

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-K**

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

**For the fiscal year ended December 31, 2020**  
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 001-36590**

**INDEPENDENCE CONTRACT DRILLING, INC.**

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

**Delaware**

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

**37-1653648**

*(I.R.S. Employer Identification No.)*

**20475 State Highway 249, Suite 300**

**Houston, Texas**

*(Address of principal executive offices)*

**77070**

*(Zip code)*

**(281) 598-1230**

*(Registrant's telephone number, including area code)*

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	ICD	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the 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 Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$15,486,849 as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter (based on a closing price of \$3.89 per share as reported on the New York Stock Exchange and 3,981,195 shares held by non-affiliates).

There were 6,196,713 shares of the registrant's common stock outstanding as of February 19, 2021.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the registrant's 2021 Annual Meeting of Stockholders (to be filed within 120 days of the close of the registrant's fiscal year) are incorporated by reference into Part III of this Annual Report on Form 10-K.

**INDEPENDENCE CONTRACT DRILLING, INC.**  
**Index to Form 10-K**

<b>Part I</b>	4
Item 1. Business	4
Item 1A. Risk Factors	13
Item 1B. Unresolved Staff Comments	26
Item 2. Properties	26
Item 3. Legal Proceedings	26
Item 4. Mine Safety Disclosures	26
<b>Part II</b>	27
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	27
Item 6. Selected Financial Data	30
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	45
Item 8. Financial Statements and Supplementary Data	47
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	79
Item 9A. Controls and Procedures	79
Item 9B. Other Information	79
<b>Part III</b>	80
Item 10. Directors, Executive Officers and Corporate Governance	80
Item 11. Executive Compensation	80
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters	80
Item 13. Certain Relationships and Related Transactions, and Director Independence	80
Item 14. Principal Accounting Fees and Services	80
<b>Part IV</b>	81
Item 15. Exhibits, Financial Statement Schedules	81
Item 16. Form 10-K Summary	81
Signatures	82

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this Annual Report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as “estimate,” “project,” “predict,” “believe,” “expect,” “anticipate,” “potential,” “plan,” “goal,” “will” or other words that convey the uncertainty of future events or outcomes. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, contingencies and uncertainties include, but are not limited to, the following:

- inability to predict the duration or magnitude of the effects of the COVID-19 pandemic on our business, operations, and financial condition and when or if worldwide oil demand will stabilize and begin to improve;
- a decline in or substantial volatility of crude oil and natural gas commodity prices;
- a sustained decrease in domestic spending by the oil and natural gas exploration and production industry;
- fluctuation of our operating results and volatility of our industry;
- inability to maintain or increase pricing of our contract drilling services, or early termination of any term contract for which early termination compensation is not paid;
- our backlog of term contracts declining rapidly;
- the loss of any of our customers, financial distress or management changes of potential customers or failure to obtain contract renewals and additional customer contracts for our drilling services;
- overcapacity and competition in our industry;
- an increase in interest rates and deterioration in the credit markets;
- our inability to comply with the financial and other covenants in debt agreements that we may enter into as a result of reduced revenues and financial performance;
- unanticipated costs, delays and other difficulties in executing our long-term growth strategy;
- the loss of key management personnel;
- new technology that may cause our drilling methods or equipment to become less competitive;
- labor costs or shortages of skilled workers;
- the loss of or interruption in operations of one or more key vendors;
- the effect of operating hazards and severe weather on our rigs, facilities, business, operations and financial results, and limitations on our insurance coverage;
- increased regulation of drilling in unconventional formations;
- the incurrence of significant costs and liabilities in the future resulting from our failure to comply with new or existing environmental regulations or an accidental release of hazardous substances into the environment; and
- the potential failure by us to establish and maintain effective internal control over financial reporting.

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations, and, therefore, you are cautioned not to place undue reliance on such statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Annual Report on Form 10-K, including those described in (1) Part I, “Item 1A. Risk Factors” and (2) Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

## PART I

### ITEM 1. BUSINESS

#### Overview

Except as expressly stated or the context otherwise requires, the terms “we,” “us,” “our,” the “Company” and “ICD” refer to Independence Contract Drilling, Inc. and its subsidiary.

We were incorporated in Delaware on November 4, 2011. We provide land-based contract drilling services for oil and natural gas producers targeting unconventional resource plays in the United States. We own and operate a premium fleet comprised of modern, technologically advanced drilling rigs.

Our rig fleet includes 29 AC powered (“AC”) rigs, of which 24 are included in our marketed fleet. We currently focus our operations on unconventional resource plays located in geographic regions that we can efficiently support from our Houston, Texas and Midland, Texas facilities in order to maximize economies of scale. Currently, our rigs are operating in the Permian Basin, the Haynesville Shale and the Eagle Ford Shale; however, our rigs have previously operated in the Mid-Continent and Eaglebine regions as well.

Our business depends on the level of exploration and production activity by oil and natural gas companies operating in the United States, and in particular, the regions where we actively market our contract drilling services. The oil and natural gas exploration and production industry is historically cyclical and characterized by significant changes in the levels of exploration and development activities. Oil and natural gas prices and market expectations of potential changes in those prices significantly affect the levels of those activities. Worldwide political, regulatory, economic and military events, as well as natural disasters have contributed to oil and natural gas price volatility historically, and are likely to continue to do so in the future. Any prolonged reduction in the overall level of exploration and development activities in the United States and the regions where we market our contract drilling services, whether resulting from changes in oil and natural gas prices or otherwise, could materially and adversely affect our business.

Our principal executive offices are located at 20475 Hwy 249, Houston, Texas 77070. Our common stock is traded on the NYSE under the symbol “ICD.”

#### Industry Trends

##### *Land Rig Replacement Cycle*

The increase in horizontal drilling in the United States over the past fifteen years has resulted in an ongoing land-rig replacement cycle in which the contract drilling industry is systematically upgrading its legacy fleets of electrical silicon-controlled rectifier (“SCR”) rigs and mechanical rigs with modern AC rigs that are specifically designed to optimize this type of drilling activity. Additionally, a growing focus on horizontal drilling of longer-reach lateral wells from multi-well pads is driving a further delineation in the United States land rig fleet between pad-optimal rigs specifically designed and engineered for such applications and AC and legacy rigs not specifically engineered for such applications.

The following describes the three different types of rig drives:

*Mechanical Rigs.* Mechanical rigs were not designed and are not well suited for the demanding requirements of drilling horizontal wells. A mechanical rig powers its systems through a combination of belts, chains and transmissions. This arrangement requires the rig to be rigged up with precise alignment of the belts and chains, which requires substantial time during a rig move. In addition, mechanical power loading of key rig systems, including drawworks, pumps and rotating equipment results in very imprecise control of system parameters, causing lower drill bit life, lower rate of penetration and difficulty maintaining wellbore trajectory.

*SCR Rigs.* In contrast to mechanical rigs, SCR rigs rely on direct current, or DC, to power the key rig systems. Load is changed by adjusting the amperage supplied to electric motors powering key rig systems. While a substantial improvement over mechanical belts and chains, SCR control is imprecise, and DC power levels normally drift resulting in fluctuations in pump speed and pressure, bit rotation speed, and weight on bit. These fluctuations can cause wellbore deviation, shorter bit life and less optimal rates of penetration. In addition, SCR equipment is heavy and energy inefficient.

*AC Rigs.* Compared to SCR and mechanical rigs, AC rigs are ideally suited for drilling horizontal wells. The first AC rigs were introduced into the United States land market in the early 2000s, and since that time their use has grown significantly as the use of horizontal drilling has increased. AC rigs use a computer-controlled variable frequency drive (“VFD”) to precisely

adjust key rig operating parameters and systems allowing for optimization of the rate of penetration, extended bit life and improved control of wellbore trajectory. These factors reduce the amount of time a wellbore is “open hole,” or uncased. Shorter open hole times dramatically reduce adjacent formation damage that can be caused by shale hydration or drilling fluid invasion and enhance the operator’s ability to optimally run and cement casing to complete the drilled well. In addition, when compared to SCR and mechanical rigs, AC rigs are electrically more efficient, produce more torque, utilize regenerative braking, and have digital controls. AC motors are also smaller, lighter and require less maintenance than DC motors.

### ***Shift to Manufacturing Wellbore Model***

As a result of significant investments made in unconventional resource plays, exploration and production ("E&P") companies are now focused on developing these investments in a systematic manner. Efficient development of these resource plays involves drilling programs requiring large numbers of wells to be drilled in succession, as opposed to a single or a few wells designed to delineate a field or hold a lease. We view this as analogous to a manufacturing process that requires an engineered program and is focused on economies of scale to reduce overall field development costs. Cost effective development drilling requires more complex well designs, shorter cycle times, and the use of innovative technology in order to reduce an E&P company’s overall field development costs.

One method in which an E&P operator may reduce overall field development costs is through the use of a multi-well pad development program. Pad drilling involves the drilling of multiple wells from a single location, which provides benefits to the E&P company in the form of per well cost savings and accelerated cash flows as compared to non-pad developments. These cost savings result from reduced time required to move the rig between wells, centralized hydraulic fracturing operations and the efficient installation of central production facilities and pipelines. In addition, by performing drilling operations on one well with simultaneous completion operations on a second well, operators do not have to wait until the entire pad is complete to begin earning a return on their investment. Pad drilling promotes “manufacturing” efficiencies by enabling “batch” drilling, whereby an operator drills all of the wells’ surface holes as the first batch, then drills all of the intermediate sections as the second batch, and concludes with the drilling of all of the laterals as the final batch. Efficiencies are created because hole sizes change less frequently, and operators use the same mud system and tools repeatedly. We believe as operators have shifted over time to horizontal drilling, they have implemented pad drilling in order to maximize economics and optimize development plans. In order to maximize the efficiencies gained from pad drilling, a rig must be capable of moving quickly from one well to another and be able to address the complexities associated with the growing number of wells per pad. In addition to quickly moving from well to well, omni-directional walking systems are ideally suited for pad drilling because they are capable of efficiently addressing situations on a pad in which wellbores are not precisely aligned or when level variations exist on the pad, which becomes increasingly likely as pads become larger and more complex.

Another method utilized by operators to increase efficiencies and maximize well economics is the drilling of longer lateral horizontal wells. Operators in our target areas have continued to increase the lateral length of their horizontal wells. Longer laterals provide greater production zones as the portion of the wellbore that passes through the target formation increases, optimizing the impact of hydraulic fracturing and stimulation. The drilling of longer laterals necessitates the use of increased horsepower drawworks and top drive systems, which provide maximum torque and rotational control and allows the operator to maintain the integrity of its drilling plan throughout the wellbore. Additionally, higher pressure mud pumps are required to pump fluids through significantly longer wellbores. The competitive advantage of higher pressure mud pumps grows as the lateral length increases, as only high pressure pumps can effectively address the severe pressure drop, while providing the required hydraulic horsepower at the bit face and sufficient flow to remove drill cuttings and keep the hole clean.

### ***Pad Optimal Equipment***

Cost effective development drilling in a manufacturing wellbore model requires more complex well designs, shorter cycle times, and the use of innovative technology in order to reduce an E&P company’s overall field development costs. Drilling rigs that are designed to maximize drilling efficiency, reduce cycle times, maximize energy efficiency, increase penetration rates while drilling, and drill longer-reach horizontal wells will reduce an E&P company’s overall field development costs and provide them with greater optionality when designing their field development program.

We believe that E&P companies drilling horizontal wells increasingly demand not only AC rigs that are optimal for horizontal drilling, but premium AC rigs such as our ShaleDriller rigs that are "pad optimal" including the following minimum equipment and design features:

- *AC Programmable.* AC rigs use a variable frequency drive that allows precise computer control of motor speed during operations. This greater control of motor speed provides more precise drilling of the wellbore. Among other attributes, when compared to electrical SCR rigs and mechanical rigs, AC rigs are electrically more efficient, produce consistent torque, utilize regenerative braking, and have digital controls and AC motors that require less maintenance. AC rigs

allow our customers to drill faster, which, in general, eliminates reservoir permeability damage, and to drill wellbores that more precisely track planned trajectories without doglegs. This, in turn, minimizes open hole time and enables our customers to more effectively and efficiently run casing, cement and successfully complete their wells.

- *Pad Optimized, Omni-Directional Walking System.* Omni-directional walking systems are designed to optimize pad drilling economics for our customers. Pad drilling involves the drilling of multiple wells from a single location, which provides benefits to the E&P company in the form of cost savings and accelerated cash flows. Our walking rigs move in any direction quickly between wellheads, rapidly and efficiently adjust to misaligned wellbores, walk over raised wellheads, and increase operational safety due to fewer required rig up and rig down movements.
- *Efficient Mobilization Between Drilling Sites.* A rig that can rapidly move between drilling sites has become increasingly desired by, and impactful to, E&P companies because it reduces cycle times allowing them to drill more wells in the same period of time. Our ShaleDriller rigs move rapidly on conventional rig moves between drilling sites.
- *1500-HP Drawworks.* 1500-HP drawworks are well suited for the development of the vast majority of our customers' unconventional resource assets. Compared to a 1000-HP or smaller rig, a 1500-HP rig has superior capability to handle extended drill string lengths required to drill long horizontal wells, which are becoming more common in the markets we serve. Our 24 marketed rigs include 23 1500-HP rigs and one 1000-HP rig.
- *7500psi Mud Systems.* The drilling of longer laterals necessitates the use of higher-pressure mud pumps to pump fluids through significantly longer wellbores. The competitive advantage of higher-pressure mud pumps grows as the lateral length gets longer, as only high pressure pumps can effectively address the severe pressure drop while providing the required hydraulic horsepower at the bit face and sufficient flow to remove drill cuttings and keep the hole clean. All ShaleDriller rigs are equipped with 7500psi mud systems, and all are capable of adding a third mud pump and fourth engine if a customer requires such additional equipment capacity.

In addition to these minimum characteristics, we believe E&P operators also increasingly desire drilling contractors with the ability to provide other flexible and varying equipment packages depending upon the specific nature of their drilling program and their field-development plans. Such equipment package options may include redundant third mud pumps, three simultaneously operating mud pumps powered by a fourth engine when greater hydraulic flow and pressure is required, greater setback capacity allowing efficient drilling of ultra-long horizontal laterals, or increased hookload when utilizing larger casing strings in combination with deeper wells. Our ShaleDriller fleet is capable of providing all of these varying equipment packages depending upon our customer's requirements.

### **Customer Contracts and Backlog**

Drilling contracts are obtained through competitive bidding or as a result of negotiations with customers, and may cover multi-well and multi-year projects. Each of our rigs operates under a separate drilling contract or drilling order subject to a master drilling contract. We perform drilling services on a "daywork" contract basis, under which we charge a specified rate per day. The dayrate under each of our contracts is a negotiated price determined by the location, depth and complexity of the wells to be drilled, operating conditions, the duration of the contract, and market conditions. We have not accepted any, and do not anticipate entering into, any "turn-key" (fixed sum to deliver a hole to a stated depth) or "footage" (fixed rate per foot of hole drilled) contracts. The duration of land drilling contracts can vary from "well-to-well" or to a fixed term ranging from a few months to several years. The revenue generated by a rig in a given year is the product of the dayrate fee and the number of days the rig is earning this fee based on activity and the terms of the contract, referred to as utilization. "Well-to-well" contracts are typically cancelable at the option of either party upon the completion of drilling at a particular site. Fixed-term contracts customarily provide for termination at the election of the customer, with an "early termination payment" to be paid to the drilling contractor if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, the drilling contractor's bankruptcy, sustained unacceptable performance by the drilling contractor or delivery of a rig beyond certain grace and/or liquidated damage periods, no early termination payment would be paid to the drilling contractor. Drilling contracts also contain provisions regarding indemnification against certain types of claims involving injury to persons, property and for acts of pollution, which are subject to negotiation on a contract-by-contract basis.

Under a typical daywork contract, we earn a dayrate fee while the rig is operating, and we earn a moving rate fee while the rig is moving between wells or drilling locations under the contract. If the rig is on standby or is not drilling due to a force majeure event unrelated to damage to the rig, contracts typically provide that we earn a rate during this period of time, which rate may be equal to or less than the operating rate.

Mobilization rates are determined by market conditions and are generally reimbursed by the customer. In most instances, contracts typically provide for additional payments associated with the initial mobilization of a drilling rig and, in certain circumstances, we receive a demobilization fee at the end of the contract term equal to the estimated cost to transport the rig from the final drilling location and to compensate us for the estimated demobilization time.

Drilling contracts typically provide that the contractor continues to earn the operating dayrate while a rig is not operating but under repair or maintenance, so long as the non-operating time due to repair and maintenance does not exceed a specified number of hours in a given day or calendar month.

As a result of the material market declines caused by the COVID-19 pandemic, most of our customers are contracting rigs on a pad-to-pad basis rather than entering into contracts with terms of six months or more. As a result, our reported backlog has materially declined. As of December 31, 2020, our backlog of term contracts was \$6.1 million representing 1.1 rig years of work, all of which is expected to be realized during 2021. Our backlog does not include potential reductions in rates for unscheduled standby during periods in which the rig is moving, on standby or incurring maintenance and repair time in excess of contractually allowed downtime. In addition, rigs under term contracts may realize revenue on a standby-without-crew basis, which allows us to preserve our expected cash margins from the contract but reduces our overall top line revenue. To the extent that we have rigs under term contracts operating on a standby or standby-without-crew basis, our top line revenues will be less than our reported backlog from term contracts.

### **Our Customers**

Customers for contract drilling services in the United States include major oil and natural gas companies, independent oil and natural gas companies, as well as numerous small to mid-sized publicly-traded and privately held oil and natural gas companies. We market our contract drilling services to all such customers. During 2020, our customers representing more than 10% of our revenues were Diamondback Energy, Inc., BPX Operating Company, GeoSouthern Energy Corporation and Indigo Minerals, LLC.

### **Industry/Competition**

To a large degree, our business depends on the level of capital spending by oil and natural gas companies for exploration, development and production activities. A sustained increase or decrease in the price of oil and natural gas could have a material impact on the exploration, development and production activities of our customers and could materially affect our financial position, results of operations and cash flows.

The contract drilling industry is highly competitive and has become even more so under current market conditions. The price for contract drilling services is a key competitive factor in the United States land contract drilling markets, in part because equipment used in our businesses can be moved from one area to another in response to market conditions. In addition to price, we believe the principal competitive factors in our markets are availability and condition of equipment, efficiency of equipment, quality of personnel, service quality, experience and safety record.

Many of our competitors are larger, publicly-held corporations with significantly greater resources and longer operating histories than us. Our largest competitors for high-end AC land drilling contract services are Helmerich & Payne, Inc., Precision Drilling Corporation, Nabors Industries, Ltd. and Patterson-UTI Energy, Inc.

Many of our larger competitors are able to offer ancillary products and services with their contract drilling services, and recently, some of our larger competitors have begun integrating and offering contract drilling services in connection with directional drilling and other services that we do not offer.

### **Government and Environmental Regulation**

All of our operations and facilities are subject to numerous federal, state and local laws, rules and regulations related to various aspects of our business, including:

- drilling of oil and natural gas wells;
- the relationships with our employees;
- containment and disposal of hazardous materials, oilfield waste, other waste materials and acids; and
- use of underground storage tanks.

To date, we do not believe such rules and regulations, including applicable environmental laws and regulations, in the United States have required the expenditure by the contract drilling industry of significant resources outside the ordinary course of business. However, compliance costs under existing laws or under any new requirements could become material, and we could incur liability in any instance of noncompliance.

Our business is generally affected by political developments and by federal, state and local laws and regulations that relate to the oil and natural gas industry. The adoption of laws and regulations affecting the oil and natural gas industry for economic, environmental and other policy reasons could increase costs relating to drilling and production, and otherwise have an adverse effect on our operations. Federal, state and local environmental laws and regulations currently apply to our operations and may become more stringent in the future. On January 27, 2021, President Biden issued an executive order directing the Secretary of the Interior to pause approval of new oil and natural gas leases on public lands or in offshore waters pending completion of a comprehensive review and reconsideration of federal oil and gas permitting and leasing practices. Any suspension or moratorium of the services we provide, whether or not short-term in nature, by a federal, state or local governmental authority, could have a material adverse effect on our business, financial condition and results of operation.

In the United States, the federal Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (“CERCLA”), and comparable state statutes impose liability, without regard to fault or legality of conduct, on classes of persons considered to be responsible for the release of a “hazardous substance” into the environment. These persons include:

- current and past owners and operators of the site where the release occurred, and
- persons who disposed of or arranged for the disposal of “hazardous substances” released at the site.

Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. 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 the hazardous substances released into the environment.

The federal Resource Conservation and Recovery Act (“RCRA”), as amended, and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Although CERCLA currently excludes petroleum from the definition of “hazardous substances,” and RCRA excludes certain classes of exploration and production wastes from regulation as hazardous waste under Subtitle C of RCRA, such exemptions by Congress under both CERCLA and RCRA may be deleted, limited, or modified in the future. If such changes are made to CERCLA and/or RCRA, we could be required to remove and remediate previously disposed of materials (including materials disposed of or released by prior owners or operators) from properties (including ground water contaminated with hydrocarbons) and to perform removal or remedial actions to prevent future contamination.

The federal Water Pollution Control Act, as amended, also known as the Clean Water Act, and the Oil Pollution Act of 1990, as amended (the “Oil Pollution Act”), and analogous state laws and their respective implementing regulations govern:

- the prevention of discharges of pollutants, including oil and produced water spills, into waters of the United States; and
- liability for drainage into waters of the United States.

The Oil Pollution Act imposes strict liability for a comprehensive and expansive list of damages from an oil spill into waters from facilities. Liability may be imposed for oil removal costs and a variety of public and private damages. Administrative, civil or criminal penalties may also be imposed for violation of federal safety, construction and operating regulations, and for failure to report a spill or to cooperate fully in a clean-up.

