The fair value of the vested stock options were calculated using the Black-Scholes model with a volatility and discount rate over the expected term of each employee.
- (7) During March 2016, the named executive officer agreed to receive awards of stock options in lieu of base salary. The grant date fair value for the stock option awards was based on the closing price of our common stock on the grant date of a) March 4, 2016, which was \$1.73 per share; b) March 18, 2016, which was \$1.67 per share; and c) March 31, 2016, which was \$1.37 per share. All options vested 100% on the grant date and have a ten year term expiring on March 4, 2026, March 18, 2026 and March 31, 2026, respectively. The fair value of the vested stock options were calculated using the Black-Scholes model with a volatility and discount rate over the expected term of each employee.

## Director Compensation

Our employee directors are not separately compensated for their service as a director. In 2018, each of our non-employee directors received 41,095 shares of restricted common stock for his service as a director. In addition to receiving shares of stock, our non-employee directors received the following cash fees: Mr. Iversen, \$118,000; Mr. Ronca, \$75,000; and Mr. Lines \$82,500. The members of our Board of Directors are entitled to reimbursement of their expenses incurred in connection with the attendance at Board and committee meetings in accordance with Company policy.

The following table summarizes the annual compensation for our non-employee directors during 2018.

Name (a)	Fees Earned or Paid		Stock Awards Option Awards (d)	Non-Equity Incentive Plan Compensation (e)	Nonqualified Deferred Compensation Earnings (f)	All Other Compensation (g)	Total (h)
	in Cash (b)	Stock Awards (c) (1)					
James R.Lines	\$ 82,500	\$76,437	—	—	—	—	\$158,937
Robert Iversen	\$118,000	\$76,437	—	—	—	—	\$194,437
Michael V. Ronca	\$ 75,000	\$76,437	—	—	—	—	\$151,437

- (1) Reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of awards granted by the Board of Directors. See Note 10 Share-Based Compensation in the consolidated financial statements included herein. The grant date fair value for restricted stock awards is based on the average price of our common stock on the grant date (August 3, 2018), which was \$1.86 per share, respectively. As of December 31, 2018, Mr. Iversen and Mr. Ronca each have an aggregate of 98,036 outstanding shares of unvested restricted stock and Mr. Lines has an aggregate of 79,874 outstanding shares of unvested restricted stock. Mr. Iversen's and Mr. Ronca's restricted stock awards have the following vesting schedule: a) for the shares granted on November 10, 2016: 33 1/3% of the shares of restricted common stock vested on the first anniversary of the date of grant, 33 1/3% of the shares of restricted common stock vested on the second anniversary of the date of grant and 33 1/3% of the shares of restricted common stock will vest on the third anniversary of the date of grant in each case, so long as the director continues to serve on the Board through such date, b) for the shares granted on December

4, 2017: 33 1/3% of the shares of restricted common stock vested on the first anniversary of the date of grant, 33 1/3% of the shares of restricted common stock will vest on the second anniversary of the date of grant and 33 1/3% of the shares of restricted common stock will vest on the third anniversary of the date of grant in each case, so long as the director continues to serve on the Board through such date, and c) for the shares granted on August 3, 2018: 33 1/3% of the shares of restricted common stock vested on the first anniversary of the date of grant, 33 1/3% of the shares of restricted common stock will vest on the second anniversary of the date of grant and 33 1/3% of the shares of restricted common stock will vest on the third anniversary of the date of grant in each case, so long as the director continues to serve on the Board through such date. Mr. Lines restricted stock awards will vest in accordance with the following vesting schedule: for the shares granted on a) December 4, 2017: 33 1/3% of the shares of restricted common stock vested on the first anniversary of the date of grant, 33 1/3% of the shares of restricted common stock vested on the second anniversary of the date of grant and 33 1/3% of the shares of restricted common stock will vest on the third anniversary of the date of grant in each case, so long as the director continues to serve on the Board through such date, and b) for the shares granted on August 3, 2018: 33 1/3% of the shares of restricted common stock vested on the first anniversary of the date of grant, 33 1/3% of the shares of restricted common stock will vest on the second anniversary of the date of grant and 33 1/3% of the shares of restricted common stock will vest on the third anniversary of the date of grant in each case, so long as the director continues to serve on the Board through such date.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth information with respect to the beneficial ownership of our common stock as of February 22, 2019, by:

- each person who is known by us to beneficially own 5% or more of the outstanding class of our capital stock;
- each member of the Board;
- each of our executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, each of the holders of capital stock listed below has sole voting and investment power as to the capital stock owned unless otherwise noted.