The Oil Pollution Act also expands the authority and capability of the federal government to direct and manage oil spill clean-up and operations, and requires operators to prepare oil spill response plans in cases where it can reasonably be expected that substantial harm will be done to the environment by discharges on or into navigable waters. Failure to comply with ongoing requirements or inadequate cooperation during a spill event may subject a responsible party, such as us, to administrative, civil or criminal actions. Although the liability for owners and operators is the same under the federal Water Pollution Act, the damages recoverable under the Oil Pollution Act are potentially much greater and can include natural resource damages.

Our contract drilling services will be marketed in oil and natural gas producing regions that utilize hydraulic fracturing services to enhance the production of oil and natural gas from formations with low permeability, such as shales. Due to concerns raised relating to potential impacts of hydraulic fracturing on ground water quality and the increased occurrence of seismic activity, legislative and regulatory efforts at the federal level and in some states have been initiated to render permitting and compliance requirements more stringent for hydraulic fracturing or prohibit the activity altogether. On January 27, 2021, President Biden issued an executive order directing the Secretary of the Interior to pause approval of new oil and natural gas

leases on public lands or in offshore waters pending completion of a comprehensive review and reconsideration of federal oil and gas permitting and leasing practices, effectively limiting hydraulic fracturing on federal lands and waters. Any such efforts to limit or ban hydraulic fracturing could have an adverse effect on oil and natural gas production activities, which in turn could have an adverse effect on the contract drilling services that we render for our exploration and production customers.

Our operations are also subject to federal, state and local laws, rules and regulations for the control of air emissions, including the federal Clean Air Act. The federal Clean Air Act, and comparable state laws, regulates emissions of various air pollutants through, for example, air emissions permitting programs. In addition, the Environmental Protection Agency (the "EPA") has developed, and continues to develop, stringent regulations governing emissions of toxic air pollutants at specified sources including the energy extraction sector. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the federal Clean Air Act and associated state laws and regulations. Finally, more stringent federal, state and local regulations, such as the EPA rules issued in April 2012, which add new requirements for the oil and natural gas sector under the New Source Review Program and the National Emission Standards for Hazardous Air Pollutants program, could result in increased costs and the need for operational changes. Any direct and indirect costs of meeting these requirements may adversely affect our business, results of operations and financial condition.

On December 7, 2009, the EPA announced its findings that emissions of GHG present an "endangerment to human health and the environment." The EPA based this finding on a conclusion that greenhouse gases are contributing to the warming of the Earth's atmosphere and other climate changes. The EPA began to adopt regulations that would require a reduction in emissions of greenhouse gases from certain stationary sources and has required monitoring and reporting for other stationary sources. Mandatory reporting requirements for additional regional, federal or state requirements have been imposed and additional requirements may be imposed in the future. New legislation or regulatory programs that restrict emissions of greenhouse gases in areas in which we conduct business could have an adverse effect on our operations and demand for our services. For example, during 2012, the EPA published rules that include standards to reduce methane emissions associated with oil and natural gas production. In May 2016, the EPA finalized regulations that set methane emission standards for new and modified oil and natural gas facilities, including production facilities. However, in September 2020, the EPA issued a final rule that removed the transmission and storage segment from the 2016 new source performance standards, rescinded VOCs and methane emissions standards for the transmission and storage segment, and rescinded methane emissions standards for the production and processing segments. Various states and industry and environmental groups are separately challenging the EPA's 2016 standards and its September 2020 final rule. Notwithstanding the current court challenges, on January 20, 2021, President Biden issued an executive order directing the EPA to consider publishing for notice and comment a proposed rule suspending, revising, or rescinding the September 2020 rule, which could result in more stringent methane emission rulemaking. Currently, our operations are not adversely impacted by existing state and local climate change initiatives and, at this time, it is not possible to accurately estimate how potential future laws or regulations addressing greenhouse gas emissions would impact our business. Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our exploration and production operations.

We are subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA and similar state statutes require that we organize and/or disclose information about hazardous materials used or produced in our operations. We believe that we are in compliance with these applicable requirements and with other OSHA and comparable requirements.

Additionally, environmental laws such as the federal Endangered Species Act ("ESA") and the Migratory Bird Treaty Act, may impact exploration, development and production activities on public or private lands. The ESA provides broad protection for species of fish, wildlife and plants that are listed as threatened or endangered in the United States, and prohibits taking of endangered species. Federal agencies are required to ensure that any action authorized, funded or carried out by them is not likely to jeopardize the continued existence of listed species or modify their critical habitat. While some of our customers' properties may be located in areas that are designated as habitat for endangered or threatened species, we believe that we are in substantial compliance with the ESA. However, the designation of previously unidentified endangered or threatened species or the designation of previously unprotected areas as a critical habitat could cause us to incur additional costs or become subject to operating restrictions or bans in the affected areas.

## **Risks and Insurance**

Our operations are subject to the many hazards inherent in the drilling business, including: accidents at the work location; blow-outs; cratering; fires; and explosions. These and other hazards could cause personal injury or death, suspension of drilling operations, damage or destruction of our equipment and that of others, damage to producing formations and surrounding areas, or environmental damage.

Damage to the environment, including property contamination in the form of soil or ground water contamination, could also result from our operations, including through oil or produced water spillage, natural gas leaks, and fires.

We maintain insurance coverage of types and amounts that we believe to be customary in the industry, but we may not be fully insured against all risks, either because insurance is not available or because of the high premium costs. Such risks include personal injury, well disasters, extensive fire damage, damage to the environment, and other hazards. The insurance coverage that we maintain includes insurance for fire, windstorm and other risks of physical loss to our rigs and other assets, employer's liability, automobile liability, commercial general liability insurance and workers compensation insurance. We cannot assure, however, that any insurance obtained by us will be adequate to cover any losses or liabilities, or that this insurance will continue to be available or available on terms that are acceptable to us. While we carry insurance to cover physical damage to, or loss of, our drilling rigs and other assets, such insurance does not cover the full replacement cost of the rigs or other assets, and we do not carry insurance against loss of earnings resulting from such damage. Liabilities for which we are not insured, or which exceed the policy limits of our applicable insurance, could have a material adverse effect on our financial condition and results of operations. Further, we may experience difficulties in collecting from insurers, or such insurers may deny all or a portion of our claims for insurance coverage.

In addition to insurance coverage, we also attempt to obtain indemnification from our customers for certain risks. These indemnities typically require our customers to hold us harmless in the event of loss of production or reservoir damage. There is no assurance that we will obtain such contractual indemnity, and if obtained, whether such indemnity will be enforceable, whether the customer will be able to satisfy such indemnity or whether such indemnity will be supported by adequate insurance maintained by the customer.

If a significant accident or other event occurs and is not fully covered by insurance or is not an enforceable or recoverable indemnity from a third party, it could have a material adverse effect on our business, financial condition, cash flows and results of operations. See *"Risk Factors - Our operations involve operating hazards, which if not insured or indemnified against, could adversely affect our results of operations and financial condition."*

## **Human Capital and Sustainability**

We work to provide the safest and most efficient contract drilling services in our industry in a manner which protects, develops and rewards people, while striving to protect the environment, providing positive impacts to the communities where we operate, while recognizing the needs of all our stakeholders.

The foundation for our commitment to human capital and sustainability is illustrated in our corporate vision and values and mission statements:

- Vision: Our Vision is to be the leader in Health, Safety & Environment and Operational Excellence while providing services to support North American energy development.
- Mission: Our Mission is to provide the safest and most efficient contract drilling services in our industry.
- Core Values: Our Core Values provide the directions in achieving these objectives: (i) focus on safety, people and the environment; (ii) lead our industry with integrity and pursuit of performance excellence in everything we do; (iii) accountability to all stakeholders including employees, customers, vendors and investors; and (iv) our greatest resource is people.

### ***Human Capital***

As of February 19, 2021, we had approximately 300 employees. We believe people are our greatest resource. We are committed to fostering a work environment where all people feel valued and respected. We are committed to recruiting, hiring, training and retaining the highest caliber human talent for our business by utilizing various means including outreach initiatives and partnerships with a diverse group of organizations, industry associations and networks. We require our employees to complete training annually including our commitment to a respectful workplace.

Training and mentoring of our team members is essential to the development of our employees and providing industry leading contract drilling services. Our mentoring programs are designed to assist short-service employees, especially at the floorhand level at the rig site, with adjusting to their new careers with our company and within our industry. Our training programs are designed to create core-competencies and equip our employees for advancement and promotion opportunities. Training is provided through various means including classroom, online and on-the-job training, and competencies must be demonstrated. Adherence to our training requirements and protocols is monitored for each of our field and office employees and is a component of our field-based annual incentive programs. We consider our employee relations to be good. None of our employees are represented by a union.

*Safety.* The safety of our employees and others is our highest priority at the worksite, and also at home. Our safety programs were built and are maintained by Company employees. The programs undergo annual revalidation. Our safety programs are designed to comply with applicable laws and industry standards and the requirements of our customers. We maintain a robust safety management system whereby all incidents and potential incidents are reported, monitored and root cause analysis and corrective actions are documented and performed when appropriate. All field-based employees are required to follow a structured safety training regimen, including safety orientations, behavior-based safety programs, and programs regarding hazard awareness, 12 ICD life-saving skills, safe systems of work, permission to work, time out for safety, energy isolation, hazard communication and material handling. Safety is a material component of our executive, corporate, and field-based annual incentive compensation programs.

*Health and Benefits.* For our field employees, we provide third party medical consultation services on a 24 hour / 7 day a week basis in the event of any personal illness, first aid or injury on our work sites. We provide robust health and benefit programs for all of our employees that include an emphasis on preventative care programs.

### ***Environment***

We evaluate, pursue and implement efforts to reduce impacts from our operation on air and water quality, land usage, use of energy, and reducing waste materials. For example, our drilling rigs are equipped with dual fuel engines that reduce carbon and greenhouse emissions. Our rigs also are capable of operating on utility electrical power where feasible and we have recently partnered with several operators to equip our drilling rigs to this power source. All of our drilling rigs are designed to be pad optimal, which enables multi-well pad drilling which reduces the number of drilling locations required and thus the environmental impact of the operations. We track spills and employ spill prevention plans and use additional protective measures in our efforts to minimize impacts to the environment.

### ***Social Community Engagement***

By focusing on increasing employee engagement, we seek to imprint the feel of community within the Company's employee base including their families. We utilize social media tools to help increase engagement and also promote a positive image of the Company and our industry. Annually, the Company participates in toy drives and other volunteer efforts to "give back" to the communities where we operate.

### ***Governance***

Overall corporate governance oversight is provided by our Board of Directors. All of our employees are required to complete annual training on our Code of Business Conduct and Ethics, which addresses conflicts of interest, confidentiality, fair dealing with others, proper use of company assets, compliance with laws, insider trading, keeping of books and records, zero tolerance for discrimination and harassment in the work environment, as well as reporting of violations. We maintain reporting mechanisms, including anonymous hotlines, for potential violations of our Code of Business Conduct and Ethics to be reported to our Board of Directors and senior management.

### **Seasonality**

Seasonality has not significantly affected our overall operations. However, our drilling operations can be affected by severe winter storms or other weather-related events. Additionally, toward the end of some years, we experience slower contracting activity as customers' capital expenditure budgets are depleted.

### **Drilling Equipment, Suppliers and Subcontractors**

We use many suppliers of drilling equipment and services. Although these suppliers, drilling equipment and services have historically been available, there is no assurance that such drilling equipment and services will continue to be available on favorable terms or at all. We also utilize numerous manufacturers and independent subcontractors from various trades to supply key components to the rigs that we construct for our use. These key components include masts and substructures, top drives,

high pressure mud pumps, pressure control equipment, engines, and VFD control systems. We believe that we have alternative sources for each of these components.

### **Website Access to Our Periodic SEC Reports**

Our internet address is <http://www.icdrilling.com>. We file and furnish Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, with the Securities and Exchange Commission (the "SEC"), which are available free of charge through our website as soon as reasonably practicable after such reports are filed with or furnished to the SEC. The SEC maintains an internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding our company that we file and furnish electronically with the SEC.

We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules. Information on our website is not incorporated by reference into this Annual report on Form 10-K and you should not consider information on our website as part of this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

*We face many challenges and risks in the industry in which we operate. You should carefully consider each of the following risk factors and all of the other information set forth in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, and the documents and other information incorporated by reference herein, before investing in our shares. The risks and uncertainties described are not the only ones we face. Additional risk factors not presently known to us or which we currently consider immaterial may also adversely affect us. If any of these risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our shares could decline and you could lose all or part of your investment.*

### **Key Risks Related to Our Business and Operations**

***Due to the adverse effects of the COVID-19 pandemic on the oil and gas industry, our operating rig count dropped rapidly, and as a result, we reported negative cash flow from operations during the third and fourth quarters of 2020. We cannot assure you when we will again generate positive cash flow from operations or that our operating rig count will not decline again. Depending upon the duration of this decline and the length of time it takes for our operating rig count to improve, this could have a material adverse effect on our business, liquidity, results of operations and financial condition.***

During the first quarter of 2020, our operating rig count reached a peak of 22 rigs. Market deterioration largely caused by COVID-19 subsequently caused our customers to reduce drilling activity, which has resulted in a rapid decline in our operating rig count, reaching a low of three rigs during the third quarter of 2020. We were able to reactivate rigs in late 2020 and had eight rigs operating and eleven rigs under contracts as of December 31, 2020. However, even with these improvements, we reported negative cash flow from operations during the third and fourth quarters of 2020, and we expect that market conditions need to improve further for us to generate positive cash flow from operations. Due to the lack of visibility and confidence towards customer intentions, we cannot assure you that our rig count will not decline from these year-end levels. We also cannot assure you that market conditions will improve and if or when our operating rig count will improve further or reach pre-COVID-19 levels or when we will again report positive cash flow from operations. Maintaining our current operating rig count without improvement in 2021 could materially adverse effect our business, liquidity, results of operations and financial condition.

As a result of the ongoing decline in our operating rig count, together with associated dayrate pressure and margin contraction, in the current oil and gas operating environment our cash flows from operations have decreased dramatically, and we will need to draw on other sources of available liquidity until market conditions improve in order to maintain operations and make required non-operating expenditures. Current sources of liquidity at December 31, 2020 included \$12.3 million of cash, \$7.5 million of availability under our revolving credit facility, \$5.0 million of availability from an equity line of credit common stock purchase agreement and \$15 million available under our term loan accordion. We currently believe that these sources of liquidity are sufficient to fund our operations for the next twelve months from issuance, but this assumes that both our operating rig count and dayrates continue to increase steadily from current levels during first half of 2021 in response to recently improving market conditions. Due to the uncertainty regarding the duration of the COVID-19 pandemic and its effects on the oil and gas industry, we cannot predict the length of time that the market disruptions resulting from the COVID-19 pandemic will continue, if market conditions will continue to improve or when, or if, oil and gas prices and demand for our contract drilling services will return to pre-COVID-19 levels. As a result, we cannot assure that our current sources of financial liquidity will be sufficient to fund our operations, and any failure to do so could have a material adverse effect on our business, liquidity, results of operations and financial condition.

***As a result of the significant downturn in the oil and gas business and demand for our contract drilling services caused by the COVID-19 pandemic, we could lose our listing on the New York Stock Exchange, which could have a material adverse effect on the market value of our common stock.***

Under New York Stock Exchange listing requirements, in order to maintain our listing status we are required to maintain at all times a minimum 30-day trading average public market capitalization of \$15 million. Unlike certain other listing standards tied to minimum share price, there is no cure period or grace period associated with this listing standard. As of December 31, 2020, we estimated that our 30-day average market capitalization was approximately \$20.6 million, and has increased to \$27.2 million as of February 22, 2021. Because we cannot predict the length of time that the market disruptions resulting from the COVID-19 pandemic will continue or when, or if, demand for our contract drilling services will begin to improve or return to pre-COVID-19 levels, or when, or if, a general decline in the stock market could occur, we cannot assure you that our common stock will remain listed on the New York Stock Exchange, which could have a material adverse effect on the trading value of our common stock and our ability to raise additional funds through new issuances.

*We derive all our revenues from companies in the oil and natural gas exploration and production industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility in oil and natural gas prices.*

As a provider of land-based contract drilling services, our business depends on the level of exploration and production activity by oil and natural gas companies operating in the United States, and in particular, the regions where we actively market our contract drilling services. The oil and natural gas exploration and production industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. Oil and natural gas prices and market expectations of potential changes in those prices significantly affect the levels of those activities. Worldwide political, regulatory, economic, and military events as well as natural disasters have contributed to oil and natural gas price volatility and are likely to continue to do so in the future. Any prolonged reduction in the overall level of exploration and development activities in the United States and the regions where we market our contract drilling services, whether resulting from changes in oil and natural gas prices, an increase in the use of alternative forms of energy and reduction in demand for oil and natural gas, or otherwise, could materially and adversely affect our business, results of operations and financial condition.

Depending on the market prices of oil and natural gas, oil and natural gas exploration and production companies may cancel or curtail their drilling programs and may lower production spending on existing wells, thereby reducing demand for our services. Many factors beyond our control affect oil and natural gas prices, including, but not limited to:

- the cost of exploring for, producing and delivering oil and natural gas;
- the discovery and development rate of new oil and natural gas reserves, especially shale and other unconventional natural gas resources for which we market our rigs;
- the rate of decline of existing and new oil and natural gas reserves;
- available pipeline and other oil and natural gas transportation capacity;
- the levels of oil and natural gas storage;
- the ability of oil and natural gas exploration and production companies to raise capital;
- economic conditions in the United States and elsewhere;
- actions by the Organization of Petroleum Exporting Countries;
- political instability in the Middle East and other major oil and natural gas producing regions;
- governmental regulations, sanctions and trade restrictions, both domestic and foreign;
- domestic and foreign tax policy;
- the availability of and constraints in pipeline, storage and other transportation capacity in the basins in which we operate, including, for example, takeaway constraints experienced in the Permian Basin;
- weather conditions in the United States;
- the pace adopted by foreign governments for the exploration, development and production of their national reserves;
- the price of foreign imports of oil and natural gas;
- the strength or weakness of the United States dollar;
- the overall supply and demand for oil and natural gas; and
- the development of alternate energy sources and the long-term effects of worldwide energy conservation measures.

In addition, if oil and natural gas prices decline, companies that planned to finance exploration, development or production projects through the capital markets may be forced to curtail, reduce, postpone or delay drilling activities even further, and also may experience an inability to pay suppliers. Adverse conditions in the global economic environment could also impact our vendors' and suppliers' ability to meet obligations to provide materials and services in general. If any of the foregoing were to occur, or if current depressed market conditions continue for a prolonged period of time, it could have a material adverse effect on our business and financial results and our ability to timely and successfully implement our growth strategy.

During 2020, the Organization of the Petroleum Exporting Countries ("OPEC") and Russia (collectively "OPEC+") instituted production cuts in order to support oil prices during the period of reduced demand caused by the COVID-19 pandemic. During January 2021, OPEC+ announced that it would largely continue such lower production through February and March of 2021, with Russia and Kazakhstan producing more and Saudi Arabia voluntarily cutting its production by one million barrels per day from January levels. Although oil prices have recovered from historic 2020 lows, the sustainability of these price levels and the continuation of prior OPEC+ production cuts remains uncertain. Because of this uncertainty, most of our exploration and production ("E&P") customers have not significantly increased capital expenditure budgets despite improvements in commodity prices. If oil prices were to fall again as a result of prolonged demand destruction caused by the COVID-19 pandemic or increased supply from OPEC+, and remain below \$50 per barrel for an extended period, we believe demand for contract drilling services would again soften over current levels, which could have a material adverse effect on our operations and financial condition.

***Any loss of large customers could have a material adverse effect on our financial condition and results of operations.***

Our customer base consists of E&P companies that drill oil and natural gas wells in the United States in the regions where we market our rigs. As of December 31, 2020, we have rigs operating or earning revenues from six different customers, including one customer who has contracted three, or 27%, of our contracted rigs. It is likely that we will continue to derive a significant portion of our revenue from a relatively small number of customers in the future. If a customer decided not to continue to use our services or to terminate an existing contract, or if there is a change of management or ownership of a customer or a material adverse change in the financial condition of one of our customers, it could have a material adverse effect on our revenues, cash flows, and financial condition.

***All of our operating rigs are operating under contracts with terms expiring during 2021. If we are unable to continue to operate rigs in the spot-market or renew our expiring contracts or continue their operation in the spot-market, it could have a material adverse effect on our results of operations and financial condition.***

Upon expiration of a drilling contract, our customers have no obligation to extend the contract term or recontract the drilling rig, and may elect to release the rig. All of our existing contracts expire during 2021. We cannot assure that a customer will continue to renew contracts as they expire or that any replacement contract can be obtained for any of our rigs operating in the spot-market or with terms expiring, and if obtained, that it would be on terms as favorable as those of our existing drilling contracts or at profitable levels. The failure to renew or timely replace one or more of our expiring contracts could have a material adverse effect on our results of operations and financial condition.

***Our operations involve operating hazards, which if not insured or indemnified against, could adversely affect our results of operations and financial condition.***

Our operations are subject to the many hazards inherent in the drilling and well services industries, including the risks of personal injury and loss of life, blowouts, cratering, fires and explosions, loss of well control, collapse of the borehole, damaged or lost drilling equipment, and damage or loss from extreme weather and natural disasters.

Any of these hazards can result in substantial liabilities or losses to us from, among other things, suspension of operations, damage to, or destruction of, our property and equipment and that of others, damage to producing or potentially productive oil and natural gas formations through which we drill, and environmental damage.

Although, we seek to protect ourselves from some but not all operating hazards through insurance coverage, some risks are either not insurable or insurance is available only at rates that we consider uneconomical. Depending on competitive conditions and other factors, we attempt to obtain contractual protection against uninsured operating risks from our customers. However, customers who provide contractual indemnification protection may not in all cases maintain adequate insurance or otherwise have the financial resources necessary to support their indemnification obligations. Our insurance or indemnification arrangements may not adequately protect us against liability or loss from all the hazards of our operations. We do not carry loss of business insurance for a rig being out of service.