Name and Address of Beneficial Owner	Numbers of Shares of Common Stock Beneficially Owned	% of Common Stock Outstanding (1)
FMR LLC (2) 245 Summer Street Boston, Massachusetts 02210	2,409,569	9.6%
G. Troy Meier (3)	10,366,264	41.1%
Annette Meier (4)	10,265,948	40.9%
Christopher D. Cashion (5), (11)	373,538	1.5%
James R. Lines (7), (8)	112,235	*
Robert Iversen (6), (9)	267,620	1.1%
Michael V. Ronca (5), (10)	208,147	*
Executive Officers and Directors as a group (6 persons)	11,685,295	45.4%

\* Less than 1%

- (1) Based on 25,018,098 shares outstanding as of February 22, 2019. Unless otherwise noted, the address for the holder is 1583 South 1700 East, Vernal, Utah 84078.
- (2) Based on a Schedule 13G/A filed with the SEC on February 13, 2018 by FMR LLC, Fidelity Small Cap Growth Fund, Select Energy Services Portfolio, Edward C. Johnson III and Abigail P. Johnson. Mr. Johnson is a Director and the Chairman of FMR LLC and Ms. Johnson is a Director, the Vice Chairman, the Chief Executive Officer and the President of FMR LLC. Members of the family of Mr. Johnson, including Ms. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.

Neither FMR LLC nor Mr. Johnson nor Ms. Johnson has the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act ("Fidelity Funds") advised by Fidelity Management & Research Company, a wholly owned subsidiary of FMR LLC, which power resides with the Fidelity Funds' Boards of Trustees. Fidelity Management & Research Company carries out the voting of the shares under written guidelines established by the Fidelity Funds' Boards of Trustees.

- (3) Includes (i) 5,641,510 shares of common stock indirectly owned through his ownership in Meier Family Holding Company, LLC, and (ii) 3,173,350 shares of common stock indirectly owned through his ownership in Meier Management Company, LLC. Also includes 232,626 shares of vested restricted common stock, 152,437 shares of unvested restricted common stock, and 72,744 shares issuable pursuant to vested stock options. 69,020 shares of the unvested restricted stock will vest on

November 10, 2019. The remainder of the unvested restricted stock will vest equally on December 18, 2019, December 18, 2020, and December 18, 2021.

- (4) Includes (i) 5,641,510 shares of common stock indirectly owned through her ownership in Meier Family Holding Company, LLC, and (ii) 3,173,350 shares of common stock indirectly owned through her ownership in Meier Management Company, LLC. Also includes 177,616 shares of vested restricted common stock, 115,437 shares of unvested restricted common stock, and 64,438 shares issuable pursuant to vested stock options. 51,463 shares of the unvested restricted stock will vest on November 10, 2019. The remainder of the unvested restricted stock will vest equally on December 18, 2019, December 18, 2020, and December 18, 2021.
- (5) Includes (a) 76,135 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on November 10, 2017, 33 1/3% of the shares of restricted common stock vested on November 10, 2018, and 33 1/3% of the shares of restricted common stock will vest on November 10, 2019, (b) 93,023 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on December 4, 2018, 33 1/3% of the shares of restricted common stock will vest on December 4, 2019, and 33 1/3% of the shares of restricted common stock will vest on December 4, 2020, and (c) 65,753 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock will vest on August 3, 2019, 33 1/3% of the shares of restricted common stock will vest on August 3, 2020, and 33 1/3% of the shares of restricted common stock will vest on August 3, 2021.
- (6) Includes (a) 54,380 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on November 10, 2017, 33 1/3% of the shares of restricted common stock vested on November 10, 2018, and 33 1/3% of the shares of restricted common stock will vest on November 10, 2019, (b) 58,140 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on December 4, 2018, 33 1/3% of the shares of restricted common stock will vest on December 4, 2019, and 33 1/3% of the shares of restricted common stock will vest on December 4, 2020. Also includes 41,095 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock will vest on August 3, 2019, 33 1/3% of the shares of restricted common stock will vest on August 3, 2020, and 33 1/3% of the shares of restricted common stock will vest on August 3, 2021.
- (7) Includes 58,140 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock vested on December 4, 2018, 33 1/3% of the shares of restricted common stock will vest on December 4, 2019, and 33 1/3% of the shares of restricted common stock will vest on December 4, 2020. Also includes 41,095 of restricted common stock that vests in accordance with the following vesting schedule: 33 1/3% of the shares of restricted common stock will vest on August 3, 2019, 33 1/3% of the shares of restricted common stock will vest on August 3, 2020, and 33 1/3% of the shares of restricted common stock will vest on August 3, 2021.
- (8) The address of Mr. Lines is 1110 Ransom Road, Lancaster, New York 14086.
- (9) The address of Mr. Iversen is 4928 FM 1374 Road, Huntsville, Texas 77340.
- (10) The address of Mr. Ronca is 17318 Chagall Lane, Spring, Texas 77379.
- (11) The address of Mr. Cashion is 20615 Sundance Springs Lane, Spring, Texas 77379.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