We maintain insurance against some, but not all, of the potential risks affecting our operations and only in coverage amounts and deductible levels that we believe to be economical. Our insurance coverage includes deductibles which must be met prior to recovery. Additionally, our insurance is subject to exclusions and limitations, and there is no assurance that such coverage will adequately protect us against liability from all potential consequences and damages. The occurrence of a significant event that we have not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and financial condition. Furthermore, we may be unable to maintain adequate insurance in the future at rates we consider reasonable. Incurring a liability for which we are not fully insured or indemnified could have a material adverse effect on our financial condition and results of operations.

***We operate in a highly competitive industry in which price competition could reduce our profitability.***

We encounter substantial competition from other drilling contractors. The competition in the markets in which we operate has intensified as recent mergers among E&P companies have reduced the number of available customers and the downturn in oil prices has decreased demand for drilling rigs and resulted in downward pricing pressure on operating drilling rigs.

As a result of competition, we may lose market share or be unable to maintain or increase prices for our present services or to acquire additional business opportunities, which could have a material adverse effect on our business, results of operations and financial condition. In addition, the failure to maintain an adequate safety record could harm our ability to secure new drilling contracts.

***We face competition from many competitors with greater resources and greater ability to rapidly respond to changing customer requirements and market conditions.***

We compete with large national and multi-national companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Many of our larger competitors are able to offer ancillary products and services with their contract drilling services, and recently, some of our larger competitors have begun integrating and offering contract drilling services in connection with directional drilling and other services that we do not offer. In this regard, large diversified oilfield service companies have begun to market bundled services, including contract drilling services, in the United States. If any of these combined offerings gain acceptance within the United States market, it could place us at a competitive disadvantage that has an adverse impact on our future results of operations and profitability.

Furthermore, some of our competitors' greater capabilities in these areas may enable them to better withstand industry downturns, compete more effectively on the basis of price and technology, retain skilled rig personnel, and build new rigs or acquire and refurbish existing rigs so as to be able to place rigs into service more quickly than us in periods of high drilling demand.

***New technology may cause our drilling methods or equipment to become less competitive.***

The drilling industry is subject to the introduction of new drilling and completion methods and equipment using new technologies, some of which may be subject to patent protection. Changes in technology or improvements in competitors' equipment could make our equipment less competitive or require significant capital investments to build and maintain a competitive advantage. Further, we may face competitive pressure to design, implement or acquire certain new technologies at a substantial cost. Some of our competitors have greater financial, technical and personnel resources that may allow them to implement new technologies before we can. If we are unable to implement new and emerging technologies on a timely basis or at an acceptable cost, it may have a material adverse effect on our business, results of operations, financial condition and growth strategy.

***Our current estimated backlog of contract drilling revenue may not ultimately be realized.***

As of December 31, 2020, our estimated contract drilling backlog for future revenues under term contracts, which we define as contracts with a fixed term of six months or more, was approximately \$6.1 million. All of this backlog expires in 2021, which requires us to renew these expiring contracts as well as short term contracts under which a large number of our rigs operate. Although we historically have been successful in obtaining extensions or follow on work for drilling rigs with expiring contracts, in periods of market decline or uncertainty such as the U.S. land contract drilling industry is experiencing, we cannot assure that we will obtain such renewals, or that such renewals will be on terms acceptable to us. Any failure to renew or find follow-on work for our drilling rigs with expiring contracts, could have a material adverse effect on our operations and financial condition.

Fixed-term drilling contracts customarily provide for termination at the election of the customer, with an "early termination payment" to us if a contract is terminated prior to the expiration of the fixed term. Additionally, in certain circumstances, for example, destruction of a drilling rig that is not replaced within a specified period of time, our bankruptcy, or a breach of our contract obligations, the customer may not be obligated to make an early termination payment to us. Additionally, during depressed market conditions, such as those we are currently experiencing, or otherwise, customers may be unable to satisfy their contractual obligations or may seek to terminate, renegotiate or fail to honor their contractual obligations. In addition, we may not be able to perform under these contracts due to events beyond our control, and our customers may seek to cancel or negotiate our contracts for various reasons, including those described above. As a result, we may be unable to realize all of our current contract drilling backlog. In addition, the renegotiation or termination of fixed-term contracts without the receipt of early termination payments could have a material adverse effect on our business, financial condition, cash flows and results of operations.

***We participate in a capital intensive business. We may not be able to finance future growth of our operations.***

The contract drilling industry is capital intensive. Our cash flow from operations and the continued availability of credit are subject to a number of variables, including general economic conditions, conditions in the oil and natural gas market, and more specifically, our rig utilization rates, operating margins and ability to control costs and obtain contracts in a competitive industry. Our cash flow from operations and present borrowing capacity may not be sufficient to fund our anticipated capital expenditures and working capital requirements. We may from time to time seek additional financing, either in the form of bank borrowings, sales of debt or equity securities or otherwise. To the extent our capital resources and cash flow from operations are at any time insufficient to fund our activities or repay our indebtedness as it becomes due, we will need to raise additional funds through public or private financing or additional borrowings. We may not be able to obtain any such

capital resources in the amount or at the time when needed. Based upon the significant downturn in market conditions, any new sources of debt capital would require substantially higher interest requirements, and any new sources of equity capital could be substantially dilutive to existing shareholders. Any limitations on our access to capital or increase in the cost of that capital could significantly impair our growth strategy. Our ability to maintain our targeted credit profile could affect our cost of capital as well as our ability to execute our growth strategy. In addition, a variety of factors beyond our control could impact the availability or cost of capital, including domestic or international economic conditions, increases in key benchmark interest rates and/or credit spreads, the adoption of new or amended banking or capital market laws or regulations, the re-pricing of market risks and volatility in capital and financial markets. If we are at any time not able to obtain the necessary capital resources, our financial condition and results of operations could be materially adversely affected.

***We depend on a limited number of vendors, some of which are thinly capitalized and the loss of any of which could disrupt our operations.***

Our contract drilling operations depend upon the availability of various rig equipment, including VFD drives and drillers cabins, top drives, mud pumps, engines and drill pipe, as well as replacement parts, related rig equipment and fuel. Some of these have been in short supply from time to time. In addition, key rig components critical to the operation, construction or upgrade of our rigs are either purchased from or fabricated by a limited number of vendors, including vendors that may compete against us from time to time. For many of these products and services, there are only a limited number of vendors and suppliers available to us.

We do not currently have any long-term supply contracts with any of our suppliers or subcontractors and may be at a competitive disadvantage compared to our larger competitors when purchasing from these suppliers and subcontractors. Shortages could occur in these essential components due to an interruption of supply or increased demands in the industry. If we are unable to procure certain of such rig components or services from our subcontractors we would be required to reduce or delay our rig construction and other operations, which could have a material adverse effect on our business, results of operations, financial condition and growth strategy.

***We could be adversely affected if shortages of equipment or supplies occur.***

Increased or decreased demand among drilling contractors and our customers for consumable supplies, including fuel, water and ancillary rig equipment, such as pumps, valves, drill pipe and engines, may lead to delays in obtaining these materials and our inability to operate our rigs in an efficient manner. We have periodically experienced increased lead times in purchasing ancillary equipment for our drilling rigs. To the extent there are significant delays in being able to purchase important components for our rigs, certain of our rigs may not be available for operation or may not be able to operate as efficiently as expected, which could adversely affect our results of operations and financial condition.

In addition, our customers typically purchase the fuel and water for their operations, including fuel that runs our drilling rigs, and thus bear the financial impact of increased prices. However, prolonged shortages in the availability of fuel or water to conduct drilling and completion activities could result in the suspension of our contracts or reduce demand for our contract drilling services and have a material adverse effect on our financial condition and results of operations.

***Our ability to use our existing net operating loss carryforwards or other tax attributes could be limited.***

Utilization of any NOL carryforwards depends on many factors, including our ability to generate future taxable income, which cannot be assured. In addition, Section 382 of the Internal Revenue Code of 1986, as amended (“Section 382”), generally imposes, upon the occurrence of an ownership change (discussed below), an annual limitation on the amount of our pre-ownership change NOLs we can utilize to offset our taxable income in any taxable year (or portion thereof) ending after such ownership change. The limitation is generally equal to the value of our stock immediately prior to the ownership change multiplied by the long-term tax-exempt rate. In general, an ownership change occurs if there is a cumulative increase in our ownership of more than 50 percentage points by one or more “5% shareholders” (as defined in the Internal Revenue Code of 1986, as amended) at any time during a rolling three-year period. In addition, future ownership changes or future regulatory changes could further limit our ability to utilize our NOLs. Currently, because we have not yet generated taxable income for federal income tax purposes, all of our NOL assets have been reserved on our balance sheet. However, if all or a substantial part of our NOLs were to be lost or limited, it could still result in our recognizing a net deferred tax liability and associated expense during the period of limitation. In addition, to the extent we are not able to offset our future income with our NOLs, this could adversely affect our operating results and cash flows once we attain profitability.

## Legal and Regulatory Risks

***Federal and state legislative and regulatory initiatives related to hydraulic fracturing could result in operating restrictions or delays in the completion of oil and natural gas wells that may reduce demand for our activities and could adversely affect our financial position, results of operations and cash flows.***

Hydraulic fracturing is a commonly used process that involves injection of water, sand, and certain chemicals to fracture the hydrocarbon-bearing rock formation to allow flow of hydrocarbons into the wellbore. The adoption of any federal, state or local laws or the implementation of regulations or ordinances restricting or increasing the costs of hydraulic fracturing could potentially increase our costs of operations and cause a decrease in drilling activity levels in the Permian Basin and other unconventional resource plays and an associated decrease in demand for our rigs and service, any or all of which could adversely affect our financial position, results of operations and cash flows.

Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition, including litigation, to oil and natural gas production activities using hydraulic fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil and natural gas, including from the developing shale plays, incurred by our customers or could make it more difficult to perform hydraulic fracturing in the unconventional resource plays where we focus our operations. Any such regulation that adversely affects our customers' operations could materially impact demand for our contract drilling services which could adversely affect our financial position, results of operations and cash flows.

***Legal proceedings could have a negative impact on our business.***

The nature of our business makes us susceptible to legal proceedings and governmental investigations from time to time. Lawsuits or claims against us could have a material adverse effect on our business, financial condition and results of operations. Any litigation or claims, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future.

***Regulatory compliance costs and restrictions, as well as any delays in obtaining permits by our customers for their operations, could impair our business.***

The operations of our customers are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, including land drilling, our customers' operations could be disrupted or curtailed by governmental authorities. In most states, our customers are required to obtain permits from one or more governmental agencies in order to perform drilling and completion activities. Such permits are typically required by state agencies, but can also be required by federal and local governmental agencies. The requirements for such permits vary depending on the location where such drilling and completion activities will be conducted. As with all governmental permitting processes, there is a degree of uncertainty as to whether a permit will be granted, the time it will take for a permit to be issued, and the conditions which may be imposed in connection with the granting of the permit. Additionally, the high cost of compliance with applicable regulations may cause customers to discontinue or limit their operations or defer planned drilling, and may discourage companies from continuing development activities. As a result, demand for our services could be substantially affected by regulations adversely impacting the oil and natural gas industry.

***We are subject to environmental, health and safety laws and regulations that may expose us to significant liabilities for penalties, damages or costs of remediation or compliance.***

Our operations are subject to federal, regional, state and local laws and regulations relating to protection of natural resources and the environment, health and safety aspects of our operations and waste management, including the transportation and disposal of waste and other materials. These laws and regulations may impose numerous obligations on our operations, including the acquisition of permits to conduct regulated activities, the incurrence of capital expenditures to mitigate or prevent releases of materials from our facilities, the imposition of substantial liabilities for pollution resulting from our operations and the application of specific health and safety criteria addressing worker protection. Failure to comply with these laws and regulations could result in investigations, restrictions or orders suspending well operations, the assessment of administrative, civil and criminal penalties, the revocation of permits and the issuance of corrective action orders, any of which could have a material adverse effect on our business, results of operations and financial condition.

There is inherent risk of environmental costs and liabilities in our business as a result of our handling of petroleum hydrocarbons and oilfield and industrial wastes, air emissions and wastewater discharges related to our operations, and historical industry operations and waste disposal practices. Some environmental laws and regulations may impose strict, joint and several liability, which means that in some situations, we could be exposed to liability as a result of our conduct that was without fault or lawful at the time it occurred or as a result of the conduct of, or conditions caused by, prior operators or other

third parties. Clean-up costs and other damages arising as a result of environmental laws and costs associated with changes in environmental laws and regulations could be substantial and could have a material adverse effect on our financial condition and results of operations.

Laws protecting the environment generally have become more stringent over time and are expected to continue to do so, which could lead to material increases in costs for future environmental compliance and remediation. The modification or interpretation of existing laws or regulations, or the adoption of new laws or regulations, could curtail exploratory or developmental drilling for oil and natural gas, could limit well servicing opportunities or impose unforeseen liabilities. We may not be able to recover some or any of our costs of compliance with these laws and regulations from insurance.

***Potential listing of species as “endangered” under the federal ESA could result in increased costs and new operating restrictions or delays on our oil and natural gas exploration and production customers, which could adversely reduce the amount of contract drilling services that we provide to such customers.***

The federal ESA and analogous state laws regulate a variety of activities, including oil and natural gas development, which could have an adverse effect on species listed as threatened or endangered under the ESA or their habitats. The designation of previously unidentified endangered or threatened species or the designation of previously unprotected areas as a critical habitat could cause oil and natural gas exploration and production operators to incur additional costs or become subject to operating delays, restrictions or bans in affected areas, which impacts could adversely reduce the amount of drilling activities in affected areas, including support services that we provide to such operators under our contract drilling services segment. Numerous species have been listed or proposed for protected status in areas in which we provide or could in the future provide field services. For instance, the sage grouse, the lesser prairie-chicken and certain wildflower species, among others, are species that have been or are being considered for protected status under the ESA and whose range can coincide with our oil and natural gas production activities. The presence of protected species in areas where operators for whom we provide contract drilling services conduct exploration and production operations could impair such operators’ ability to timely complete well drilling and development and, consequently, adversely affect the amount of contract drilling or other field services that we provide to such operators, which reduction of services could have a significant adverse effect on our results of operations and financial position.

***Climate change legislation or regulations restricting or regulating emissions of greenhouse gases could result in increased operating costs and reduced demand for our field services.***

In response to findings that emissions of carbon dioxide, methane and other greenhouse gases from industrial and energy sources contribute to increases of carbon dioxide levels in the Earth’s atmosphere and oceans and contribute to global warming and other environmental effects, the EPA has adopted various regulations under the federal Clean Air Act addressing emissions of greenhouse gases that may affect the oil and natural gas industry. During 2012, the EPA published rules that include standards to reduce methane emissions associated with oil and natural gas production. In May 2016, the EPA finalized regulations that set methane emission standards for new and modified oil and natural gas facilities, including production facilities. However, in September 2020, the EPA issued a final rule that removed the transmission and storage segment from the 2016 new source performance standards, rescinded VOCs and methane emissions standards for the transmission and storage segment, and rescinded methane emissions standards for the production and processing segments. Various states and industry and environmental groups are separately challenging the EPA’s 2016 standards and its September 2020 final rule. Notwithstanding the current court challenges, on January 20, 2021, President Biden issued an executive order directing the EPA to consider publishing for notice and comment a proposed rule suspending, revising, or rescinding the September 2020 rule, which could result in more stringent methane emission rulemaking. In addition, the United States has been involved in international negotiations regarding greenhouse gas reductions under the United Nations Framework Convention on Climate Change and was among the 195 nations that signed an international accord in December 2015 with the objective of limiting greenhouse gas emissions. The Paris Agreement (adopted at the conference) went into effect on November 4, 2016. While the U.S. withdrew from the Paris Agreement on November 4, 2020, President Biden issued an executive order on January 20, 2021 recommitting the United States to the Paris Agreement. And, on January 27, 2021, President Biden issued an executive order directing the Secretary of the Interior to pause approval of new oil and natural gas leases on federal lands or in offshore waters pending completion of a comprehensive review and reconsideration of federal oil and gas permitting and leasing practices and to consider whether to adjust royalties associated with oil and gas resources extracted from public lands and offshore waters to account for corresponding climate costs. Additionally, certain U.S. states and regional coalitions of states have adopted measures regulating or limiting greenhouse gases from certain sources or have adopted policies seeking to reduce overall emissions of greenhouse gases. The adoption and implementation of any international treaty or of any federal or state legislation or regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our equipment and operations could require us to incur costs to comply with such requirements and possibly require the reduction or limitation of emissions of greenhouse gases associated with our operations and other sources within the industrial or energy sectors. Such legislation or regulations could adversely affect demand for the production of oil and natural gas and thus reduce demand for the services we

provide to oil and natural gas producers as well as increase our operating costs by requiring additional costs to operate and maintain equipment and facilities, install emissions controls, acquire allowances or pay taxes and fees relating to emissions, which could adversely affect our results of operations and financial condition. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases may produce changes in climate or weather, such as increased frequency and severity of storms, floods and other climatic events, which if any such effects were to occur, could have adverse physical effects on our operations, physical assets and field services to exploration and production operators.

### **Risks Related to Our Liquidity**

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under applicable debt instruments, which may not be successful.***

Our ability to make scheduled payments on or to refinance indebtedness depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the interest or principal, when due, on our indebtedness.

If our cash flows and capital resources are insufficient to fund debt service obligations, we may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional capital or restructure or refinance indebtedness. Our ability to restructure or refinance indebtedness will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. Our credit facility currently restricts our ability to dispose of assets and our use of the proceeds from such disposition subject to certain defined exceptions. We may not be able to consummate those dispositions, and the proceeds of any such disposition may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet scheduled debt service obligations.

***Restrictions in our existing and future debt agreements could limit our growth and our ability to engage in certain activities.***

Our existing debt instruments contain a number of significant covenants, including restrictive covenants that may limit our ability to, among other things:

- incur or guarantee additional indebtedness;
- make loans to others;
- make investments;
- merge or consolidate with another entity;
- transfer, lease or dispose of all or substantially all of our assets;
- make certain payments;
- create or incur liens;
- purchase, hold or acquire capital stock or certain other types of securities;
- pay cash dividends;
- enter into certain transactions with affiliates; and
- engage in certain other transactions without the prior consent of the lenders.

A breach of any covenant in any of our debt instruments would result in a default. A resulting event of default, if not waived, could result in acceleration of the payment of the indebtedness outstanding under, and a termination of, these debt instruments. The accelerated indebtedness would become immediately due and payable. If that occurs, we may not be able to make all of the required payments or borrow sufficient funds to refinance such indebtedness. Even if new financing were available at that time, it may not be on terms that are acceptable to us.

***The borrowing base under our revolving credit facility may decline during 2021.***

At December 31, 2020, the borrowing base under our ABL Credit Facility was \$7.7 million, and we had \$7.5 million of availability remaining of our \$40.0 million commitment on that date. The borrowing base under the ABL Credit Facility is calculated based upon 85% of the sum of our eligible accounts receivable. In most circumstances, all of accounts receivable are considered eligible unless they are more than 90 days past due. If at any time our borrowing base falls below our outstanding balance under our ABL Credit Facility, and we were not able to promptly repay such deficiency, we would be required to repay

to the banks any deficiency amount. In such event, if our available cash balances were not sufficient to repay such amounts, we would be required to obtain other debt or equity financing necessary to cure such deficiency, and there can be no assurance that such additional financing sources would be available to us, or available on terms acceptable to us. Any inability to timely cure any deficiency between our borrowing base and credit facility balance may have a material adverse effect on our liquidity and financial condition.

***A failure of any of our lenders to honor commitments or advance funds under our existing debt instruments would have a material adverse effect on our ability to fund our operations and business strategy.***

Our ABL Credit Facility limits the amounts we can borrow up to a borrowing base amount which is calculated monthly and is based on a percentage of our eligible accounts receivable. The borrowing base under our ABL Credit Facility was \$7.7 million as of December 31, 2020, with lender commitments of \$40.0 million. Our Term Loan Facility also contains a committed accordion feature that allows us to borrow up to an additional \$15 million during the term of that facility.

If our lenders fail to honor their commitments or advance funds pursuant to such commitments, we may be unable to implement our strategic plans, make acquisitions or capital expenditures or otherwise carry out business plans, which would have a material adverse effect on our financial condition and results of operations.

***Our ability to comply with the financial covenants contained in our debt instruments is based upon our future cash flows and debt levels.***

Both our existing ABL Credit Facility and Term Loan Facility contain a springing financial covenant requiring us to maintain a fixed charge coverage ratio ("FCCR") of 1.0 to 1.0. The FCCR is equal to adjusted EBITDA less capital expenditures divided by cash interest expense plus scheduled principal payments, cash dividends and finance lease obligations plus cash taxes paid. This covenant is only tested when excess availability under our ABL Credit Facility falls below 10% of the loan commitment.

In addition, our existing Term Loan Facility contains a minimum liquidity covenant that requires us to maintain at all times at least \$10 million of liquidity, which can be comprised of cash plus availability under our ABL Credit Facility and Term Loan Accordion.

Our compliance with each of these covenants depends significantly upon our level of cash flows, which are based upon factors such as future dayrates and rig utilization that are difficult to predict based upon the cyclical nature of our industry. If we are not able to comply with the covenants contained in our debt facilities, we would be required to seek a waiver or amendment to the facility, or seek alternative financing sources, and there can be no assurance that we would be able to obtain such waivers, amendments or alternative financing sources. Any failure to comply with the financial covenants contained in our credit facility, or to cure any such non-compliance may have a material adverse effect on our liquidity and financial condition.

***Increases in interest rates could adversely affect our business.***

Our business and operating results can be harmed by factors such as the availability, terms of and cost of capital, increases in interest rates or a reduction in credit rating. Our debt carries a floating rate of interest linked to various indices, including LIBOR. A change in indices, including the announced discontinuation of LIBOR, resulting in interest rate increases on our debt could adversely affect our cash flow and operating results. These changes could cause our cost of doing business to increase, limit our ability to pursue acquisition opportunities, reduce cash flow used for capital expenditures and place us at a competitive disadvantage. For example, total long-term debt at December 31, 2020 included \$130.0 million of floating-rate debt attributed to borrowings at an average interest rate of 9.00%, and the impact on annual cash flow of a 10% change in the floating-rate (approximately 0.9%) would be approximately \$1.2 million annually based on the floating-rate debt and other obligations outstanding at December 31, 2020; however, there are no assurances that possible rate changes would be limited to such amounts. A significant reduction in cash flows from operations or the availability of credit could materially and adversely affect our ability to achieve our desired growth and operating results.

#### **Risks Related to our Common Stock**

***Because we have no plans to pay any dividends for the foreseeable future, investors must look solely to stock appreciation for a return on their investment in us.***

We have not paid cash dividends on our common stock since our incorporation, and our credit facility prohibits us from paying cash dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings to support our operations and growth. Accordingly, investors must rely on

sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

***Provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company at a premium that a stockholder may consider favorable, which could adversely affect the price of our common stock.***

The existence of some provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company that a stockholder may consider favorable, which could adversely affect the price of our common stock. The provisions in our amended and restated certificate of incorporation and amended and restated bylaws that could delay or prevent an unsolicited change in control of our company include:

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

***Future offerings of debt securities, which would rank senior to our common stock in the event of our liquidation, and future offerings of equity securities, which would dilute our existing stockholders or rank senior to our common stock, may adversely affect the market value of our common stock.***

We intend to evaluate and may attempt to increase our capital resources by offering debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible notes and classes of preferred stock. In the event of our liquidation, holders of our debt securities and preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. On November 11, 2020, we entered into a Common Stock Purchase Agreement (the “Commitment Purchase Agreement”) and a Registration Rights Agreement (the “Registration Rights Agreement”) with Tumim Stone Capital LLC (“Tumim”). Pursuant to the Commitment Purchase Agreement, the Company has the right to sell to Tumim up to \$5,000,000 (the “Total Commitment”) in shares of its common stock, par value \$0.01 per share (the “Shares”) (subject to certain conditions and limitations) from time to time during the term of the Commitment Purchase Agreement. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market value of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that would limit amounts available for distribution to holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market value of our common stock and diluting their shareholdings in us.

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

Our amended and restated certificate of incorporation authorizes us to issue, without the approval of our stockholders, 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.

***MSD Capital, L.P. and MSD Partners, L.P. (the “MSD Parties”) currently own a large percentage of the Company’s common stock and have significant influence over the outcome of corporate actions requiring stockholder approval; such stockholders’ priorities for the Company’s business may be different from the Company’s others stockholders.***

The MSD Parties collectively held approximately 15% of the outstanding shares of the Company’s common stock as of February 19, 2021. Although the MSD Parties agreed in a stockholders’ agreement to certain limits on their voting in connection with the election of directors, these limitations will terminate on October 1, 2021 and do not apply to most other matters that may be submitted by the Company or third parties for stockholder approval. Accordingly, the MSD Parties may be able to significantly influence the outcome of many corporate transactions or other matters submitted to the Company stockholders for approval, including any merger, consolidation or sale of all or substantially all of the Company’s assets or any other significant corporate transaction, such that the MSD Parties could potentially delay or prevent a change of control of the Company, even if such a change of control would benefit the Company’s other stockholders. The interests of the MSD Parties may differ from the interests of other stockholders.

## General Risk Factors

***The ongoing COVID-19 pandemic and related economic repercussions have had, and are expected to continue to have, a significant impact on our business, results of operations and financial condition, and depending on the duration of the pandemic and its effect on the oil and gas industry, could continue to have a material adverse effect on our business, liquidity, results of operations and financial condition.***

The worldwide outbreak of COVID-19, the uncertainty regarding the impact of COVID-19 and various governmental actions taken to mitigate the impact of COVID-19, have resulted in a decline in demand for oil and natural gas. To the extent that the outbreak of COVID-19 continues to negatively impact demand and OPEC members and other oil exporting nations fail to continue production cuts or other actions that support and stabilize commodity prices, we expect our business, operating results and financial condition to remain depressed with further declines in activity levels possible.

Given the nature and significance of the COVID-19 pandemic on demand for oil, and the uncertainty regarding the length of this impact, our business is subject to substantial risks outside of our control, which include, but are not limited to:

- disruption to our supply chain for equipment, supplies and materials essential to our business;
- notices from customers or suppliers arguing that their non-performance under our contracts with them is permitted as a result of force majeure or other reasons;
- reductions in our borrowing base under our revolving line of credit related to delayed customer payments and payment defaults associated with customer liquidity issues and bankruptcies;
- a need to preserve liquidity, which could result in reductions or delays to planned maintenance capital expenditures or failure to pursue other business opportunities;
- failure of our lenders under our revolving credit facility or term loan to honor commitments to provide additional funding in accordance with the terms of such agreements;
- actions by the lenders under our revolving credit facility that additional borrowings will not be permitted as a result of the occurrence of a material adverse effect caused by the COVID-19 pandemic;
- actions by the lenders under our term loan or revolving line of credit that additional borrowings permitted under such arrangements will not be permitted as a result of the occurrence of a material adverse effect caused by the COVID-19 pandemic;
- our ability to comply with minimum liquidity and springing fixed charge coverage ratio covenants contained in our credit facilities;
- cybersecurity issues, as digital technologies may become more vulnerable and experience a higher rate of cyberattacks in the current environment of remote connectivity;
- litigation risk and possible loss contingencies related to COVID-19 and its impact, including with respect to commercial contracts, employee matters and insurance arrangements;
- additional reductions to our workforce to adjust to market conditions, including severance payments, retention issues, and an inability to hire employees when market conditions improve;
- additional asset impairments, including an impairment of the carrying value of our assets as demand for our contract drilling services decreases;
- infections and quarantining of our employees and the personnel of our customers, suppliers and other third parties in areas in which we operate; and
- changes in the regulation of the production of hydrocarbons, such as the imposition of limitations on the production of oil and gas by states in our target markets or other jurisdictions, that may result in additional limits on demand for our contract drilling services.

If any of these risk factors were to come to fruition, they could have a material adverse effect on our business, liquidity, results of operations and financial condition.

***If our customers delay paying or fail to pay a significant amount of our outstanding receivables, it could have a material adverse effect on our business, financial condition, cash flows and results of operations.***

In most cases, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets. If our customers delay paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, results of operations, and financial condition.

***The effects of severe weather could adversely affect our operations.***

Changes in climate due to global warming trends could adversely affect our operations by limiting, or increasing the costs associated with, equipment or product supplies. In addition, coastal flooding and adverse weather conditions such as increased frequency and/or severity of hurricanes could impair our ability to operate in affected regions of the country. Oil and natural gas operations of our customers located in Louisiana and parts of Texas may be adversely affected by hurricanes and tropical storms, resulting in reduced demand for our services. Repercussions of severe weather conditions may include: curtailment of services; weather-related damage to facilities and equipment; suspension of operations; inability to deliver equipment, personnel and products to job sites in accordance with contract schedules; and loss of productivity. These constraints could delay our operations and materially increase our operating and capital costs. Unusually warm winters also adversely affect the demand for our services by decreasing the demand for natural gas.

***Our business is subject to cybersecurity risks and threats.***

Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. It is possible that our business, financial and other systems could be compromised, which might not be noticed for some period of time. Risks associated with these threats include, among other things, loss of intellectual property, disruption of our customers' business operations and safety procedures, loss or damage to our worksite data delivery systems, and increased costs to prevent, respond to or mitigate cybersecurity events.

***Any future implementation of price controls on oil and natural gas would affect our operations.***

Certain groups have asserted efforts to have the United States Congress impose some form of price controls on either oil, natural gas, or both. There is no way at this time to know what results these efforts may have. However, any future limits on the price of oil or natural gas, and resulting impacts on drilling activities, could have a material adverse effect on our business, financial condition and results of operations.

***Improvements in or new discoveries of alternative energy technologies could have a material adverse effect on our financial condition and results of operations.***

Since our business depends on the level of drilling activity in the oil and natural gas industry, any improvement in or new discoveries of alternative energy technologies could have a material adverse effect on our business, financial condition and results of operations.

***We may be adversely impacted by work stoppages or other labor matters.***

We depend on skilled employees to build and operate our rigs, and any prolonged labor disruption involving our employees could have a material adverse impact on our results of operations and financial condition by disrupting our ability to perform drilling-related services for our customers. Moreover, unionization efforts have been made from time to time within our industry, with varying degrees of success. Any such unionization could increase our costs or limit our flexibility.

***We depend on the services of key executives, the loss of whom could materially harm our business.***

Our senior executives are important to our success because they are instrumental in setting our strategic direction, operating our business and technology, identifying, recruiting and training key personnel, and identifying customers and expansion opportunities. We also depend on the relationships that our senior management have with many of our customers. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. We do not maintain key man life insurance on any of our senior executives. As a result, we are not insured against any losses resulting from the death of our key employees.

***Failure to hire and retain skilled personnel could adversely affect our business.***

Our ability to be productive and profitable depends upon our ability to employ and retain skilled personnel, and we cannot assure that at times of high demand we will be able to retain, recruit and train an adequate number of skilled workers. In addition, our ability to expand our operations will depend in part on our ability to increase the size of our skilled labor force. Potential inability or lack of desire by workers to commute to our facilities and job sites and competition for workers from competitors or other industries are factors that could affect our ability to attract and retain workers. A significant increase in the wages paid by competing employers or other industries could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If either or both of these events were to occur, our capacity and profitability could be diminished and our growth potential could be impaired. Our inability to attract and retain skilled workers in sufficient numbers

to satisfy our existing service contracts and enter into new contracts could materially adversely affect our business, financial condition, results of operations and growth strategy.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease an approximate 14.4 acre rig assembly yard complex located at 11601 North Galayda Street, Houston, Texas 77086. The complex includes approximately 18,000 square feet of office space and 76,000 square feet of warehouse space.

Our operations are managed from field locations that we own or lease, that contain office, shop and yard space to support day-to-day operations, including repair and maintenance of equipment, as well as storage of equipment, materials and supplies. We currently have six such field locations.

Additionally, we lease office space for our corporate headquarters in northwest Houston located at 20475 State Highway 249, Suite 300, Houston, Texas 77070.

We believe that all of our existing properties are suitable for their intended uses and are sufficient to support our operations. We do not believe that any single property is material to our operations and, if necessary, we could obtain a replacement facility. We continuously evaluate the needs of our business, and we will purchase or lease additional properties or reduce our properties, as our business requires.

**ITEM 3. LEGAL PROCEEDINGS**

We are the subject of certain legal proceedings and claims arising in the ordinary course of business from time to time. Management cannot predict the ultimate outcome of such legal proceedings and claims. While the legal proceedings and claims may be asserted for amounts that may be material should an unfavorable outcome be the result, management does not currently expect that the resolution of these matters will have a material adverse effect on our financial position or results of operations. In addition, management monitors our legal proceedings and claims on a quarterly basis and establishes and adjusts any reserves as appropriate to reflect our assessment of the then-current status of such matters.

**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*

#### **Market Information for Common Stock**

Our common stock is traded on the New York Stock Exchange under the symbol "ICD".

#### **Holders of Record**

As of February 19, 2021, there were approximately 20 record holders of our common stock as listed by our transfer agent's records. This number includes registered stockholders and does not include stockholders who hold their shares institutionally.

#### **Dividend Policy**

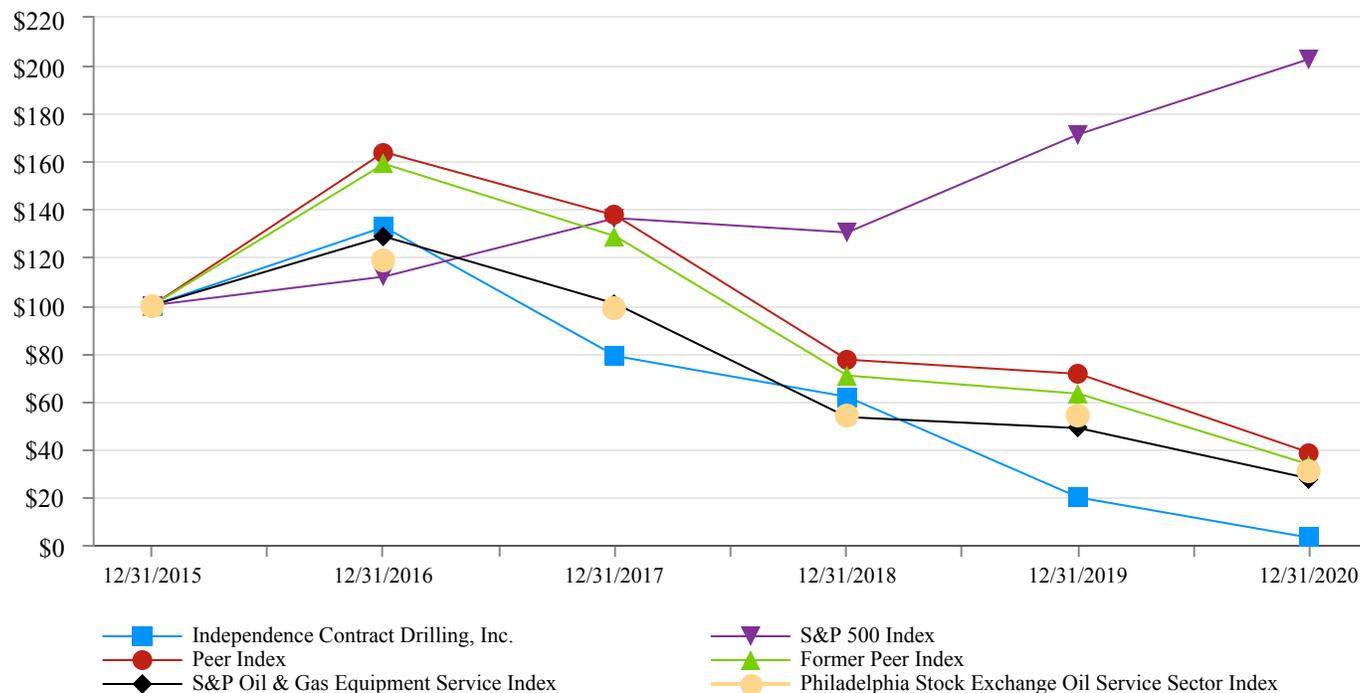
We have not declared or paid any cash dividends on our common stock. Our ABL Credit Facility prohibits us from paying cash dividends on our common stock, and we do not currently anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all future earnings to fund the development and growth of our business. Any future determination relating to our dividend policy will be at the discretion of our Board of Directors and will depend on funds legally available, our results of operations, financial condition, capital requirements, the ability to pay cash dividends under our then existing revolving credit facility and other factors deemed relevant by our Board of Directors.

#### **Stock Performance Graph**

The following stock performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that we specifically incorporate such information by reference into such a filing. The graph and information is included for historical comparative purposes only and should not be considered indicative of future stock performance.

The following graph compares our cumulative five-year total stockholder return with total stockholder return during the same period for the Standard & Poors 500 Index, the Standard & Poor's Oil and Gas Equipment Service Index, the Philadelphia Stock Exchange Oil Service Sector Index and an index of peer companies. The graph assumes that (i) \$100 was invested in our common stock on December 31, 2015, (ii) \$100 was invested in each index on December 31, 2015, and (iii) all dividends, if any, were reinvested.

## Stock Performance Graph



	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Independence Contract Drilling, Inc.	\$ 100.00	\$ 132.67	\$ 78.81	\$ 61.78	\$ 19.74	\$ 2.91
S&P 500 Index	\$ 100.00	\$ 111.95	\$ 136.38	\$ 130.38	\$ 171.42	\$ 202.94
Peer Index	\$ 100.00	\$ 163.93	\$ 137.41	\$ 77.30	\$ 71.34	\$ 38.34
Former Peer Index	\$ 100.00	\$ 159.05	\$ 128.77	\$ 70.66	\$ 63.07	\$ 33.39
S&P Oil & Gas Equipment Service Index	\$ 100.00	\$ 128.70	\$ 100.61	\$ 53.30	\$ 48.70	\$ 27.57
Philadelphia Stock Exchange Oil Service Sector Index	\$ 100.00	\$ 118.99	\$ 98.52	\$ 54.00	\$ 53.69	\$ 31.11

The Peer Index companies consist of: Akita Drilling, Ltd., Ensign Energy Services, Inc., Helmerich & Payne, Inc., Nabors Industries, Ltd., Patterson-UTL Energy, Inc., Precision Drilling Corporation, and RPC, Inc. For comparison purposes, the above graph includes the Peer Index as well as a group of companies which includes Ensign Energy Services, Inc., Helmerich & Payne, Inc., Nabors Industries, Ltd., Patterson-UTL Energy, Inc., Pioneer Energy Services Corp., Precision Drilling Corporation, RPC, Inc. and Superior Energy Services, Inc. (the Former Peer Group). Pioneer Energy Services Corp. and Superior Energy Services, Inc. were both removed from the peer group due to entering Chapter 11 Bankruptcy during 2020. Akita Drilling, Ltd. was added to the peer group due to similar product and services offerings and similar market capitalization as us.

### Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

## Issuer Purchases of Equity Securities

In the second quarter of 2019, our Board of Directors authorized a stock repurchase program of up to \$10.0 million beginning on August 2, 2019 and ending on August 1, 2022. During the second quarter of 2020, this program was suspended until market conditions substantially improve. As of December 31, 2020, the Company has repurchased approximately \$0.9 million of its common stock over the life of the program.

### Issuer Purchases of Equity Securities

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares That May Yet be Purchased Under the Program</b>
October 1 — October 31	—	\$ —	—	\$ 9,124,711
November 1 — November 30	—	\$ —	—	\$ 9,124,711
December 1 — December 31	—	\$ —	—	\$ 9,124,711
Total	—	\$ —	—	\$ 9,124,711

**ITEM 6. *SELECTED FINANCIAL DATA***

Not applicable.

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

*You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated financial statements and related notes that are included in "Item 8. Financial Statements and Supplementary Data." This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including without limitation those described in Cautionary Statement Regarding Forward-Looking Statements and "Item 1A. Risk Factors" or in other parts of this Annual Report on Form 10-K.*

*Discussions of matters pertaining to the year ended December 31, 2018 and year-to-year comparisons between the years ended December 31, 2019 and 2018 are not included in this Form 10-K, but can be found under Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019 that was filed on March 2, 2020.*

### **Management Overview**

We were incorporated in Delaware on November 4, 2011. We provide land-based contract drilling services for oil and natural gas producers targeting unconventional resource plays in the United States. We own and operate a premium fleet comprised of modern, technologically advanced drilling rigs.

Our rig fleet includes 24 marketed AC powered ("AC") rigs plus five additional AC rigs that require significant upgrades in order to meet our AC pad-optimal specifications that we do not plan to market absent a material improvement in market conditions. Our first rig began drilling in May 2012.

We currently focus our operations on unconventional resource plays located in geographic regions that we can efficiently support from our Houston, Texas and Midland, Texas facilities in order to maximize economies of scale. Currently, our rigs are operating in the Permian Basin, the Haynesville Shale and the Eagle Ford Shale; however, our rigs have previously operated in the Mid-Continent and Eaglebine regions as well.

Our business depends on the level of exploration and production activity by oil and natural gas companies operating in the United States, and in particular, the regions where we actively market our contract drilling services. The oil and natural gas exploration and production industry is historically cyclical and characterized by significant changes in the levels of exploration and development activities. Oil and natural gas prices and market expectations of potential changes in those prices significantly affect the levels of those activities. Worldwide political, regulatory, economic, and military events, as well as natural disasters have contributed to oil and natural gas price volatility historically, and are likely to continue to do so in the future. Any prolonged reduction in the overall level of exploration and development activities in the United States and the regions where we market our contract drilling services, whether resulting from changes in oil and natural gas prices or otherwise, could materially and adversely affect our business.

### **Significant Developments**

#### ***COVID-19 Pandemic and Market Conditions Update***

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China ("COVID-19") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The continued spread of the COVID-19 virus and the responses taken to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns, has caused significant declines in global demand for crude oil. This reduction in demand has occurred concurrent with the initiation of a crude oil price war between members of the Organization of the Petroleum Exporting Countries ("OPEC") and Russia (collectively, the "OPEC+" group). Even with the production cuts announced by the OPEC+ group and others on April 9, 2020, and the cessation to the crude oil price war, crude oil inventories have continued to rise and to test storage capacity and logistics networks. These factors led to a collapse in oil prices, with the WTI price for May delivery closing at negative \$37.63 per barrel on April 20, 2020. This resulted in an unprecedented decline in the U.S. land rig count reaching an all-time low of 231 on August 14, 2020. Our operating rig count experienced a similar collapse, bottoming at three operating rigs during the third quarter of 2020. Although oil prices have recently recovered with the WTI price reaching \$60.07 on February 16, 2021 supported by production cuts by OPEC, the U.S. land rig count remains very low and has only modestly improved, reaching 381 rigs on February 19, 2021. The long-term effects on production and demand are unknown at this time. Currently, there is considerable uncertainty regarding measures to contain the virus and what potential future measures may be put in place, as well as uncertainty on how long OPEC+ will continue to maintain current production cuts, therefore we cannot predict when worldwide supply and demand for oil will stabilize.

In response to these adverse market conditions and uncertainty, our customers reduced planned capital expenditures and drilling activity. As a result, demand for our services rapidly declined in the first half of 2020 and into the beginning of the third quarter of 2020. During the first quarter of 2020, our operating rig count reached a peak of 22 rigs and temporarily reached a low of three rigs during the third quarter of 2020. During the third quarter, oil and natural gas prices began to stabilize, and demand for our products began to modestly improve from their historic lows, which allowed us to reactivate additional rigs during the back half of 2020. As of December 31, 2020, we had eleven contracted rigs. However, due to the lack of visibility and confidence towards customer intentions and the unknown future impacts of COVID-19 and changes to OPEC production cuts on economic conditions and oil and gas demand and drilling activity, we cannot assure you that we will be able to maintain this operating rig count or that our operating rig count will continue to improve in the future. Two contracts that expired at the end of 2020 had higher dayrates than prevailing spot rates. As a result, although our operating rig count has been increasing, these rigs are being contracted at prevailing market rates that remain depressed, therefore, we expect to see our average revenue per day decline as compared to our legacy contracts.