### **Certain Relationships and Related Party Transactions**

#### *Notes Payable*

In 2014, the Company issued notes payable to related parties in the amount of \$2 million. The notes bear interest at 7.5% and were scheduled to mature on January 2, 2017. The Company did not pay these notes upon maturity as the Company and the related parties informally agreed to offset these notes payable with the related-party note receivable. During the year ended December 31, 2017, the Company made principal payments and interest payments of \$80,000 related to the notes payable. Additionally, the Company applied \$207,942 in principal and interest due to the Company on the related party note receivable (see Note 8 – Related Party Transactions) during the year ended December 31, 2017 and reduced the balance to \$0 as of December 31, 2017.

#### *Related Party Note Receivable*

The Company holds 8,267,860 shares as collateral for the Tronco Note (see Note 8 – Related Party Transactions).

#### *Policies and Procedures for Related Party Transactions*

Any request for us to enter into a transaction with an executive officer, director, principal stockholder or any of such persons' immediate family members or affiliates, in which the amount involved exceeds \$120,000, must first be presented to our audit committee for review, consideration and approval. All of our directors and executive officers are required to report to the audit committee chair any such related person transaction. In approving or rejecting the proposed agreement, our audit committee shall consider the facts and circumstances available and deemed relevant to the audit committee, including, but not limited to, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. Our audit committee shall approve only those agreements that, in light of known circumstances, are in, or are not inconsistent with, our best interests and the best interests of our stockholders, as our audit committee determines in the good faith exercise of its discretion. If we should discover related person transactions that have not been approved, the audit committee will be notified and will determine the appropriate action, including ratification, rescission or amendment of the transaction.

### **Director Independence**

The Board has determined that the following members are independent within the meaning of the listing rules of the NYSE MKT: James Lines, Robert Iversen and Michael Ronca.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

### Independent Registered Public Accountant Fees

The following table sets forth the fees incurred by us in fiscal years 2018 and 2017 for services performed by Moss Adams LLP and Hein & Associates, LLP:

	December 31, 2018 (2)	December 31, 2017 (1)
Audit Fees	\$ 210,353	\$ 210,439
Audit-Related Fees		—
Tax Fees		—
All Other Fees	6,782	—
Total	<u>\$ 217,135</u>	<u>\$ 210,439</u>

(1) Hein & Associates, LLP incurred \$24,465 in audit fees and Moss Adams LLP incurred \$104,163 in audit fees for the year ended December 31, 2017.

(2) All fees were incurred by Moss Adams.

### Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accountants

The charter of the Audit Committee and its pre-approval policy require that the Audit Committee review and pre-approve the Company's independent registered public accounting firm's fees for audit, audit-related, tax and other services. The Chairman of the Audit Committee has the authority to grant pre-approvals, provided such approvals are within the pre-approval policy and are presented to the Audit Committee at a subsequent meeting. For the year ended December 31, 2018, the Audit Committee approved 100% of the services described above under the captions "Audit Fees."



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

- (1) Financial Statements – see Index to Financial Statements appearing on page 44
- (2) Financial Statement Schedules – None
- (3) Exhibits –

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Reorganization, dated December 15, 2013, between Meier Management Company, LLC, Meier Family Holding Company, LLC, and SD Company, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014S-1).
3.2	Articles of Amendment to Articles of Incorporation (name change) (incorporated by reference to Exhibit 3.5 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on May 6, 2014).
3.3	Bylaws with Exhibit A (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
10.1	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
10.2	2014 Employee Stock Incentive Plan with forms of award agreements as Exhibits (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).†
10.3	Form of Executive Employment Agreement between SD Company, Inc. and Troy Meier, as CEO (incorporated by reference to Exhibit 10.3 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 30, 2014).†
10.4	Form of Executive Employment Agreement between SD Company, Inc. and Annette Meier, as President (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 30, 2014).†
10.5	Form of Executive Employment Agreement between SD Company, Inc. and Christopher Cashion, as CFO (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 30, 2014).†
10.6	Vendor Agreement between Superior Drilling Products, LLC, and Hughes Christensen, a division of Baker Hughes Oilfield Operations, Inc., dated October 28, 2013 with Exhibit A (incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
10.7	Commercial Lease, dated August 15, 2013, between Meier Properties, Series LLC, as landlord, and Baker Hughes Oilfield Operations, Inc., as tenant (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).