Due to these rapidly declining market conditions, we took the following actions at the end of the first quarter of 2020 in order to reduce our cost structure:

- Salary or compensation reductions for substantially all our employees, including members of executive management;
- Suspension of all cash-based incentive compensation, including all members of executive management;
- Reduced the number of executive management positions by two;
- Reduced the number of directors from seven to five, which became effective following director elections at our 2020 Annual Meeting of Stockholders;
- Reduced annual compensation reductions for our directors; and
- Reduced headcount for non-field-based personnel by approximately 40%.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. We deferred \$0.8 million of employer social security payments during the year ended December 31, 2020.

The CARES Act did not have a material impact on our income taxes. Management will continue to monitor future developments and interpretations for any further impacts on our financial condition, results of operations, or liquidity.

We cannot predict the length of time that the market disruptions resulting from the COVID-19 pandemic will continue; or when, or if, oil and gas prices and demand for our contract drilling services will decline, continue to improve or return to pre-COVID-19 levels. The extent to which our operating and financial results are affected by the COVID-19 pandemic will depend on various factors and consequences beyond our control, such as the duration and scope of the pandemic; additional actions by businesses and governments in response to the pandemic; and the speed and effectiveness of responses to combat the virus. As a result, our business, operating results and financial conditions are subject to various risks, many of which are aggravated as a result of the declining market conditions and significant uncertainty caused by the COVID-19 pandemic.

### ***PPP Loan***

On April 27, 2020, we entered into an unsecured loan in the aggregate principal amount of \$10.0 million (the “PPP Loan”) pursuant to the Paycheck Protection Program (the “PPP”), sponsored by the Small Business Administration (the “SBA”) as guarantor of loans under the PPP. The PPP is part of the CARES Act, and it provides for loans to qualifying businesses in a maximum amount equal to the lesser of \$10.0 million and 2.5 times the average monthly payroll expenses of the qualifying business. The proceeds of the loan may only be used for payroll costs, rent, utilities, mortgage interests, and interest on other pre-existing indebtedness (the “permissible purposes”).

The application for these funds required us to, in good faith, certify that current economic uncertainty made the loan request necessary to support our ongoing operations. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria. The PPP Loan is subject to any new guidance and new requirements released by the Department of the Treasury who has indicated that all companies that have received funds in excess of \$2.0 million will be subject to a government (SBA) audit to further ensure PPP loans are limited to eligible borrowers in need. On October 7, 2020, the SBA released guidance clarifying the deferral period for PPP loan payments. The Paycheck Protection Flexibility Act of 2020 extended the deferral period for loan payments to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, ten months after the end of the

borrower's loan forgiveness covered period. We intend to apply for forgiveness and we believe our first payment related to any unforgiven portion would be due during the fourth quarter of 2021, with a loan maturity date of April 27, 2022.

### ***Common Stock Purchase Agreement***

On November 11, 2020, we entered into a Common Stock Purchase Agreement (the "Commitment Purchase Agreement") and a Registration Rights Agreement (the "Registration Rights Agreement") with Tumim Stone Capital LLC ("Tumim"). Pursuant to the Commitment Purchase Agreement, the Company has the right to sell to Tumim up to \$5,000,000 (the "Total Commitment") in shares of its common stock, par value \$0.01 per share (the "Shares") (subject to certain conditions and limitations) from time to time during the term of the Commitment Purchase Agreement. Sales of common stock pursuant to the Commitment Purchase Agreement, and the timing of any sales, are solely at our option and we are under no obligation to sell securities pursuant to this arrangement. Shares may be sold by the Company pursuant to this arrangement over a period of up to 24 months, commencing on December 1, 2020.

Under the applicable rules of the New York Stock Exchange ("NYSE"), in no event may we issue more than 1,234,546 shares of our common stock, which represents 19.99% of the shares of our common stock outstanding immediately prior to the execution of the Commitment Purchase Agreement (the "Exchange Cap"), to Tumim under the Commitment Purchase Agreement, unless (i) we obtain stockholder approval to issue shares of our common stock in excess of the Exchange Cap or (ii) the price of all applicable sales of our common stock to Tumim under the Commitment Purchase Agreement equals or exceeds the lower of (A) the official closing price on the NYSE immediately preceding the delivery by us of an applicable purchase notice under the Commitment Purchase Agreement and (B) the average of the closing prices of our common stock on the NYSE for the five business days immediately preceding the delivery by us of an applicable purchase notice under the Commitment Purchase Agreement, in each case plus \$0.128, such that the transactions contemplated by the Commitment Purchase Agreement are exempt from the Exchange Cap limitation under applicable NYSE rules. In any event, the Commitment Purchase Agreement specifically provides that we may not issue or sell any shares of our common stock under the Commitment Purchase Agreement if such issuance or sale would breach any applicable rules or regulations of the NYSE. The Company has also limited the aggregate number of shares of common stock reserved for issuance under the Commitment Purchase Agreement to 1,500,000 shares without subsequent board approval.

In all instances, we may not sell shares of our common stock to Tumim under the Commitment Purchase Agreement if it would result in Tumim beneficially owning more than 4.99% of the common stock (the "Beneficial Ownership Cap").

The proceeds under the Commitment Purchase Agreement will depend on the frequency and prices at which the Company sells shares of its stock to Tumim. We determined that the right to sell additional shares represents a freestanding put option under ASC 815 Derivatives and Hedging, but has a fair value of zero, and therefore no additional accounting was required. Transaction costs of \$0.5 million, incurred in connection with entering into the Purchase Agreement were expensed as selling, general and administrative expense.

### ***Third Amendment to Term Loan Credit Agreement***

On June 4, 2020, we entered into a Third Amendment, dated as of June 4, 2020 (the "Third Amendment"), to the Credit Agreement, dated as of October 1, 2018 (the "Term Credit Loan Agreement"), to permit us, at our option, subject to required prior notice and a maximum available liquidity condition (including availability under our revolving credit agreement and available cash), to elect to pay accrued and unpaid interest, solely during one three-consecutive-month period immediately following such notice, in kind (the "PIK Amount"). In connection with the amendments, we agreed to pay an additional amount equal to 0.75% of the aggregate principal amount of the loans under the Term Loan Credit Agreement plus all PIK Amounts, if any, that are added to such principal amount being repaid or prepaid on either the maturity date or upon the occurrence of an acceleration of obligations under the Term Loan Credit Agreement.

### ***ATM Offering***

On June 5, 2020, we entered into an equity distribution agreement (the "Agreement") with Piper Sandler & Co. (the "Agent"), through its Simmons Energy division. Pursuant to the Agreement, we were able to offer and sell through the Agent shares of our common stock, par value \$0.01 per share, having an aggregate offering price of up to \$11,000,000 (the "Shares"). We began offering shares under this program during the second quarter of 2020 and completed this offering process during the third quarter of 2020, raising an aggregate \$11 million of gross proceeds and issuing an aggregate of 2.4 million shares at an average gross offering price of \$4.66 per share. We have used and plan to continue using the net proceeds from the sales pursuant to the Agreement, after deducting the sales agent's commissions and our offering expenses, for general corporate purposes, which may include, among other things, repayment of indebtedness and capital expenditures.

The Agreement contained customary representations, warranties and agreements by the Company, indemnification obligations of the Company and the Agent, including for liabilities under the Securities Act, other obligations of the parties and termination provisions. Under the terms of the Agreement, we paid the Agent a commission equal to 3% of the gross sales price of the Shares sold.

### ***Reverse Stock Split***

Following approval by our stockholders on February 6, 2020, our Board of Directors approved a 1-for-20 reverse stock split of our common stock. The reverse stock split reduced the number of shares of common stock issued and outstanding from 77,523,973 and 76,241,045 shares, respectively, to 3,876,196 and 3,812,050 shares, respectively, and reduced the number of authorized shares of our common stock from 200,000,000 shares to 50,000,000 shares.

### ***Sidewinder Merger Effects and Merger Consideration Amendment***

We completed the merger with Sidewinder Drilling LLC on October 1, 2018. During the year ended December 31, 2019 and 2018, we recorded \$2.7 million and \$13.6 million, respectively, of merger-related expenses comprised primarily of severance, professional fees and various other integration related expenses. There were no merger expenses recorded during the year ended December 31, 2020.

Certain intangible liabilities were recorded in connection with the Sidewinder merger for drilling contracts in place at the closing date of the transaction that had unfavorable contract terms as compared to then current market terms for comparable drilling rigs. The intangible liabilities were amortized to operating revenues over the remaining underlying contract terms. During the year ended December 31, 2019 and 2018, \$1.1 million and \$2.0 million, respectively, of intangible revenue was recognized as a result of this amortization. The intangible liabilities were fully amortized in the second quarter of 2019.

In addition, at the time of consummation of the Sidewinder Merger, Sidewinder owned various mechanical rig assets and related equipment (the "Mechanical Rigs") located principally in the Utica and Marcellus plays. As these assets were not consistent with ICD's core strategy or geographic focus, ICD agreed that these assets could be disposed of, with the Sidewinder unitholders receiving the net proceeds. As a result of this arrangement, on the merger date, we recorded the fair value of the Mechanical Rigs less costs to sell, as assets held for sale, with a related liability in contingent consideration. Subsequently, these assets were sold at auction for substantially less than the appraised fair values on the merger date. As a result, in the second quarter of 2020, the contingent consideration liability was reduced by the appraised fair values on the merger date and the proceeds were recorded as merger consideration payable to an affiliate on our consolidated balance sheets.

On June 4, 2020, we entered into a letter agreement (the "Merger Consideration Amendment") with MSD Credit Opportunity Master Fund, L.P. to allow for the deferral of payment of the Mechanical Rig net proceeds of \$2.9 million, to the earlier of (i) June 30, 2022 and (ii) a change of control transaction (as defined therein) (such applicable date, the "Payment Date"), and requires us to pay an additional amount in connection with such deferred payment equal to interest accrued on the amount of Mechanical Rig net proceeds during the period between May 1, 2020 and the Payment Date, which interest shall accrue at a rate of 15% per annum, compounded quarterly, during the period beginning on May 1, 2020 and ending on December 31, 2020 and at a rate of 25% per annum, compounded quarterly, during any period following December 31, 2020. The Mechanical Rig net proceeds were previously payable in the second quarter of 2020.

### ***Asset Impairment***

As a result of the rapidly deteriorating market conditions described in "*COVID-19 Pandemic and Market Conditions Update*," we concluded that a triggering event occurred as of March 31, 2020 and, accordingly, an interim asset impairment test was performed. As a result, we recognized impairment of \$3.3 million associated with the decline in the market value of our assets held for sale based upon the market approach method and \$13.3 million related to the remaining assets on rigs removed from our marketed fleet, as well as certain other component equipment and inventory; all of which was deemed to be unsaleable and of zero value based upon the current macroeconomic conditions and uncertainties surrounding COVID-19.

In the fourth quarter of 2020, due to the highly competitive market and in an effort to minimize capital spending, management drafted and approved a plan to upgrade our existing fleet by utilizing the primary components needed to complete the upgrades from five of our existing rigs and these five rigs were removed from our marketed fleet. We recorded an impairment charge of \$21.9 million related to the remaining assets on these non-marketed rigs. Additionally, we recorded a \$2.4 million asset impairment based upon the market approach method on certain capital spare parts, all of which were deemed to be incompatible with our upgraded fleet. Due to the uncertainty around the COVID-19 pandemic and current market conditions, we may have to make further impairment charges in future periods relating to, among other things, fixed assets and inventory.

In the first and second quarters of 2019, we recorded \$2.0 million and \$1.1 million, respectively, of asset impairment expense in conjunction with the sale of miscellaneous drilling equipment at auctions.

In the second quarter of 2019, in light of the softening demand for contract drilling services, we recorded an impairment charge of \$4.4 million relating to certain components on our SCR rigs and various other equipment. Management determined that these rigs could not be competitively marketed in the then current environment as SCR rigs and we removed them from our marketed fleet. Due to the high volume of idle SCR drilling equipment on the market at the time, management did not believe that the SCR drilling equipment could be sold for a material amount in the then current market environment, and therefore took the impairment charge.

We performed a goodwill impairment test during the third quarter of 2019 and recorded an impairment charge of \$2.3 million, which represented the impairment of 100% of our previously recorded goodwill. The impairment was primarily the result of the downturn in industry conditions since the consummation of the Sidewinder Merger in the fourth quarter of 2018 and the subsequent related decline in the price of our common stock as of September 30, 2019.

During the fourth quarter of 2019, we recorded impairments totaling \$25.9 million relating primarily to our decision to remove two rigs from our marketed fleet, as well as a plan to sell or otherwise dispose of rigs and related component equipment, much of which was acquired in connection with the Sidewinder Merger.

### ***Assets Held for Sale***

As a result of the rapidly deteriorating market conditions described in "COVID-19 Pandemic and Market Conditions Update", we recognized impairment of \$3.3 million as of March 31, 2020 associated with the decline in the market value of our assets held for sale. Throughout 2020, we sold \$2.6 million of assets held for sale and received cash proceeds of \$1.3 million, resulting in \$1.3 million of loss on sale of assets. Additionally during 2020, assets held for sale were reduced by \$2.8 million related to the remaining fair value of mechanical rigs acquired in the Sidewinder Merger which was recorded as a reduction in the related contingent consideration liability on our consolidated balance sheets.

During the fourth quarter of 2019, in conjunction with our plan to sell certain non-pad optimal rigs or partial rigs and related equipment acquired in the Sidewinder Merger, we impaired the related assets to fair value less estimated cost to sell and recorded \$5.9 million of assets held for sale on our consolidated balance sheet. Assets held for sale as of December 31, 2019 also included the remaining \$2.8 million of unsold mechanical rigs belonging to Sidewinder unitholders as part of the Sidewinder Merger agreement.

### **Our Revenues**

We earn contract drilling revenues pursuant to drilling contracts entered into with our customers. We perform drilling services on a "daywork" basis, under which we charge a specified rate per day, or "dayrate." The dayrate associated with each of our contracts is a negotiated price determined by the capabilities of the rig, location, depth and complexity of the wells to be drilled, operating conditions, duration of the contract and market conditions. The term of land drilling contracts may be for a defined number of wells or for a fixed time period. We generally receive lump-sum payments for the mobilization of rigs and other drilling equipment at the commencement of a new drilling contract. Revenue and costs associated with the initial mobilization are deferred and recognized ratably over the term of the related drilling contract once the rig spuds. Costs incurred to relocate rigs and other equipment to an area in which a contract has not been secured are expensed as incurred. If a contract is terminated prior to the specified contract term, early termination payments received from the customer are only recognized as revenues when all contractual obligations, such as mitigation requirements, are satisfied. While under contract, our rigs generally earn a reduced rate while the rig is moving between wells or drilling locations, or on standby waiting for the customer. Reimbursements for the purchase of supplies, equipment, trucking and other services that are provided at the request of our customers are recorded as revenue when incurred. The related costs are recorded as operating expenses when incurred. Revenue is presented net of any sales tax charged to the customer that we are required to remit to local or state governmental taxing authorities.

### **Our Operating Costs**

Our operating costs include all expenses associated with operating and maintaining our drilling rigs. Operating costs include all "rig level" expenses such as labor and related payroll costs, repair and maintenance expenses, supplies, workers' compensation and other insurance, ad valorem taxes and equipment rental costs. Also included in our operating costs are certain costs that are not incurred at the "rig level." These costs include expenses directly associated with our operations management team as well as our safety and maintenance personnel who are not directly assigned to our rigs but are responsible for the oversight and support of our operations and safety and maintenance programs across our fleet.

Our operating costs also include costs and expenses associated with construction activities at our Galayda yard location to the extent that construction activities cease or are not continuous. During 2020, our operating costs also included approximately \$0.6 million of costs associated with the decommissioning of rigs and \$1.4 million of costs associated with the reactivation of idle rigs. Reactivation costs include costs associated with recommissioning the rig, the hiring and training of new crews and the purchase of supplies and other consumables required for the operation of the rigs.

### **How We Evaluate our Operations**

We regularly use a number of financial and operational measures to analyze and evaluate the performance of our business and compensate our employees, including the following:

- *Safety Performance.* Maintaining a strong safety record is a critical component of our business strategy. We measure safety by tracking the total recordable incident rate for our operations. In addition, we closely monitor and measure compliance with our safety policies and procedures, including "near miss" reports and job safety analysis compliance. We believe our Risk-Based HSE management system provides the required control, yet needed flexibility, to conduct all activities safely, efficiently and appropriately.
- *Utilization.* Rig utilization measures the total amount of time that our rigs are earning revenue under a contract during a particular period. We measure utilization by dividing the total number of Operating Days for a rig by the total number of days the rig is available for operation in the applicable calendar period. A rig is available for operation commencing on the earlier of the date it spuds its initial well following construction or when it has been completed and is actively marketed. "Operating Days" represent the total number of days a rig is earning revenue under a contract, beginning when the rig spuds its initial well under the contract and ending with the completion of the rig's demobilization.
- *Revenue Per Day.* Revenue per day measures the amount of revenue that an operating rig earns on a daily basis during a particular period. We calculate revenue per day by dividing total contract drilling revenue earned during the applicable period by the number of Operating Days in the period. Revenues attributable to costs reimbursed by customers are excluded from this measure.
- *Operating Cost Per Day.* Operating cost per day measures the operating costs incurred on a daily basis during a particular period. We calculate operating cost per day by dividing total operating costs during the applicable period by the number of Operating Days in the period. Operating costs attributable to costs reimbursed by customers are excluded from this measure.
- *Operating Efficiency and Uptime.* Maintaining our rigs' operational efficiency is a critical component of our business strategy. We measure our operating efficiency by tracking each drilling rig's unscheduled downtime on a daily, monthly, quarterly and annual basis.

## Results of Operations

The following summarizes our financial and operating data for the years ended December 31, 2020 and 2019:

	Year Ended	
	December 31, 2020	December 31, 2019
<i>(In thousands, except per share data)</i>		
Revenues	\$ 83,418	\$ 203,602
Costs and expenses		
Operating costs	65,367	144,913
Selling, general and administrative	13,484	16,051
Severance and merger-related expenses	1,076	2,698
Depreciation and amortization	43,919	45,367
Asset impairment, net	41,007	35,748
Loss on disposition of assets, net	723	4,943
Other expense	—	377
Total cost and expenses	<u>165,576</u>	<u>250,097</u>
Operating loss	(82,158)	(46,495)
Interest expense	(14,627)	(14,415)
Loss before income taxes	(96,785)	(60,910)
Income tax benefit	(147)	(122)
Net loss	<u>\$ (96,638)</u>	<u>\$ (60,788)</u>
Other financial and operating data:		
Number of marketed rigs (end of year) <sup>(1)</sup>	24	29
Rig operating days <sup>(2)</sup>	3,739	8,985
Average number of operating rigs <sup>(3)</sup>	10.2	24.6
Rig utilization <sup>(4)</sup>	35 %	83 %
Average revenue per operating day <sup>(5)</sup>	\$ 19,000	\$ 20,628
Average cost per operating day <sup>(6)</sup>	\$ 13,984	\$ 14,202
Average rig margin per operating day	\$ 5,016	\$ 6,426
Oil price per Bbl <sup>(7)</sup> (end of year)	\$ 48.35	\$ 61.14
Natural gas price per Mcf <sup>(8)</sup> (end of year)	\$ 2.36	\$ 2.09

- (1) Number of marketed rigs as of December 31, 2020 decreased by five rigs as compared to the number of marketed rigs as of December 31, 2019. Marketed rigs exclude idle rigs that will not be reactivated until upgrades or conversions are complete or market conditions substantially improve.
- (2) Rig operating days represent the number of days our rigs are earning revenue under a contract during the period, including days that standby revenues are earned.
- (3) Average number of operating rigs is calculated by dividing the total number of rig operating days in the period by the total number of calendar days in the period.
- (4) Rig utilization is calculated as rig operating days divided by the total number of days our drilling rigs are available during the applicable period.
- (5) Average revenue per operating day represents total contract drilling revenues earned during the period divided by rig operating days in the period. Excluded in calculating average revenue per operating day are revenues associated with the reimbursement of (i) out-of-pocket costs paid by customers of \$9.0 million, and \$15.8 million during the years ended December 31, 2020 and 2019, respectively, (ii) revenues associated with the amortization of intangible revenue acquired in the Sidewinder Merger of zero and \$1.1 million during the years ended December 31, 2020 and 2019, respectively, and (iii) early termination revenues of \$3.3 million and \$1.4 million during the year ended December 31, 2020 and 2019, respectively.

- (6) Average cost per operating day represents total operating costs incurred during the period divided by rig operating days in the period. The following costs are excluded in calculating average cost per operating day: (i) out-of-pocket costs reimbursed by customers of \$9.0 million and \$15.8 million during the years ended December 31, 2020 and 2019, respectively, (ii) new crew training costs of \$0.2 million and \$0.3 million during the years ended December 31, 2020 and 2019, respectively, (iii) construction overhead costs expensed due to reduced rig construction activity of \$1.9 million and \$1.1 million during the years ended December 31, 2020 and 2019, respectively, and (iv) rig decommissioning costs associated with stacking deactivated rigs and rig reactivation costs associated with the redeployment of previously stacked rigs of \$2.0 million and \$0.2 million during the year ended December 31, 2020 and 2019, respectively.
- (7) WTI spot price as reported by the United States Energy Information Administration.
- (8) Henry Hub spot price as reported by the United States Energy Information Administration.

## **Comparison of the years ended December 31, 2020 and 2019**

### **Revenues**

Revenues for the year ended December 31, 2020 were \$83.4 million, representing a 59.0% decrease over revenues of \$203.6 million for the year ended December 31, 2019. This decrease was attributable to a decrease in operating days to 3,739 days as compared to 8,985 days in 2019. The decrease in operating days was primarily attributable to the drastic downturn in market conditions as a result of the COVID-19 pandemic and the concurrent initiation of a crude oil price war between members of the “OPEC+” group. On a revenue per operating day basis, which excludes the impact of early termination and intangible revenues, our revenue per operating day decreased to \$19,000 during 2020 compared to revenue per operating day of \$20,628 during 2019. This decrease in average revenue per day resulted from a significant decline in spot dayrates during 2020, including the expiration of various higher dayrate legacy term contracts during 2020.

### **Operating Costs**

Operating costs for the year ended December 31, 2020 were \$65.4 million, representing a 54.9% decrease over operating costs for the year ended December 31, 2019 of \$144.9 million. This decrease was attributable to a decrease in operating days to 3,739 days as compared to 8,985 days in 2019. On a cost per operating day basis, our cost per day decreased to \$13,984 during 2020, compared to cost per day of \$14,202 during 2019. This decrease was primarily attributable to cost reduction activities instituted by us at the beginning of the second quarter of 2020 as well as increased labor costs associated with inefficiencies and transitory downtime during 2019.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the year ended December 31, 2020 were \$13.5 million, representing a 16.0% decrease over selling, general and administrative expenses for the year ended December 31, 2019 of \$16.1 million. This decrease was primarily related to cost cutting initiatives implemented by us at the beginning of the second quarter of 2020.

### **Severance and Merger-related Expenses**

Severance expense of \$1.1 million was recorded during 2020 in connection with our cost reduction measures instituted in response to the COVID-19 pandemic and deteriorating market conditions.

Merger-related expenses of \$2.7 million incurred during 2019 represent expenses associated with the Sidewinder Merger consisting primarily of severance, professional fees and other merger-related expenses.

### **Depreciation and Amortization**

Depreciation and amortization for the year ended December 31, 2020 was \$43.9 million, representing a 3.2% decrease compared to \$45.4 million for the year ended December 31, 2019. This decrease was primarily the result of the asset impairments incurred in 2019 and 2020, offset by increases related to the introduction of new drilling rigs upgraded by us in 2019. We begin depreciating our rigs on a straight-line basis when they commence drilling operations.

### **Asset Impairment, net**

Asset impairment expense of \$41.0 million was recorded for the year ended December 31, 2020, as compared to \$35.7 million for the year ended December 31, 2019. For further discussion, see “*Significant Developments - Asset Impairments*” in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### Loss on Disposition of Assets, net

A loss on the disposition of assets totaling \$0.7 million and \$4.9 million was recorded for the years ended December 31, 2020 and 2019, respectively. In the current and prior year period the loss relates primarily to the sale of certain surplus assets, acquired in the Sidewinder Merger, as well as various other miscellaneous sales.

### Other Expense

Other expense was \$0.4 million for the year ended December 31, 2019 related to the settlement of a lawsuit.

### Interest Expense

Interest expense was \$14.6 million for the year ended December 31, 2020, compared to \$14.4 million for the year ended December 31, 2019. This interest expense primarily related to our \$130.0 million term loan facility.

### Income Tax (Benefit) Expense

Income tax benefit for the year ended December 31, 2020 amounted to \$0.1 million compared to income tax benefit of \$0.1 million for the year ended December 31, 2019. The effective tax rate was 0.2% for the year ended 2020 compared to 0.2% for the year ended 2019. Taxes in both years relate to Louisiana state income tax and Texas margin tax.

### Liquidity and Capital Resources

Our liquidity as of December 31, 2020 included approximately \$7.5 million of availability under our \$40.0 million ABL Credit Facility, based on a borrowing base of \$7.7 million, a \$15.0 million committed accordion under our existing term loan facility, \$5.0 million available under our Commitment Purchase Agreement, \$12.3 million of cash and \$7.3 million of other net working capital.

We expect our future capital and liquidity needs to be related to operating expenses, maintenance capital expenditures, working capital and general corporate purposes. We believe that our cash and cash equivalents, cash flows from operating activities and borrowings under our Revolving Credit Facility will adequately finance all of our anticipated purchase commitments, capital expenditures and other cash requirements over the next twelve months from issuance.

You should read "Item 1A Risk Factors" in particular, "Risks Related to Our Liquidity", for additional information regarding risks surrounding our operations and financial liquidity.

### Contractual Obligations

As of December 31, 2020, we had contractual obligations as described below.

Our obligations include "off-balance sheet arrangements" whereby the liabilities associated with unconditional purchase obligations are not fully reflected in our consolidated balance sheets.

<i>(in thousands)</i>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Thereafter</b>	<b>Total</b>
Term Loan Facility	\$ —	\$ —	\$ 130,000	\$ —	\$ 130,000
Interest on Term Loan Facility	11,863	11,863	11,863	—	35,589
Deferred amendment fee	—	—	975	—	975
Merger consideration payable to an affiliate, including interest	—	4,606	—	—	4,606
PPP Loan, including interest	4,345	5,719	—	—	10,064
Finance leases	3,892	4,275	26	—	8,193
Purchase obligations	600	—	—	—	600
Total contractual obligations	<u>\$ 20,700</u>	<u>\$ 26,463</u>	<u>\$ 142,864</u>	<u>\$ —</u>	<u>\$ 190,027</u>

Our long-term debt as of December 31, 2020 consisted of amounts due under our Term Loan Facility (as defined and further described below). Interest on long-term debt is related to our estimated future contractual interest obligations on long-term indebtedness outstanding as of December 31, 2020 under our Term Loan Facility. Interest payment obligations on our Term Loan Facility were estimated based on the 9.0% interest rate that was in effect at December 31, 2020, and the principal balance of \$130 million at December 31, 2020, and assuming repayment of the outstanding balance occurs at October 1, 2023. On April 27, 2020, we entered into the PPP Loan in the aggregate principal amount of \$10.0 million pursuant to the PPP,

sponsored by the SBA as guarantor of loans under the PPP. The PPP is part of the CARES Act, and it provides for loans to qualifying businesses in a maximum amount equal to the lesser of \$10.0 million and 2.5 times the average monthly payroll expenses of the qualifying business. The proceeds of the loan may only be used for payroll costs, rent, utilities, mortgage interests, and interest on other pre-existing indebtedness. Additionally, included in our contractual obligations are finance leases on vehicles and certain drilling equipment. These leases generally have a term of 36 months and are paid monthly.

Our purchase obligations relate primarily to outstanding purchase orders for rig equipment or components ordered but not received. We have made progress payments on these orders of approximately \$0.2 million that could be forfeited if we were to cancel these orders.

## Cash Flows

<i>(in thousands)</i>	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net cash provided by operating activities	\$ 287	\$ 27,921
Net cash used in investing activities	(8,977)	(28,369)
Net cash provided by (used in) financing activities	15,763	(6,593)
Net increase (decrease) in cash and cash equivalents	<u>\$ 7,073</u>	<u>\$ (7,041)</u>

### Net Cash Provided By Operating Activities

Cash provided by operating activities was \$0.3 million for the year ended December 31, 2020 compared to \$27.9 million for the year ended December 31, 2019. Factors affecting changes in operating cash flows are similar to those that impact net earnings, with the exception of non-cash items such as depreciation and amortization, impairments, gains or losses on disposals of assets, stock-based compensation, deferred taxes and amortization of deferred financing costs. Additionally, changes in working capital items such as accounts receivable, inventory, prepaid expense, accounts payable and accrued liabilities can significantly affect operating cash flows. Cash flows from operating activities during 2020 were lower as a result of an increase in net loss of \$35.9 million, adjusted for non-cash items of \$88.5 million, compared to \$89.1 million in 2019. Additionally, working capital changes that increased cash flows from operating activities were \$8.4 million in 2020 compared to working capital changes that decreased cash flows from operating activities of \$0.4 million in 2019.

### Net Cash Used In Investing Activities

Cash used in investing activities was \$9.0 million for the year ended December 31, 2020 compared to \$28.4 million for the year ended December 31, 2019. Our primary investing activities in 2020 related to minor rig upgrades and maintenance capital expenditures. Cash payments of \$14.2 million for capital expenditures were offset by proceeds from the sale of property, plant and equipment of \$5.1 million and the collection of principal on note receivable of \$0.1 million. Cash payments during 2020 included approximately \$8.1 million associated with equipment purchased in 2019. During 2019, cash payments of \$38.3 million for capital expenditures were offset by proceeds from the sale of property, plant and equipment of \$9.0 million and proceeds from insurance claims of \$1.0 million.

### Net Cash Provided By (Used In) Financing Activities

Cash provided by financing activities was \$15.8 million for the year ended December 31, 2020 compared to cash used in financing activities of \$6.6 million for the year ended December 31, 2019. During 2020, we made borrowings under our Revolving Credit Facility of \$11.0 million and under the PPP Loan of \$10.0 million, offset by repayments under our Revolving Credit Facility of \$11.0 million, common stock issuance costs of \$0.8 million, received proceeds from issuance of common stock of \$11.0 million, had restricted stock units withheld for taxes paid of \$44.0 thousand, purchased \$0.1 million of treasury stock and made payments for finance lease obligations of \$4.3 million.

## Long-term Debt

On October 1, 2018, we entered into a Term Loan Credit Agreement (the “Term Loan Credit Agreement”) for an initial term loan in an aggregate principal amount of \$130.0 million, (the “Term Loan Facility”) and (b) a delayed draw term loan facility in an aggregate principal amount of up to \$15.0 million (the “DDTL Facility”, and together with the Term Loan Facility, the “Term Facilities”). The Term Facilities have a maturity date of October 1, 2023, at which time all outstanding principal under the Term Facilities and other obligations become due and payable in full.

At our election, interest under the Term Loan Facility is determined by reference at our option to either (i) a “base rate” equal to the higher of (a) the federal funds effective rate plus 0.05%, (b) the London Interbank Offered Rate (“LIBOR”) with an interest period of one month, plus 1.0%, and (c) the rate of interest as publicly quoted from time to time by the Wall Street Journal as the “prime rate” in the United States, plus an applicable margin of 6.5%, or (ii) a “LIBOR rate” equal to LIBOR with an interest period of one month, plus an applicable margin of 7.5%.

The Term Loan Credit Agreement contains financial covenants, including a liquidity covenant of \$10.0 million and a springing fixed charge coverage ratio covenant of 1.00 to 1.00 that is tested when availability under the ABL Credit Facility (defined below) and the DDTL Facility is below \$5.0 million at any time that a DDTL Facility loan is outstanding. The Term Loan Credit Agreement also contains other customary affirmative and negative covenants, including limitations on indebtedness, liens, fundamental changes, asset dispositions, restricted payments, investments and transactions with affiliates. The Term Loan Credit Agreement also provides for customary events of default, including breaches of material covenants, defaults under the ABL Credit Facility or other material agreements for indebtedness, and a change of control.

The obligations under the Term Loan Credit Agreement are secured by a first priority lien on collateral (the “Term Priority Collateral”) other than accounts receivable, deposit accounts and other related collateral pledged as first priority collateral (“Priority Collateral”) under the ABL Credit Facility (defined below) and a second priority lien on such Priority Collateral, and are unconditionally guaranteed by all of our current and future direct and indirect subsidiaries. MSD PCOF Partners IV, LLC (an affiliate of MSD Partners) is the lender of our \$130.0 million Term Loan Facility. MSD Partners, together with MSD Capital, own approximately 15% of the outstanding shares of our common stock.

In July 2019, we revised our Term Loan Credit Agreement to explicitly permit the repurchase of equity interests by the Company pursuant to the stock purchase program that was approved by our Board of Directors.

In June 2020, we revised our Term Loan Credit Agreement to elect to pay accrued and unpaid interest, solely during one three-consecutive-month period immediately following such notice, in kind (the “PIK Amount”). We agreed to pay an additional amount equal to 0.75% of the aggregate principal amount of the loans under the Term Loan Credit Agreement plus all PIK Amounts, if any, that are added to such principal amount being repaid or prepaid on either the maturity date or upon the occurrence of an acceleration of obligations under the Term Loan Credit Agreement. As such, the additional amount, approximately \$1.0 million, was recorded as a direct deduction from the face amount of the Term Loan Facility and as a long-term payable on our consolidated balance sheets. The additional amount will be amortized as interest expense over the term of the Term Loan Facility.

Additionally on October 1, 2018, we entered into a \$40.0 million revolving Credit Agreement (the “ABL Credit Facility”), including availability for letters of credit in an aggregate amount at any time outstanding not to exceed \$7.5 million. Availability under the ABL Credit Facility is subject to a borrowing base calculated based on 85% of the net amount of our eligible accounts receivable, minus reserves. The ABL Credit Facility has a maturity date of the earlier of October 1, 2023 or the maturity date of the Term Loan Credit Agreement.

At our election, interest under the ABL Credit Facility is determined by reference at our option to either (i) a “base rate” equal to the higher of (a) the federal funds effective rate plus 0.05%, (b) LIBOR with an interest period of one month, plus 1.0%, and (c) the prime rate of Wells Fargo, plus in each case, an applicable base rate margin ranging from 1.0% to 1.5% based on quarterly availability, or (ii) a revolving loan rate equal to LIBOR for the applicable interest period plus an applicable LIBOR margin ranging from 2.0% to 2.5% based on quarterly availability. We also pay, on a quarterly basis, a commitment fee of 0.375% (or 0.25% at any time when revolver usage is greater than 50% of the maximum credit) per annum on the unused portion of the ABL Credit Facility commitment.

The ABL Credit Facility contains a springing fixed charge coverage ratio covenant of 1.00 to 1.00 that is tested when availability is less than 10% of the maximum credit. The ABL Credit Facility also contains other customary affirmative and negative covenants, including limitations on indebtedness, liens, fundamental changes, asset dispositions, restricted payments, investments and transactions with affiliates. The ABL Credit Facility also provides for customary events of default, including breaches of material covenants, defaults under the Term Loan Agreement or other material agreements for indebtedness, and a change of control. We are in compliance with our financial covenants as of December 31, 2020.

The obligations under the ABL Credit Facility are secured by a first priority lien on Priority Collateral, which includes all accounts receivable and deposit accounts, and a second priority lien on the Term Priority Collateral, and are unconditionally guaranteed by all of our current and future direct and indirect subsidiaries. As of December 31, 2020, the weighted-average interest rate on our borrowings was 9.00%. At December 31, 2020, the borrowing base under our ABL Credit Facility was \$7.7 million, and we had \$7.5 million of availability remaining of our \$40.0 million commitment on that date.

In addition, on April 27, 2020, we entered into an unsecured loan in the aggregate principal amount of \$10.0 million (the “PPP Loan”) pursuant to the PPP, sponsored by the SBA as guarantor of loans under the PPP. The PPP is part of the CARES Act, and it provides for loans to qualifying businesses in a maximum amount equal to the lesser of \$10.0 million and 2.5 times the average monthly payroll expenses of the qualifying business. The proceeds of the loan may only be used for payroll costs, rent, utilities, mortgage interests, and interest on other pre-existing indebtedness (the “permissible purposes”) during the covered period ending October 13, 2020. Interest on the PPP Loan is equal to 1.0% per annum. All or part of the loan is forgivable based upon the level of permissible expenses incurred during the covered period and changes to the Company's headcount during the period from January 1, 2020 to February 15, 2020.

The application for these funds required us to, in good faith, certify that current economic uncertainty made the loan request necessary to support our ongoing operations. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria. The PPP Loan is subject to any new guidance and new requirements released by the Department of the Treasury who has indicated that all companies that have received funds in excess of \$2.0 million will be subject to a government (SBA) audit to further ensure PPP loans are limited to eligible borrowers in need. On October 7, 2020, the SBA released guidance clarifying the deferral period for PPP loan payments. The Paycheck Protection Flexibility Act of 2020 extended the deferral period for loan payments to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, ten months after the end of the borrower's loan forgiveness covered period. We intend to apply for forgiveness and we believe our first payment related to any unforgiven portion would be due during the fourth quarter of 2021, with a loan maturity date of April 27, 2022.

Additionally, included in our long-term debt are finance leases. These leases generally have initial terms of 36 months and are paid monthly.

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

The consolidated financial statements are impacted by the accounting policies and estimates and assumptions used by management during their preparation. These estimates and assumptions are evaluated on an on-going basis. Estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities if not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following is a discussion of the critical accounting policies and estimates used in our consolidated financial statements. Other significant accounting policies are summarized in *Note 2* to the consolidated financial statements included in *Item 8. Financial Statements and Supplementary Data.*

#### ***Revenue and Cost Recognition***

We earn contract drilling revenues pursuant to drilling contracts entered into with our customers. We perform drilling services on a “daywork” basis, under which we charge a specified rate per day, or “dayrate.” The dayrate associated with each of our contracts is a negotiated price determined by the capabilities of the rig, location, depth and complexity of the wells to be drilled, operating conditions, duration of the contract and market conditions. The term of land drilling contracts may be for a defined number of wells or for a fixed time period. We generally receive lump-sum payments for the mobilization of rigs and other drilling equipment at the commencement of a new drilling contract. Revenue and costs associated with the initial mobilization are deferred and recognized ratably over the term of the related drilling contract once the rig spuds. Costs incurred to relocate rigs and other equipment to an area in which a contract has not been secured are expensed as incurred. Our contracts provide for early termination fees in the event our customers choose to cancel the contract prior to the specified contract term. We record a contract liability for such fees received up front, and recognize them ratably as contract drilling revenue over the initial term of the related drilling contract or until such time that all performance obligations are satisfied. While under contract, our rigs generally earn a reduced rate while the rig is moving between wells or drilling locations, or on standby waiting for the customer. Reimbursements for the purchase of supplies, equipment, trucking and other services that are provided at the request of our customers are recorded as revenue when incurred. The related costs are recorded as operating expenses when incurred. Revenue is presented net of any sales tax charged to the customer that we are required to remit to local or state governmental taxing authorities.

Our operating costs include all expenses associated with operating and maintaining our drilling rigs. Operating costs include all “rig level” expenses such as labor and related payroll costs, repair and maintenance expenses, supplies, workers' compensation and other insurance, ad valorem taxes and equipment rental costs. Also included in our operating costs are certain costs that are not incurred at the rig level. These costs include expenses directly associated with our operations management team as well as our safety and maintenance personnel who are not directly assigned to our rigs but are responsible for the oversight and support of our operations and safety and maintenance programs across our fleet.

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

Property, plant and equipment, including renewals and betterments, are stated at cost less accumulated depreciation. All property, plant and equipment are depreciated using the straight-line method based on the estimated useful lives of the assets. The cost of maintenance and repairs are expensed as incurred. Major overhauls and upgrades are capitalized and depreciated over their remaining useful life.

Depreciation of property, plant and equipment is recorded based on the estimated useful lives of the assets as follows:

	<u>Estimated Useful Life</u>
Buildings	20 - 39 years
Drilling rigs and related equipment	3 - 20 years
Machinery, equipment and other	3 - 7 years
Vehicles	2 - 5 years

We review our assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets that are held and used is measured by comparison of the estimated future undiscounted cash flows associated with the asset to the carrying amount of the asset. If the carrying value of such assets is less than the estimated undiscounted cash flow, an impairment charge is recorded in the amount by which the carrying amount of the assets exceeds their estimated fair value.

Asset impairment expense of \$41.0 million was recorded for 2020, as compared to \$35.7 million for 2019. For further discussion, see “*Significant Developments - Asset Impairments*” in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### ***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under this method, we record deferred income taxes based upon differences between the financial reporting basis and tax basis of assets and liabilities, and use enacted tax rates and laws that we expect will be in effect when we realize those assets or settle those liabilities. We review deferred tax assets for a valuation allowance based upon management’s estimates of whether it is more likely than not that a portion of the deferred tax asset will be fully realized in a future period.

We recognize the financial statement benefit of a tax position only after determining that the relevant taxing authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Our policy is to include interest and penalties related to the unrecognized tax benefits within the income tax expense (benefit) line item in our consolidated statement of operations.

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

We record compensation expense over the requisite service period for all stock-based compensation based on the grant date fair value of the award. The expense is included in selling, general and administrative expense in our consolidated statement of operations or capitalized in connection with rig construction activity.

### ***Other Matters***

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

We are party to certain arrangements defined as “off-balance sheet arrangements” that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. These arrangements relate to non-cancelable operating leases with terms of less than twelve months and unconditional purchase obligations not fully reflected on our consolidated balance sheets. See *Note 14 - Commitments and Contingencies* to our consolidated financial statements for additional information.

## ***Recent Accounting Pronouncements***

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, as additional guidance on the measurement of credit losses on financial instruments. The new guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. In addition, the guidance amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The new guidance is effective for all public companies for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual periods beginning after December 15, 2018. In October 2019, the FASB approved a proposal which grants smaller reporting companies additional time to implement FASB standards on current expected credit losses (CECL) to January 2023. As a smaller reporting company, we will defer adoption of ASU No. 2016-13 until January 2023. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, to simplify the accounting for income taxes. The amendments in the update are effective for public companies for interim and annual periods beginning after December 15, 2020, with early adoption permitted. We adopted this guidance on January 1, 2021 and there has been no material impact on our consolidated financial statements.

On April 1, 2020, we adopted the new standard, ASU 2020-04, *Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform (e.g. discontinuation of LIBOR) if certain criteria are met. As of December 31, 2020, we have not yet elected any optional expedients provided in the standard. We will apply the accounting relief as relevant contract and hedge accounting relationship modifications are made during the reference rate reform transition period. We do not expect the standard to have a material impact on our consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, to simplify the accounting for convertible instruments by removing certain separation models in Subtopic 470-20, Debt-Debt with Conversion and Other Options, for convertible instruments. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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

We are exposed to a variety of market risks including risks related to potential adverse changes in interest rates and commodity prices. We actively monitor exposure to market risk and continue to develop and utilize appropriate risk management techniques. We do not use derivative financial instruments for trading or to speculate on changes in commodity prices.