- 10.8 Acknowledgement letter, dated September 11, 2013, between Superior Drilling Products, LLC and Hard Rock Solutions, Inc., regarding the Drill N Ream commissions (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.9 Membership Interest Purchase Agreement (MIPA), dated January 28, 2014, between Hard Rock Solutions, Inc., as seller, and Superior Drilling Products, LLC, as buyer, of Hard Rock Solutions, LLC, with Exhibits (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.10 Intellectual Property Protection Agreement (IPPA), dated January 28, 2014, between 3cReamers, LLC, Hard Rock Solutions, LLC, James D. Isenhour, and Troy Meier (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.11 Form of Subordinated Promissory Note from Hard Rock Solutions LLC and Superior Drilling Products LLC, as borrower, in favor of Hard Rock Solutions, Inc., as lender, to be executed upon closing of the Hard Rock acquisition (incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.12 Form of Security and Pledge Agreement between SD Company, Inc., as debtor, in favor of Hard Rock Solutions, Inc., as secured party, to be executed upon closing of the Hard Rock acquisition with attached Schedule A (incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.13 Form of Assignment Agreement between Superior Drilling Products, LLC and SD Company, Inc. assigning SDP's rights under the MIPA and IPPA to SDC, to be executed in connection with the Reorganization (incorporated by reference to Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.14 Securities Purchase Agreement, dated February 24, 2014, between SD Company, Inc. and Superior Drilling Products, LLC, as borrowers, and D4D, LLC, as lender, for \$2 million bridge loan with attached exhibits (incorporated by reference to Exhibit 10.14 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.15 Secured Convertible Promissory Note, dated February 24, 2014, in the original principal amount of \$2 million, from SD Company, Inc. and Superior Drilling Products, LLC, as borrowers, in favor of D4D, LLC, as lender, with Exhibits (incorporated by reference to Exhibit 10.15 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.16 Security Agreements, dated February 24, 2014, between SD Company Inc. and Superior Drilling Products, LLC, respectively, as debtors, and D4D LLC, as secured party (incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.17 Form of Common Stock Purchase Warrant to be issued by SD Company Inc. in favor of D4D LLC upon conversion of \$2 million bridge loan with attached exhibits (incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.18 Form of Registration Rights Agreement to be entered into between SD Company Inc. and D4D, LLC upon conversion of \$2 million bridge loan (incorporated by reference to Exhibit 10.18 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.19 Standard Industrial/Commercial Single-Tenant Lease, dated January 17, 2014, between Superior Drilling Products of California, LLC (SDP(CA)), as lessor, and Roger Holder, as lessee, with respect to our Bakersfield facilities (incorporated by reference to Exhibit 10.19 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).