### ***Interest Rate Risk***

Total long-term debt at December 31, 2020 included \$130.0 million of floating-rate debt attributed to borrowings at an average interest rate of 9.00%. As a result, our annual interest cost in 2021 will fluctuate based on short-term interest rates. The impact on annual cash flow of a 10% change in the floating-rate (approximately 0.90%) would be approximately \$1.2 million annually based on the floating-rate debt and other obligations outstanding at December 31, 2020; however, there are no assurances that possible rate changes would be limited to such amounts.

### ***Commodity Price Risk***

Oil and natural gas prices, and market expectations of potential changes in these prices, significantly impact the level of worldwide drilling and production services activities. Reduced demand for oil and natural gas generally results in lower prices for these commodities and may impact the economics of planned drilling projects and ongoing production projects, resulting in the curtailment, reduction, delay or postponement of such projects for an indeterminate period of time. When drilling and production activity and spending decline, both dayrates and utilization have also historically declined. Further declines in oil and natural gas prices and the general economy, could materially and adversely affect our business, results of operations, financial condition and growth strategy.

In addition, if oil and natural gas prices decline, companies that planned to finance exploration, development or production projects through the capital markets may be forced to curtail, reduce, postpone or delay drilling activities even further, and also may experience an inability to pay suppliers. Adverse conditions in the global economic environment could also impact our vendors' and suppliers' ability to meet obligations to provide materials and services in general. If any of the foregoing were to occur, or if current depressed market conditions continue for a prolonged period of time, it could have a material adverse effect on our business and financial results and our ability to timely and successfully implement our growth strategy.

The COVID-19 pandemic, responses taken and economic effects have caused significant declines in the global demand for crude oil. This demand decline has occurred concurrent with the initiation of a crude oil price war between members of the Organization of the Petroleum Exporting Countries ("OPEC") and Russia (collectively, the "OPEC+" group). These combined events have resulted significant declines in demand for oil and major disruptions to global energy prices. Even with the production cuts announced by the OPEC+ group and others on April 9, 2020, and the cessation to the crude oil price war, crude oil inventories have continued to rise and to test storage capacity and logistics networks. These factors have led to a collapse in oil prices, with the WTI price for May delivery closing at negative \$37.63 per barrel on April 20, 2020. In July 2020, OPEC+ agreed to taper oil production cuts, which will reduce production cuts from 9.7 Mmbpd to 7.7 Mmbpd between August 2020 and January 2021. Downward pressure on oil prices is expected to continue for the foreseeable future, and the long-term effects on production and demand are unknown at this time. As of February 16, 2021, the WTI spot price was \$60.07.

We cannot predict the length of time that the market disruptions resulting from the COVID-19 pandemic will continue or when, or if, oil and gas prices and demand for our contract drilling services will begin to improve or return to pre-COVID-19 levels. The extent to which our operating and financial results are affected by COVID-19 will depend on various factors and consequences beyond our control, such as the duration and scope of the pandemic; additional actions by businesses and governments in response to the pandemic; and the speed and effectiveness of responses to combat the virus. As a result, our business, operating results and financial conditions are subject to various risks outlined in this Current Report on Form 10-Q under Part II, Section 1a "Risk Factors", as well as the risk factors outlined in our Annual Report on Form 10-K, many of which are aggravated as a result of the declining market conditions and significant uncertainty caused by the COVID-19 pandemic.

### ***Credit and Capital Market Risk***

Our customers may finance their drilling activities through cash flow from operations, the incurrence of debt or the issuance of equity. Any deterioration in the credit and capital markets, as currently being experienced, can make it difficult for our customers to obtain funding for their capital needs. A reduction of cash flow resulting from declines in commodity prices, or a reduction of available financing may result in a reduction in customer spending and the demand for our drilling services. This reduction in spending could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

We expect all of our customers, lenders and suppliers are being adversely affected in some fashion by the COVID-19 pandemic. Although we are not currently experiencing any material disruption in payments by customers at this time, given the dramatic impact the COVID-19 pandemic has had on the oil and gas industry and our customers, there is no assurance that our customers' financial position will not be adversely impacted which could result in payment delays and payment defaults. Availability under our revolving line of credit is based upon a borrowing base determined by the level of our accounts receivable, with uncollectable amounts or amounts greater than 90 days past due excluded from consideration. As a result, a continued reduction in the utilization of our rigs or delays in payment or payment defaults by any of our customers will continue to have a material adverse impact on our financial liquidity. Similarly, our suppliers may not extend credit to us or require less favorable payment terms or face similar challenges with their own suppliers. We also are reliant upon our third-party lenders' ability to meet their commitments under our existing credit facilities. Given the dramatic impact of the COVID-19 pandemic across industries and geographic regions, we cannot predict the magnitude it may have on our lenders' ability to meet their commitments to us, and any failure to do so would have a material adverse effect on our liquidity and financial position.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<b>Independence Contract Drilling, Inc.</b>	
Report of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets as of December 31, 2020 and 2019	50
Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018	51
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020, 2019 and 2018	52
Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018	53
Notes to Consolidated Financial Statements	54
Schedule II - Valuation and Qualifying Accounts	78

## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Independence Contract Drilling, Inc.  
Houston, Texas

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Independence Contract Drilling, Inc. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Note 5 to the consolidated financial statements, on January 1, 2019, the Company adopted Accounting Standards Codification Topic 842 - Leases, using the effective date method.

### 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 internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal controls 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 that 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.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

### Assessment of Recoverability of the Carrying Value of Marketed Drilling Rigs

As discussed in Note 7 to the consolidated financial statements, the Company recorded net property, plant and equipment of \$382 million, including marketed drilling rigs and related equipment at a gross cost of \$526 million as of December 31, 2020. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable (“triggering events”). During the quarter ended March 31, 2020, the Company determined a triggering event occurred, primarily due to the rapidly deteriorating market conditions related to the COVID-19 pandemic and downward pressure on oil prices, and performed an asset impairment test as of March 31, 2020. The marketed drilling rigs are impaired when management’s estimate of the undiscounted future cash flows is less than the carrying value of the assets.

We identified management's assessment of the recoverability of the carrying value of the marketed drilling rigs included in the Company's marketed rig fleet as a critical audit matter. Auditing management's assessment of the recoverability of the carrying value of the Company's marketed drilling rigs, and the amount of impairment charge, if any, that would be required, involved significant estimation and complex auditor judgement.

The primary procedures we performed to address this critical audit matter included:

- Testing the completeness, accuracy, and relevance of the underlying data used in estimating the undiscounted future cash flows used in the asset impairment test; and
- Evaluating the reasonableness of the significant assumptions used by management in developing the estimate of undiscounted future cash flows, including evaluating whether the projections were reasonable considering market data, and current and historical performance, and were consistent with evidence obtained through other areas of the audit.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

Houston, Texas

March 1, 2021

**Independence Contract Drilling, Inc.**  
**Consolidated Balance Sheets**  
(In thousands, except par value and share amounts)

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 12,279	\$ 5,206
Accounts receivable, net	10,023	35,834
Inventories	1,038	2,325
Assets held for sale	—	8,740
Prepaid expenses and other current assets	4,102	4,640
Total current assets	27,442	56,745
Property, plant and equipment, net	382,239	457,530
Other long-term assets, net	3,528	2,726
Total assets	\$ 413,209	\$ 517,001
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Current portion of long-term debt	\$ 7,637	\$ 3,685
Accounts payable	4,072	22,674
Accrued liabilities	10,723	16,368
Merger consideration payable to an affiliate	—	3,022
Current portion of contingent consideration	—	2,814
Total current liabilities	22,432	48,563
Long-term debt	137,633	134,941
Merger consideration payable to an affiliate	2,902	—
Deferred income taxes, net	505	652
Other long-term liabilities	2,704	1,249
Total liabilities	166,176	185,405
Commitments and contingencies (Note 14)		
<b>Stockholders' equity</b>		
Common stock, \$0.01 par value, 50,000,000 shares authorized; 6,254,396 and 3,876,196 shares issued, respectively; and 6,175,818 and 3,812,050 shares outstanding, respectively	62	38
Additional paid-in capital	517,948	505,831
Accumulated deficit	(267,064)	(170,426)
Treasury stock, at cost, 78,578 and 64,146 shares, respectively	(3,913)	(3,847)
Total stockholders' equity	247,033	331,596
Total liabilities and stockholders' equity	\$ 413,209	\$ 517,001

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

**Independence Contract Drilling, Inc.**  
**Consolidated Statements of Operations**  
(In thousands, except per share amounts)

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Revenues	\$ 83,418	\$ 203,602	\$ 142,609
Costs and expenses			
Operating costs	65,367	144,913	95,220
Selling, general and administrative	13,484	16,051	15,907
Severance and merger-related expenses	1,076	2,698	13,646
Depreciation and amortization	43,919	45,367	30,891
Asset impairment, net	41,007	35,748	25
Loss (gain) on disposition of assets, net	723	4,943	(740)
Other expense	—	377	—
Total cost and expenses	165,576	250,097	154,949
Operating loss	(82,158)	(46,495)	(12,340)
Interest expense	(14,627)	(14,415)	(7,562)
Loss before income taxes	(96,785)	(60,910)	(19,902)
Income tax (benefit) expense	(147)	(122)	91
Net loss	\$ (96,638)	\$ (60,788)	\$ (19,993)
Loss per share:			
Basic and diluted	\$ (19.69)	\$ (16.11)	\$ (8.40)
Weighted-average number of common shares outstanding:			
Basic and diluted	4,907	3,774	2,379

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

**Independence Contract Drilling, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
(In thousands, except share amounts)

	Common Stock <sup>(1)</sup>		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock <sup>(1)</sup>	Total Stockholders' Equity
	Shares	Amount				
<b>Balances at December 31, 2017</b>	1,899,261	\$ 19	\$ 326,977	\$ (89,645)	\$ (1,869)	\$ 235,482
Restricted stock issued	69,295	1	(1)	—	—	—
RSUs vested, net of shares withheld for taxes	60,663	1	(711)	—	—	(710)
Purchase of treasury stock	(12,943)	—	(3)	—	(1,177)	(1,180)
Shares issued in connection with Sidewinder Merger	1,837,633	18	173,087	—	—	173,105
Stock-based compensation	—	—	4,829	—	—	4,829
Net loss	—	—	—	(19,993)	—	(19,993)
<b>Balances at December 31, 2018</b>	<b>3,853,909</b>	<b>\$ 39</b>	<b>\$ 504,178</b>	<b>\$ (109,638)</b>	<b>\$ (3,046)</b>	<b>\$ 391,533</b>
Restricted stock forfeited	(6,478)	—	—	—	—	—
RSUs vested, net of shares withheld for taxes	2,737	—	(34)	—	—	(34)
Purchase of treasury stock	(38,118)	(1)	(7)	—	(801)	(809)
Common stock issuance costs	—	—	(177)	—	—	(177)
Stock-based compensation	—	—	1,871	—	—	1,871
Net loss	—	—	—	(60,788)	—	(60,788)
<b>Balances at December 31, 2019</b>	<b>3,812,050</b>	<b>\$ 38</b>	<b>\$ 505,831</b>	<b>\$ (170,426)</b>	<b>\$ (3,847)</b>	<b>\$ 331,596</b>
Restricted stock forfeited	(5,716)	—	—	—	—	—
RSUs vested, net of shares withheld for taxes	27,750	—	(44)	—	—	(44)
Purchase of treasury stock	(14,443)	—	—	—	(66)	(66)
Issuance of common stock, net of offering costs	2,356,177	24	10,182	—	—	10,206
Stock-based compensation	—	—	1,979	—	—	1,979
Net loss	—	—	—	(96,638)	—	(96,638)
<b>Balances at December 31, 2020</b>	<b>6,175,818</b>	<b>\$ 62</b>	<b>\$ 517,948</b>	<b>\$ (267,064)</b>	<b>\$ (3,913)</b>	<b>\$ 247,033</b>

(1) Prior period results have been adjusted to reflect the 1-for-20 reverse stock split that took place in February 2020. See *Reverse Stock Split in Note 1 - Nature of Operations and Recent Developments*.

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

**Independence Contract Drilling, Inc.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>			
Net loss	\$ (96,638)	\$ (60,788)	\$ (19,993)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation and amortization	43,919	45,367	30,891
Asset impairment, net	41,007	35,748	25
Stock-based compensation	1,979	1,871	4,829
Loss (gain) on disposition of assets, net	723	4,943	(740)
Amortization of deferred rent	—	—	105
Deferred income taxes	(147)	(122)	91
Amortization of deferred financing costs	988	814	492
Write-off of deferred financing costs	—	—	856
Bad debt expense	16	459	22
Changes in operating assets and liabilities, net of effects of Sidewinder Merger			
Accounts receivable	26,026	5,695	(1,022)
Inventories	117	(349)	250
Prepaid expenses and other assets	(1,023)	1,473	(4,681)
Accounts payable and accrued liabilities	(16,680)	(7,190)	5,010
Net cash provided by operating activities	<u>287</u>	<u>27,921</u>	<u>16,135</u>
<b>Cash flows from investing activities</b>			
Cash acquired in Sidewinder Merger	—	—	10,743
Purchases of property, plant and equipment	(14,229)	(38,320)	(37,550)
Proceeds from insurance claims	—	1,000	257
Proceeds from the sale of assets	5,107	8,951	1,303
Collection of principal on note receivable	145	—	—
Net cash used in investing activities	<u>(8,977)</u>	<u>(28,369)</u>	<u>(25,247)</u>
<b>Cash flows from financing activities</b>			
Borrowings under Term Loan Facility	—	—	130,000
Borrowings under Revolving Credit Facilities	11,045	4,511	55,732
Borrowings under PPP Loan	10,000	—	—
Repayments under Revolving Credit Facilities	(11,038)	(7,077)	(101,707)
Repayment of Sidewinder debt	—	—	(58,512)
Proceeds from issuance of common stock	10,978	—	—
Common stock issuance costs	(772)	(177)	—
Purchase of treasury stock	(66)	(809)	(1,180)
RSUs withheld for taxes	(44)	(34)	(710)
Financing costs paid under Term Loan Facility	—	(5)	(3,371)
Financing costs paid under Revolving Credit Facilities	—	(22)	(790)
Payments of finance and capital lease obligations	(4,340)	(2,980)	(636)
Net cash provided by (used in) financing activities	<u>15,763</u>	<u>(6,593)</u>	<u>18,826</u>
Net increase (decrease) in cash and cash equivalents	7,073	(7,041)	9,714
<b>Cash and cash equivalents</b>			
Beginning of year	5,206	12,247	2,533
End of year	<u>\$ 12,279</u>	<u>\$ 5,206</u>	<u>\$ 12,247</u>

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

**Independence Contract Drilling, Inc.**  
**Notes to Consolidated Financial Statements**

**1. Nature of Operations and Recent Developments**

Except as expressly stated or the context otherwise requires, the terms “we,” “us,” “our,” the “Company” and “ICD” refer to Independence Contract Drilling, Inc. and its subsidiary.

We provide land-based contract drilling services for oil and natural gas producers targeting unconventional resource plays in the United States. We own and operate a premium fleet comprised of modern, technologically advanced drilling rigs.

We currently focus our operations on unconventional resource plays located in geographic regions that we can efficiently support from our Houston, Texas and Midland, Texas facilities in order to maximize economies of scale. Currently, our rigs are operating in the Permian Basin, the Haynesville Shale and the Eagle Ford Shale; however, our rigs have previously operated in the Mid-Continent and Eaglebine regions as well.

Our business depends on the level of exploration and production activity by oil and natural gas companies operating in the United States, and in particular, the regions where we actively market our contract drilling services. The oil and natural gas exploration and production industry is historically cyclical and characterized by significant changes in the levels of exploration and development activities. Oil and natural gas prices and market expectations of potential changes in those prices significantly affect the levels of those activities. Worldwide political, regulatory, economic and military events, as well as natural disasters have contributed to oil and natural gas price volatility historically, and are likely to continue to do so in the future. Any prolonged reduction in the overall level of exploration and development activities in the United States and the regions where we market our contract drilling services, whether resulting from changes in oil and natural gas prices or otherwise, could materially and adversely affect our business.

***COVID-19 Pandemic, Drilling Activity and Market Conditions Update***

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (“COVID-19”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The continued spread of the COVID-19 virus and the responses taken to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns, has caused significant declines in global demand for crude oil. This reduction in demand has occurred concurrent with the initiation of a crude oil price war between members of the Organization of the Petroleum Exporting Countries (“OPEC”) and Russia (collectively, the “OPEC+” group). Even with the production cuts announced by the OPEC+ group and others on April 9, 2020, and the cessation to the crude oil price war, crude oil inventories have continued to rise and to test storage capacity and logistics networks. These factors led to a collapse in oil prices, with the WTI price for May delivery closing at negative \$37.63 per barrel on April 20, 2020. Our operating rig count experienced a similar collapse, bottoming at three operating rigs during the third quarter of 2020. Oil prices have recently recovered with the WTI price reaching \$60.07 on February 16, 2021 supported by production cuts by OPEC+. The long-term effects on production and demand are unknown at this time. Currently, there is considerable uncertainty regarding measures to contain the virus and what potential future measures may be put in place, as well as uncertainty on how long OPEC+ will continue to maintain current production cuts, therefore we cannot predict when worldwide supply and demand for oil will stabilize.

In response to these adverse market conditions and uncertainty, our customers reduced planned capital expenditures and drilling activity. As a result, demand for our services rapidly declined late in the first and second quarters of 2020. During the first quarter of 2020, our operating rig count reached a peak of 22 rigs and temporarily reached a low of three rigs during the third quarter of 2020. During the third quarter, oil and natural gas prices began to stabilize, and demand for our products began to modestly improve from their historic lows, which allowed us to reactivate additional rigs during the back half of 2020. As of December 31, 2020, we had eleven contracted rigs. However, due to the lack of visibility and confidence towards customer intentions and the unknown future impacts of COVID-19 and changes to OPEC+ production cuts on economic conditions and oil and gas demand and drilling activity, we cannot assure you that we will be able to maintain this operating rig count or that our operating rig count will continue to improve in the future. Two contracts that expired at the end of 2020 had higher dayrates than prevailing spot rates. As a result, although our operating rig count has been increasing, these rigs are being contracted at prevailing market rates that remain depressed, therefore, we do expect to see our average revenue per day decline.

Due to these rapidly declining market conditions, we took the following actions at the end of the first quarter of 2020 in order to reduce our cost structure:

- Salary or compensation reductions for substantially all our employees, including members of executive management;
- Suspension of all cash-based incentive compensation, including all members of executive management;
- Reduced the number of executive management positions by two;
- Reduced the number of directors from seven to five, which became effective following director elections at our 2020 Annual Meeting of Stockholders;
- Reduced annual compensation reductions for our directors; and
- Reduced headcount significantly for non-field-based personnel.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. We deferred \$0.8 million of employer social security payments during the year ended December 31, 2020.

The CARES Act did not have a material impact on our income taxes. Management will continue to monitor future developments and interpretations for any further impacts on our financial condition, results of operations, or liquidity.

We cannot predict the length of time that the market disruptions resulting from the COVID-19 pandemic will continue; or when, or if, oil and gas prices and demand for our contract drilling services will decline, continue to improve or return to pre-COVID-19 levels. The extent to which our operating and financial results are affected by the COVID-19 pandemic will depend on various factors and consequences beyond our control, such as the duration and scope of the pandemic; additional actions by businesses and governments in response to the pandemic; and the speed and effectiveness of responses to combat the virus. As a result, our business, operating results and financial conditions are subject to various risks, many of which are aggravated as a result of the declining market conditions and significant uncertainty caused by the COVID-19 pandemic.

#### ***PPP Loan***

On April 27, 2020, we entered into an unsecured loan in the aggregate principal amount of \$10.0 million (the “PPP Loan”) pursuant to the Paycheck Protection Program (the “PPP”), sponsored by the Small Business Administration (the “SBA”) as guarantor of loans under the PPP. The PPP is part of the CARES Act, and it provides for loans to qualifying businesses in a maximum amount equal to the lesser of \$10.0 million and 2.5 times the average monthly payroll expenses of the qualifying business. The proceeds of the loan may only be used for payroll costs, rent, utilities, mortgage interests, and interest on other pre-existing indebtedness (the “permissible purposes”).

The application for these funds required us to, in good faith, certify that current economic uncertainty made the loan request necessary to support our ongoing operations. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria. The PPP Loan is subject to any new guidance and new requirements released by the Department of the Treasury who has indicated that all companies that have received funds in excess of \$2.0 million will be subject to a government (SBA) audit to further ensure PPP loans are limited to eligible borrowers in need. On October 7, 2020, the SBA released guidance clarifying the deferral period for PPP loan payments. The Paycheck Protection Flexibility Act of 2020 extended the deferral period for loan payments to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, ten months after the end of the borrower's loan forgiveness covered period. We intend to apply for forgiveness and we believe our first payment related to any unforgiven portion would be due during the fourth quarter of 2021, with a loan maturity date of April 27, 2022.

#### ***Common Stock Purchase Agreement***

On November 11, 2020, we entered into a Common Stock Purchase Agreement (the “Commitment Purchase Agreement”) and a Registration Rights Agreement (the “Registration Rights Agreement”) with Tumim Stone Capital LLC (“Tumim”). Pursuant to the Commitment Purchase Agreement, the Company has the right to sell to Tumim up to \$5,000,000 (the “Total Commitment”) in shares of its common stock, par value \$0.01 per share (the “Shares”) (subject to certain conditions and limitations) from time to time during the term of the Commitment Purchase Agreement. Sales of common stock pursuant to the Commitment Purchase Agreement, and the timing of any sales, are solely at our option and we are under no obligation to

sell securities pursuant to this arrangement. Shares may be sold by the Company pursuant to this arrangement over a period of up to 24 months, commencing on December 1, 2020.