- 10.20 Loan Agreement, dated July 3, 2012, between Meier Properties, Series LLC and Superior Drilling Products LLC, as co-borrowers, and Proficio Bank, as lender. (Proficio Loan 1) (incorporated by reference to Exhibit 10.35 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.21 Term Note, dated July 3, 2012, from Meier Properties, Series LLC and Superior Drilling Products LLC, as co-borrowers, and Proficio Bank, as lender, in the original principal amount of \$240,000. (Proficio Loan 1) with attached exhibits (incorporated by reference to Exhibit 10.36 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.22 Deed of Trust, Security Agreement and Assignment of Leases and Rents, dated July 3, 2012, from Meier Properties, Series LLC, as grantor, to Proficio Bank, as trustee, and Proficio Bank, as beneficiary. (Proficio Loan 1) (incorporated by reference to Exhibit 10.37 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.23 Loan Agreement(s), dated December 30, 2013, between Superior Drilling Products, LLC, Meier Leasing, LLC and Meier Management Company, LLC, as co-borrowers, respectively, and Proficio Bank, as lender. (Proficio Loan 2) (incorporated by reference to Exhibit 10.38 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.24 U.S. Small Business Administration Note, dated December 30, 2013, from Superior Drilling Products, LLC, Meier Leasing, LLC and Meier Management Company, LLC, as co-borrowers, in favor of Proficio Bank, as lender, in the original principal amount of \$627,000. (Proficio Loan 2) (incorporated by reference to Exhibit 10.39 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.25 Unconditional Guaranty(s) from each of Gilbert Troy Meier, Annette D. Meier, the Gilbert Troy Meier Trust, the Annette Deuel Meier Trust, and Meier Family Holding Company, guarantor(s), respectively, to Proficio Bank, as lender, each dated December 30, 2013. (Proficio Loan 2) (incorporated by reference to Exhibit 10.40 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.26 Term Note, dated February 4, 2013, between Meier Leasing, LLC and Meier Management Company, LLC, as co-borrowers, and Proficio Bank, as lender, in the original principal amount of \$592,000. (Proficio Loan 3) (incorporated by reference to Exhibit 10.42 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.27 Third Amendment to Loan Agreement (dated December 18, 2013), Second Amendment to Loan Agreement (dated June 15, 2009), First Amendment to Loan Agreement (dated December 10, 2007), and original Loan Agreement (dated August 10, 2007), between Tronco Energy Corporation, as borrower, Philco Exploration, LLC, as subsidiary, and Fortuna Asset Management LLC (and its assignee ACF Property Management, Inc. for the amendments). (Tronco Loan) (incorporated by reference to Exhibit 10.43 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.28 Second Amended and Restated Promissory Note, dated January 1, 2014, between Tronco Energy Corporation, as borrower, and ACF Property Management Inc. as lender (assignee from Fortuna Asset Management LLC). (Tronco Loan) (incorporated by reference to Exhibit 10.44 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.29 Security Agreement Pledge between Tronco Energy Corporation, as debtor, and ACF Property Management Inc. as secured party; and Owner Consent to Pledge from Meier Family Holding Company, LLC, with respect to 95% of the limited liability company interests in Superior Drilling Products, LLC, each dated June 15, 2009. (Tronco Loan) (incorporated by reference to Exhibit 10.45 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.30 Security Agreement Pledge between Tronco Energy Corporation, as debtor, and ACF Property Management Inc. as secured party; and Owner Consent to Pledge from Meier Management Company, LLC, with respect to 5% of the limited liability company interests in Superior Drilling Products, LLC, each dated June 15, 2009. (Tronco Loan)

(incorporated by reference to Exhibit 10.46 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).

- 10.31 Security Agreement Pledge between Tronco Energy Corporation, as debtor, and ACF Property Management Inc., as secured party; and Owner Consent to Pledge from Meier Management Company, with respect to 100% of the limited liability company interests in Superior Design and Fabrication, LLC, each dated December 18, 2013. (Tronco Loan) (incorporated by reference to Exhibit 10.47 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.32 Guaranty(s) from Gilbert Troy Meier Trust (dated August 10, 2009), and from Superior Drilling Products, LLC and Superior Design and Fabrication, LLC (dated December 18th, 2013), in favor of ACF Property Management, Inc., as lender. (Tronco Loan) (incorporated by reference to Exhibit 10.48 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.33 Loan Purchase Agreement between ACF Property Management Inc., as lender and seller, SD Company Inc., as buyer, and Tronco Energy Corporation, as borrower, dated January 1, 2014. (Tronco Loan) (incorporated by reference to Exhibit 10.49 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.34 Loan Agreement, dated April 3, 2012, between Meier Properties Series LLC and Superior Auto Body & Paint LLC (SABP) as co-borrowers, and Mountain West Small Business Finance, as lender. (SABP Loan 1); Change in Terms Agreement dated March 19, 2012, between Superior Auto BODY & Paint LLC, as borrower and Mountain America Credit Union, as Lender; and Change in Terms Agreement dated March 19, 2012, between Superior Auto BODY & Paint LLC, as borrower and Mountain America Credit Union, as Lender (incorporated by reference to Exhibit 10.50 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 30, 2014).
- 10.35 Promissory Note dated March 19, 2012, from Superior Auto Body and Paint LLC, as borrower, in favor of Mountain America Credit Union in the amount of \$1,698,005.00 (incorporated by reference to Exhibit 10.51 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.36 Loan Agreement, dated May 25, 2012, between Meier Properties Series LLC and SABP, as co-borrowers and Mountain West Small Business Finance, as lender. (SABP Loan 2) (incorporated by reference to Exhibit 10.52 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.37 U.S. Small Business Administration Note, dated May 25, 2012, between Meier Properties, Series LLC, as debtor, SABP, as operating company, and Mountain West Small Business Finance, as lender, in the original principal amount of \$1,159,000.00 (SABP Loan 2) (incorporated by reference to Exhibit 10.53 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.38 Security Agreement(s), dated May 25, 2012, between each of Meier Properties, Series LLC and SABP, as debtor(s), and Mountain West Small Business Finance, as lender. (SABP Loan 2) (incorporated by reference to Exhibit 10.54 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.39 Continuing Guaranty, dated May 20, 2011, by Superior Drilling Products, as guarantor, to Mountain America Federal Credit Union, as lender. (SABP Loans 1 and 2) (incorporated by reference to Exhibit 10.55 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.40 Lease, dated May 25, 2012, between Meier Properties, Series LLC, as lessor, and SABP, as lessee (incorporated by reference to Exhibit 10.56 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.41 Confirmation of Guaranties from Troy Meier, Annette Meier, the G. Troy Meier Trust, and the Annette Deuel Meier Trust, to Superior Drilling Products, Inc. (incorporated by reference to Exhibit 10.57 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on May 12, 2014).

- 10.42 Stock Pledge Agreement between Meier Management Company, LLC and Superior Drilling Products, Inc. (incorporated by reference to Exhibit 10.58 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on May 12, 2014).
- 10.43 Stock Pledge Agreement between Meier Family Holding Company, LLC and Superior Drilling Products, Inc. (incorporated by reference to Exhibit 10.59 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on May 12, 2014).
- 10.44 Loan Agreement dated February 4, 2013, between Meier Leasing, LLC and Meier Management Company, LLC, as co-borrowers, and Proficio Bank, as lender. (Proficio Loan 3) (incorporated by reference to Exhibit 10.41 to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 195085) filed with the SEC on April 7, 2014).
- 10.45 Exclusive Manufacturing, Marketing, Sales and Consulting Agreement among Hard Rock Solutions, LLC, Extreme Technologies, LLC, Tenax Energy Solutions, LLC and Kevin Jones dated January 9, 2015 (incorporated by reference to Exhibit 10.45 to the Company's annual report on form 10-K for the year ended December 31, 2014 filed on March 31, 2015).
- 10.46 Business Loan Agreement between Meier Properties, Series LLC and American Bank of the North dated April 9, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 15, 2015).
- 10.47 Commercial Guaranty between Superior Drilling Products, Inc. and American Bank of the North dated April 9, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 15, 2015).
- 10.48 Commercial Guaranty between G. Troy Meier and American Bank of the North dated April 9, 2015 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 15, 2015).
- 10.49 Commercial Guaranty between Annette Meier and American Bank of the North dated April 9, 2015 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 15, 2015).
- 10.50 Amended and Restated Promissory Note from Hard Rock Solutions, LLC and Superior Drilling Solutions, LLC in favor of WMAFC, Inc. dated April 28, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 15, 2015).
- 10.51 Form of Nonstatutory Stock Option Agreement (3 Year Vesting) under the 2015 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2015).
- 10.52 Form of Nonstatutory Stock Option Agreement (2 Year Vesting) under the 2015 Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2015).
- 10.53 Form of Award of Restricted Stock (3 Year Vesting) under the 2015 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2015).
- 10.54 Form of Award of Restricted Stock (2 Year Vesting) under the 2015 Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2015).
- 10.55 2015 Long Term Incentive Plan effective June 15, 2015 (incorporated herein by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 30, 2015).
- 10.56 Second Amended and Restated Promissory Note from Hard Rock Solutions, LLC and Superior Drilling Solutions, LLC in favor of WMAFC, Inc. dated September 28, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 1, 2015).
- 10.57++ Business Agreement between Hard Rock Solutions, LLC and Baker Hughes Oilfield Operations, Inc. dated January 25, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 29, 2016).

- 10.58 Loan and Security Agreement among Superior Drilling Products, Inc., Superior Drilling Solutions, LLC, Hard Rock, LLC and Extreme Technologies, LLC as co-Borrowers and Federal National Commercial Credit as Lender date March 8, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 10, 2016).
- 10.59 Promissory Note dated March 8, 2016 issued in favor of Federal National Commercial Credit as Lender (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 10, 2016).
- 10.60 Term Promissory Note dated March 8, 2016 issued in favor of Federal National Commercial Credit as Lender (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 10, 2016).
- 10.61 Subordination Agreement among Superior Drilling Products, Inc., Meier Management Company, LLC and Federal National Commercial Credit dated March 8, 2016 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on March 10, 2016).
- 10.62 Form of Fully Vested Non-Statutory Stock Option Agreement (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on March 10, 2016).
- 10.63 Amended Loan and Security Agreement among Superior Drilling Products, Inc., Superior Drilling Solutions, LLC, Hard Rock, LLC and Extreme Technologies, LLC as co-Borrowers and Federal National Commercial Credit as Lender dated March 28, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 30, 2016).
- 10.64 Distribution Agreement between Hard Rock Solutions, LLC and Drilling Tools International, Inc. dated May 12, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 13, 2016).
- 10.65 Second Amendment to Loan and Security Agreement among Superior Drilling Products, Inc., Superior Drilling Solutions, LLC, Hard Rock, LLC and Extreme Technologies, LLC as co-Borrowers and Federal National Commercial Credit as Lender dated May 12, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 16, 2016).
- 10.66 Promissory Note from Superior Drilling Products Inc. in favor of the Donald A. Foss Revocable Living Trust dated August 5, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 11, 2016).
- 10.67 Warrant issued by Superior Drilling Products, Inc. in favor of the Donald A. Foss Revocable Living Trust dated August 5, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 11, 2016).
- 10.68 Promissory Note from Hard Rock Solutions, LLC and Superior Drilling Solutions, LLC in favor of WMAFC, Inc. dated August 10, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on August 11, 2016).
- 10.69 Modification and Forbearance Agreement dated August 16, 2016 by and among Superior Drilling Products, Inc., Superior Drilling Solutions, LLC, Hard Rock Solutions, LLC, Extreme Technologies, LLC and Federal National Payables, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 17, 2016).
- 10.70 Guaranty dated August 16, 2016 among G. Troy Meier, Annette Meier, and Federal National Payables, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 17, 2016).
- 10.71 Amended and Restated Distribution Agreement between Hard Rock Solutions, LLC and Drilling Tools International, Inc. dated August 30, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 31, 2016).
- 10.72 Special Warranty Deed between MPS and SABP dated February 9, 2017 (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on February 14, 2017).

- 10.73 Termination of Real Property Lease between MPS and SABP dated February 9, 2017 (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on February 14, 2017).
- 10.74 Second Amended and Restated Loan Agreement between the Company and Tronco Energy Corporation dated August 8, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 14, 2017).
- 10.75 Second Amended and Restated Promissory Note between the Company and Tronco Energy Corporation dated August 8, 2017 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on August 14, 2017).
- 10.76 Letter Agreement between Superior Drilling Solutions, LLC and Baker Hughes Oilfield Operations LLC dated October 27, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 1, 2017).
- 10.77 Commercial Lease between Alan Pitts & Mikaela Allmand and Hard Rock Solutions, LLC dated August 27, 2018 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 10-Q filed on August 30, 2018).
- 10.78++ Vendor Agreement dated effective April 1, 2018 between Superior Drilling Solutions, LLC and Baker Hughes Oilfield Operations LLC.
- 10.79 Form of Stock Option Agreement under 2015 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 9, 2018).
- 10.80 Form of Restricted Stock Unit Agreement under 2015 Long Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 9, 2018).
- 10.81 Fourth Amended and Restated Promissory Note from Hard Rock Solutions, LLC and Superior Drilling Solutions, LLC in favor of WMAFC, Inc. dated November 21, 2018.
  
- 21.1\* Subsidiaries of the Registrant
- 23.1\* Consent of Moss Adams LLP
- 23.2\* Consent of Moss Adams LLP
- 31.1\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for G. Troy Meier.
- 31.2\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Christopher D. Cashion.
- 32\*\* Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for G. Troy Meier and Christopher D. Cashion.
  
- 101\* Interactive data files pursuant to Rule 405 of Regulation S-T
- 101.INS XBRL Instance
- 101.SCH XBRL Schema
- 101.CAL XBRL Calculation
- 101.DEF XBRL Definition
- 101.LAB XBRL Label
- 101.PRE XBRL Presentation

\* Filed herewith.

\*\* Furnished herewith.

† Indicates a management contract or compensatory plan, contract or arrangement.

++ Portions of this exhibit have been omitted pursuant to a request for confidential treatment submitted to the Securities and Exchange Commission and this exhibit has been filed separately with the Securities and Exchange Commission in connection with such request.

#### **ITEM 16. FORM 10-K SUMMARY**

None



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

### SUPERIOR DRILLING PRODUCTS, INC.

March 13, 2019

By: /s/ G. TROY MEIER

G. Troy Meier, Chief Executive Officer  
(Principal Executive Officer)

March 13, 2019

By: /s/ CHRISTOPHER CASHION

Christopher Cashion, Chief Financial Officer  
(Principal Financial Officer and Principal Accounting  
Officer)

March 13, 2019

By: /s/ ANNETTE MEIER

Annette Meier, President, Chief Operating Officer and  
Director

March 13, 2019

By: /s/ JAMES LINES

James Lines, Director

March 13, 2019

By: /s/ ROBERT IVERSEN

Robert Iversen, Director

March 13, 2019

By: /s/ MICHAEL RONCA

Michael Ronca, Director

**Subsidiaries of the Company**

- Superior Drilling Solutions, LLC
- Hard Rock Solutions, LLC
- Extreme Technologies, LLC
- Meier Properties Series, LLC
- Meier Leasing, LLC
- Superior Design and Fabrication, LLC

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements (Form S-3 No. 333-210390 and Form S-8 Nos. 333-204983 and 333-220485) of our report dated March 13, 2019, relating to the consolidated financial statements of Superior Drilling Products, Inc., appearing in this Annual Report (Form 10-K) for the year ended December 31, 2018.

*/s/ Moss Adams LLP*  
Dallas, Texas  
March 13, 2019

**Exhibit 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements (Form S-3 No. 333-210390 and Form S-8 Nos. 333-204983 and 333-220485) of our report dated March 22, 2018, relating to the consolidated financial statements of Superior Drilling Products, Inc., appearing in this Annual Report (Form 10-K) for the year ended December 31, 2017.

*/s/ Moss Adams LLP*  
Dallas, Texas  
March 13, 2019

**CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT**

I, G. Troy Meier, certify that:

1. I have reviewed this Annual Report on Form 10-K of Superior Drilling Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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(f) and 15d-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 other 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: March 13, 2019

*/s/ G. Troy Meier*

*G. Troy Meier*

*President and Chief Executive Officer*

## CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT

I, Christopher Cashion, certify that:

1. I have reviewed this Annual Report on Form 10-K of Superior Drilling Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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(f) and 15d-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 other 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: March 13, 2019

*/s/ Christopher Cashion*

Christopher Cashion

*Chief Financial Officer*

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Superior Drilling Products, Inc. (the “Company”) for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, G. Troy Meier, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of 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.

Date: March 13, 2019

*/s/ G. Troy Meier*

\_\_\_\_\_  
G. Troy Meier

*President and Chief Executive Officer*

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Superior Drilling Products, Inc. (the “Company”) for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Christopher Cashion, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of 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.

Date: March 13, 2019

*/s/ Christopher Cashion*

\_\_\_\_\_  
Christopher Cashion

*Chief Financial Officer*

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

## Shareholder Information

### Corporate Headquarters

Superior Drilling Products, Inc.  
1583 South 1700 East  
PO Box 1656  
Vernal, Utah 84078  
435.789.0594  
www.sdpi.com

### Stock Exchange Listing

The Company's stock is traded on the NYSE American exchange under the symbol SDPI.

### 2018 Annual Meeting

Superior Drilling Products' Annual Meeting of Shareholders will be held at 9:00 am MT on August 2, 2019 at

Superior Drilling Products, Inc.  
Corporate Headquarters  
1583 South 1700 East  
Vernal, Utah 84078

### Independent Auditors

Moss Adams  
Dallas, Texas

### Investor Relations

Investors, stockbrokers, security analysts and others seeking information about Superior Drilling Products, contact:

**Deborah K. Pawlowski**  
*Kei Advisors LLC*  
716.843.3908  
dpawlowski@keiadvisors.com

### Transfer Agent

For services, such as reporting a change of address, replacement of lost stock certificates, changes in registered ownership, or for inquiries about your account, contact:

**VStock Transfer, LLC**  
18 Lafayette Place  
Woodmere, New York 11598  
Tel: 212.828.8436  
Fax: 646.536.3179  
www.vstocktransfer.com



## Directors and Officers

### Corporate Officers

**Troy Meier**  
*Chairman and Chief Executive Officer*

**Annette Meier**  
*President and Chief Operating Officer*

**Chris Cashion**  
*Chief Financial Officer*

**David Gale**  
*Vice President of Operations*

**Lane Snell**  
*Vice President of Engineering*

### Board of Directors

**Troy Meier**, *Chairman of the Board*  
*Chief Executive Officer*  
*Superior Drilling Products, Inc.*

**Robert Iversen**<sup>1, 2\*, 3</sup>  
*President and Partner*  
*CTI Energy Services*

**Jim Lines**<sup>1\*, 2, 3</sup>  
*President and Chief Executive Officer*  
*Graham Corporation*

**Annette Meier**  
*President and Chief Operating Officer*  
*Superior Drilling Products, Inc.*

**Michael Ronca**<sup>1, 2, 3\*</sup>  
*President and Chief Executive Officer*  
*EagleRidge Energy*

<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

<sup>3</sup> Nominating & Corporate Governance Committee

\* Committee Chairman



NYSE: American: SDPI

1583 South 1700 East ♦ PO Box 1656 ♦ Vernal, Utah 84078  
435.789.0594 ♦ [www.sdpi.com](http://www.sdpi.com)