Under the applicable rules of the New York Stock Exchange (“NYSE”), in no event may we issue more than 1,234,546 shares of our common stock, which represents 19.99% of the shares of our common stock outstanding immediately prior to the execution of the Commitment Purchase Agreement (the “Exchange Cap”), to Tumim under the Commitment Purchase Agreement, unless (i) we obtain stockholder approval to issue shares of our common stock in excess of the Exchange Cap or (ii) the price of all applicable sales of our common stock to Tumim under the Commitment Purchase Agreement equals or exceeds the lower of (A) the official closing price on the NYSE immediately preceding the delivery by us of an applicable purchase notice under the Commitment Purchase Agreement and (B) the average of the closing prices of our common stock on the NYSE for the five business days immediately preceding the delivery by us of an applicable purchase notice under the Commitment Purchase Agreement, in each case plus \$0.128, such that the transactions contemplated by the Commitment Purchase Agreement are exempt from the Exchange Cap limitation under applicable NYSE rules. In any event, the Commitment Purchase Agreement specifically provides that we may not issue or sell any shares of our common stock under the Commitment Purchase Agreement if such issuance or sale would breach any applicable rules or regulations of the NYSE. The Company has also limited the aggregate number of shares of common stock reserved for issuance under the Commitment Purchase Agreement to 1,500,000 shares without subsequent board approval.

In all instances, we may not sell shares of our common stock to Tumim under the Commitment Purchase Agreement if it would result in Tumim beneficially owning more than 4.99% of the common stock (the “Beneficial Ownership Cap”).

The proceeds under the Commitment Purchase Agreement will depend on the frequency and prices at which the Company sells shares of its stock to Tumim. We determined that the right to sell additional shares represents a freestanding put option under ASC 815 Derivatives and Hedging, but has a fair value of zero, and therefore no additional accounting was required. Transaction costs, of \$0.5 million, incurred in connection with entering into the Purchase Agreement were expensed as selling, general and administrative expense.

#### ***Third Amendment to Term Loan Credit Agreement***

On June 4, 2020, we entered into a Third Amendment, dated as of June 4, 2020 (the “Third Amendment”), to the Credit Agreement, dated as of October 1, 2018 (the “Term Credit Loan Agreement”), to permit us, at our option, subject to required prior notice and a maximum available liquidity condition (including availability under our revolving credit agreement and available cash), to elect to pay accrued and unpaid interest, solely during one three-consecutive-month period immediately following such notice, in kind (the “PIK Amount”). In connection with the amendments, we agreed to pay an additional amount equal to 0.75% of the aggregate principal amount of the loans under the Term Loan Credit Agreement plus all PIK Amounts, if any, that are added to such principal amount being repaid or prepaid on either the maturity date or upon the occurrence of an acceleration of obligations under the Term Loan Credit Agreement.

#### ***ATM Offering***

On June 5, 2020, we entered into an equity distribution agreement (the “Agreement”) with Piper Sandler & Co. (the “Agent”), through its Simmons Energy division. Pursuant to the Agreement, we were able to offer and sell through the Agent shares of our common stock, par value \$0.01 per share, having an aggregate offering price of up to \$11,000,000 (the “Shares”). We began offering shares under this program during the second quarter of 2020 and completed this offering process during the third quarter of 2020, raising \$11 million of gross proceeds and issuing an aggregate of 2.4 million shares at an average gross offering price of \$4.66 per share.

#### ***Reverse Stock Split***

Following approval by our stockholders on February 6, 2020, our Board of Directors approved a 1-for-20 reverse stock split of our common stock. The reverse stock split reduced the number of shares of common stock issued and outstanding from 77,523,973 and 76,241,045 shares, respectively, to 3,876,196 and 3,812,050 shares, respectively, and reduced the number of authorized shares of our common stock from 200,000,000 shares to 50,000,000 shares. The reverse split was effective March 11, 2020, and all share and earnings per share information in these consolidated financial statements have been retroactively adjusted to reflect the reverse stock split and the associated decrease in par value was recorded with the offset to additional paid-in capital.

#### ***Sidewinder Merger and Merger Consideration Amendment***

We completed the merger with Sidewinder Drilling LLC on October 1, 2018. During the year ended December 31, 2019 and 2018, we recorded \$2.7 million and \$13.6 million, respectively, of merger-related expenses comprised primarily of

severance, professional fees and various other integration related expenses. There were no merger expenses recorded during the year ended December 31, 2020.

Certain intangible liabilities were recorded in connection with the Sidewinder merger for drilling contracts in place at the closing date of the transaction that had unfavorable contract terms as compared to then current market terms for comparable drilling rigs. The intangible liabilities were amortized to operating revenues over the remaining underlying contract terms. During the year ended December 31, 2019 and 2018, \$1.1 million and \$2.0 million, respectively, of intangible revenue was recognized as a result of this amortization. The intangible liabilities were fully amortized in the second quarter of 2019.

In addition, at the time of consummation of the Sidewinder Merger, Sidewinder owned various mechanical rig assets and related equipment (the "Mechanical Rigs") located principally in the Utica and Marcellus plays. As these assets were not consistent with ICD's core strategy or geographic focus, ICD agreed that these assets could be disposed of, with the Sidewinder unitholders receiving the net proceeds. As a result of this arrangement, on the merger date, we recorded the fair value of the Mechanical Rigs less costs to sell, as assets held for sale, with a related liability in contingent consideration. Subsequently, these assets were sold at auction for substantially less than the appraised fair values on the merger date. As a result, in the second quarter of 2020, the contingent consideration liability was reduced by the appraised fair values on the merger date and the proceeds were recorded as merger consideration payable to an affiliate on our consolidated balance sheets.

On June 4, 2020, we entered into a letter agreement (the "Merger Consideration Amendment") with MSD Credit Opportunity Master Fund, L.P. to allow for the deferral of payment of the Mechanical Rig net proceeds of \$2.9 million, to the earlier of (i) June 30, 2022 and (ii) a change of control transaction (such applicable date, the "Payment Date"), and requires us to pay an additional amount in connection with such deferred payment equal to interest accrued on the amount of Mechanical Rig net proceeds during the period between May 1, 2020 and the Payment Date, which interest shall accrue at a rate of 15% per annum, compounded quarterly, during the period beginning on May 1, 2020 and ending on December 31, 2020 and at a rate of 25% per annum, compounded quarterly, during any period following December 31, 2020. The Mechanical Rig net proceeds were previously payable in the second quarter of 2020.

### ***Asset Impairment***

As a result of the rapidly deteriorating market conditions described in "*COVID-19 Pandemic and Market Conditions Update*", we concluded that a triggering event occurred as of March 31, 2020 and, accordingly, an interim asset impairment test was performed. As a result, we recognized impairment of \$3.3 million associated with the decline in the market value of our assets held for sale based upon the market approach method and \$13.3 million related to the remaining assets on rigs removed from our marketed fleet, as well as certain other component equipment and inventory; all of which was deemed to be unsaleable and of zero value based upon the then current macroeconomic conditions and uncertainties surrounding COVID-19.

In the fourth quarter of 2020, due to the highly competitive market and in an effort to minimize capital spending, management drafted and approved a plan to upgrade our existing fleet by utilizing the primary components needed to complete the upgrades from five of our existing rigs and these five rigs were removed from our marketed fleet. We recorded an impairment charge of \$21.9 million related to the remaining assets on these non-marketed rigs. Additionally, we recorded a \$2.4 million asset impairment based upon the market approach method on certain capital spare parts, all of which were deemed to be incompatible with our upgraded fleet. Due to the uncertainty around the COVID-19 pandemic and current market conditions, we may have to make further impairment charges in future periods relating to, among other things, fixed assets and inventory.

In the first and second quarters of 2019, we recorded \$2.0 million and \$1.1 million, respectively, of asset impairment expense in conjunction with the sale of miscellaneous drilling equipment at auctions.

In the second quarter of 2019, in light of the softening demand for contract drilling services, we recorded an impairment charge of \$4.4 million relating to certain components on our SCR rigs and various other equipment. Management determined that these rigs could not be competitively marketed in the then current environment as SCR rigs and we removed them from our marketed fleet. Due to the high volume of idle SCR drilling equipment on the market at the time, management did not believe that the SCR drilling equipment could be sold for a material amount in the then current market environment, and therefore took the impairment charge.

We performed a goodwill impairment test during the third quarter of 2019 and recorded an impairment charge of \$2.3 million, which represented the impairment of 100% of our previously recorded goodwill. The impairment was primarily the result of the downturn in industry conditions since the consummation of the Sidewinder Merger in the fourth quarter of 2018 and the subsequent related decline in the price of our common stock as of September 30, 2019.

During the fourth quarter of 2019, we recorded impairments totaling \$25.9 million relating primarily to our decision to remove two rigs from our marketed, or to-be-marketed fleet, as well as a plan to sell or otherwise dispose of rigs and related component equipment, much of which was acquired in connection with the Sidewinder Merger.

### ***Assets Held for Sale***

As a result of the rapidly deteriorating market conditions described in "*COVID-19 Pandemic and Market Conditions Update*", we recognized impairment of \$3.3 million as of March 31, 2020 associated with the decline in the market value of our assets held for sale. Throughout 2020, we sold \$2.6 million of assets held for sale and received cash proceeds of \$1.3 million, resulting in \$1.3 million of loss on sale of assets. Additionally during 2020, assets held for sale were reduced by \$2.8 million related to the remaining fair value of mechanical rigs acquired in the Sidewinder Merger which was recorded as a reduction in the related contingent consideration liability on our consolidated balance sheets.

During the fourth quarter of 2019, in conjunction with our plan to sell certain non-pad optimal rigs or partial rigs and related equipment acquired in the Sidewinder Merger, we impaired the related assets to fair value less estimated cost to sell and recorded \$5.9 million of assets held for sale on our consolidated balance sheet. Assets held for sale as of December 31, 2019 also included the remaining \$2.8 million of unsold mechanical rigs belonging to Sidewinder unitholders as part of the Sidewinder Merger agreement.

## **2. Summary of Significant Accounting Policies**

### ***Basis of Presentation***

These audited consolidated financial statements include all the accounts of ICD and its subsidiary. All significant intercompany accounts and transactions have been eliminated. Except for the subsidiary, we have no controlling financial interests in any other entity which would require consolidation. These audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). As we had no items of other comprehensive income in any period presented, no other comprehensive income is presented.

### ***Cash and Cash Equivalents***

We consider short-term, highly liquid investments that have an original maturity of three months or less to be cash equivalents.

### ***Accounts Receivable***

Accounts receivable is comprised primarily of amounts due from our customers for contract drilling services. Accounts receivable are reduced to reflect estimated realizable values by an allowance for doubtful accounts based on historical collection experience and specific review of current individual accounts. Receivables are written off when they are deemed to be uncollectible. Allowance for doubtful accounts was \$0.5 million as of December 31, 2020 and 2019.

### ***Inventories***

Inventory is stated at lower of cost or net realizable value and consists primarily of supplies held for use in our drilling operations. Cost is determined on an average cost basis.

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

Property, plant and equipment, including renewals and betterments, are stated at cost less accumulated depreciation. All property, plant and equipment are depreciated using the straight-line method based on the estimated useful lives of the assets. The cost of maintenance and repairs are expensed as incurred. Major overhauls and upgrades are capitalized and depreciated over their remaining useful life.

Depreciation of property, plant and equipment is recorded based on the estimated useful lives of the assets as follows:

	<u>Estimated Useful Life</u>
Buildings	20 - 39 years
Drilling rigs and related equipment	3 - 20 years
Machinery, equipment and other	3 - 7 years
Vehicles	2 - 5 years

Our operations are managed from field locations that we own or lease, that contain office, shop and yard space to support day-to-day operations, including repair and maintenance of equipment, as well as storage of equipment, materials and supplies. We currently have six such field locations.

Additionally, we lease office space for our corporate headquarters in northwest Houston. Leases are evaluated at inception or at any subsequent material modification to determine if the lease should be classified as a finance or operating lease.

We review our assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets that are held and used is measured by comparison of the estimated future undiscounted cash flows associated with the asset to the carrying amount of the asset. If the carrying value of such assets is less than the estimated undiscounted cash flow, an impairment charge is recorded in the amount by which the carrying amount of the assets exceeds their estimated fair value. For further discussion, see *Asset Impairments in Note 1 - Nature of Operations and Recent Developments*.

Construction in progress represents the costs incurred for drilling rigs and rig upgrades under construction at the end of the period. This includes third party costs relating to the purchase of rig components as well as labor, material and other identifiable direct and indirect costs associated with the construction of the rig.

### ***Capitalized Interest***

We capitalize interest costs related to rig construction projects. Interest costs are capitalized during the construction period based on the weighted-average interest rate of the related debt. We did not capitalize any interest for the year ended December 31, 2020. Capitalized interest amounted to \$0.3 million and \$0.2 million for the years ended December 31, 2019 and 2018, respectively.

### ***Financial Instruments and Fair value***

Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, there exists a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1      Unadjusted quoted market prices for identical assets or liabilities in an active market;
- Level 2      Quoted market prices for identical assets or liabilities in an active market that have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets; and
- Level 3      Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date

This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The carrying value of certain of our assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable and certain accrued liabilities approximates their fair value due to the short-term nature of such instruments.

The fair value of our long-term debt is determined by Level 3 measurements based on quoted market prices and terms for similar instruments, where available, and on the amount of future cash flows associated with the debt, discounted using our current borrowing rate for comparable debt instruments (the Income Method). Based on our evaluation of the risk free rate, the market yield and credit spreads on comparable company publicly traded debt, we used an annualized discount rate, including a credit valuation allowance, of 17.2%. The following table summarizes the carrying value and fair value of our long-term debt as of December 31, 2020 and 2019.

	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(in thousands)</i>				
Term Loan Facility	\$ 130,000	\$ 106,854	\$ 130,000	\$ 138,567
Revolving Credit Facility	8	6	—	—
PPP Loan	10,000	8,589	—	—
Merger consideration payable to an affiliate	2,902	3,490	—	—

The fair value of our assets held for sale is determined using Level 3 measurements. Fair value measurements are applied with respect to our non-financial assets and liabilities measured on a nonrecurring basis, which would consist of measurements primarily of long-lived assets. There were no transfers between levels of the hierarchy for the years ended December 31, 2020 and 2019.

### ***Goodwill***

Goodwill was recorded by the Company in connection with the Sidewinder Merger on October 1, 2018 and represented the excess of the purchase price over the fair value of the assets acquired, net of liabilities assumed. Goodwill is not amortized, but rather tested and assessed for impairment annually in the third quarter of each year, or more frequently if certain events or changes in circumstance indicate that the carrying amount may exceed fair value.

We elected to early adopt ASU No. 2017-04, *Intangibles - Goodwill and Other*. Pursuant to the new guidance, an entity performs its goodwill impairment test by comparing the fair value of the relevant reporting unit with its book value and then recognize an impairment charge as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

We performed an impairment test during the third quarter of 2019 and recorded an impairment charge of \$2.3 million, which represents the impairment of 100% of our previously recorded goodwill. The impairment was primarily the result of the downturn in industry conditions since the consummation of the Sidewinder Merger in the fourth quarter of 2018 and the subsequent related decline in the price of our common stock as of September 30, 2019.

### ***Intangible Liabilities***

Certain intangible liabilities were recorded in connection with the Sidewinder Merger for drilling contracts in place at the closing date of the transaction that had unfavorable contract terms as compared to then current market terms for comparable drilling rigs. The intangible liabilities were amortized to operating revenues over the remaining underlying contract terms. \$1.1 million of intangible revenue was recognized in 2019 as a result of this amortization and the intangible liabilities were fully amortized.

### ***Revenue and Cost Recognition***

We earn contract drilling revenues pursuant to drilling contracts entered into with our customers. We perform drilling services on a "daywork" basis, under which we charge a specified rate per day, or "dayrate." The dayrate associated with each of our contracts is a negotiated price determined by the capabilities of the rig, location, depth and complexity of the wells to be drilled, operating conditions, duration of the contract and market conditions. The term of land drilling contracts may be for a defined number of wells or for a fixed time period. We generally receive lump-sum payments for the mobilization of rigs and other drilling equipment at the commencement of a new drilling contract. Revenue and costs associated with the initial mobilization are deferred and recognized ratably over the term of the related drilling contract once the rig spuds. Costs incurred to relocate rigs and other equipment to an area in which a contract has not been secured are expensed as incurred. Our contracts provide for early termination fees in the event our customers choose to cancel the contract prior to the specified contract term. We record a contract liability for such fees received up front, and recognize them ratably as contract drilling revenue over the initial term of the related drilling contract or until such time that all performance obligations are satisfied. While under contract, our rigs generally earn a reduced rate while the rig is moving between wells or drilling locations, or on standby waiting for the customer. Reimbursements for the purchase of supplies, equipment, trucking and other services that are provided at the request of our customers are recorded as revenue when incurred. The related costs are recorded as operating expenses when incurred. Revenue is presented net of any sales tax charged to the customer that we are required to remit to local or state governmental taxing authorities.

Our operating costs include all expenses associated with operating and maintaining our drilling rigs. Operating costs include all "rig level" expenses such as labor and related payroll costs, repair and maintenance expenses, supplies, workers'

compensation and other insurance, ad valorem taxes and equipment rental costs. Also included in our operating costs are certain costs that are not incurred at the rig level. These costs include expenses directly associated with our operations management team as well as our safety and maintenance personnel who are not directly assigned to our rigs but are responsible for the oversight and support of our operations and safety and maintenance programs across our fleet.

### ***Leases***

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. Under the new guidance, lessees are required to recognize (with the exception of leases with terms of 12 months or less) at the commencement date, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

In July 2018, the FASB issued ASU No. 2018-11, *Leases: Targeted Improvements*, which provides an option to apply the guidance prospectively, and provides a practical expedient allowing lessors to combine the lease and non-lease components of revenues where the revenue recognition pattern is the same and where the lease component, when accounted for separately, would be considered an operating lease. The practical expedient also allows a lessor to account for the combined lease and non-lease components under ASC Topic 606, *Revenue from Contracts with Customers*, when the non-lease component is the predominant element of the combined components.

We adopted ASU No. 2016-02 and its related amendments (collectively known as ASC 842) effective on January 1, 2019, using the effective date method.

See *Note 5 - Leases* for the impact of adopting this standard and a discussion of our policies related to leases.

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

We record compensation expense over the requisite service period for all stock-based compensation based on the grant date fair value of the award. The expense is included in selling, general and administrative expense in our statements of operations or capitalized in connection with rig construction activity.

### ***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under this method, we record deferred income taxes based upon differences between the financial reporting basis and tax basis of assets and liabilities, and use enacted tax rates and laws that we expect will be in effect when we realize those assets or settle those liabilities. We review deferred tax assets for a valuation allowance based upon management's estimates of whether it is more likely than not that a portion of the deferred tax asset will be fully realized in a future period.

We recognize the financial statement benefit of a tax position only after determining that the relevant taxing authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Our policy is to include interest and penalties related to the unrecognized tax benefits within the income tax expense (benefit) line item in our statements of operations.

### ***Use of Estimates***

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses recognized during the reporting period. Actual results could differ from these estimates. Significant estimates made by management include depreciation of property, plant and equipment, impairment of property, plant and equipment and assets held for sale, the collectability of accounts receivable and the fair value of the assets acquired and liabilities assumed in connection with acquired in business combinations.

### ***Recent Accounting Pronouncements***

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, as additional guidance on the measurement of credit losses on financial instruments. The new guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. In addition, the guidance amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The new guidance is effective for all public companies for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual periods beginning after December 15, 2018. In October 2019, the FASB approved a proposal which grants smaller reporting companies additional time to implement FASB standards on current expected credit losses (CECL) to January 2023. As a smaller reporting company, we will defer adoption of ASU No. 2016-13 until January 2023. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, to simplify the accounting for income taxes. The amendments in the update are effective for public companies for interim and annual periods beginning after December 15, 2020, with early adoption permitted. We adopted this guidance on January 1, 2021 and there has been no material impact on our consolidated financial statements.

On April 1, 2020, we adopted the new standard, ASU 2020-04, *Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform (e.g. discontinuation of LIBOR) if certain criteria are met. As of December 31, 2020, we have not yet elected any optional expedients provided in the standard. We will apply the accounting relief as relevant contract and hedge accounting relationship modifications are made during the reference rate reform transition period. We do not expect the standard to have a material impact on our consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, to simplify the accounting for convertible instruments by removing certain separation models in Subtopic 470-20, Debt-Debt with Conversion and Other Options, for convertible instruments. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

### **3. Sidewinder Merger**

We completed the merger with Sidewinder Drilling LLC on October 1, 2018. The results of Sidewinder’s operations have been included in our consolidated financial statements since the acquisition date.

Sidewinder's results of operations have been included in ICD’s consolidated financial statements for the period subsequent to the closing of the acquisition on October 1, 2018. Sidewinder contributed revenues of approximately \$32.1 million and operating income of approximately \$3.3 million for the period from October 1, 2018 through December 31, 2018.

### **4. Revenue from Contracts with Customers**

Effective January 1, 2018, we adopted Accounting Standards Codification (“ASC”) Revenue from Contracts with Customers (“ASC 606”), using the modified retrospective method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaborative arrangements and financial instruments. Under ASC 606, an entity recognizes revenue when it transfers control of the promised goods or services to its customer, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. If control transfers to the customer over time, an entity selects a method to measure progress that is consistent with the objective of depicting its performance.

In determining the appropriate amount of revenue to be recognized as we fulfill our obligations under the agreement, the following steps must be performed at contract inception: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) we satisfy each performance obligation.

## *Drilling Services*

Our revenues are principally derived from contract drilling services and the activities in our drilling contracts, for which revenues may be earned, include: (i) providing a drilling rig and the crews and supplies necessary to operate the rig; (ii) mobilizing and demobilizing the rig to and from the initial and final drill site, respectively; (iii) certain reimbursable activities; (iv) performing rig modification activities required for the contract; and (v) early termination revenues. We account for these integrated services provided under our drilling contracts as a single performance obligation, satisfied over time, that is comprised of a series of distinct time increments. Consideration for activities that are not distinct within the context of our contracts, and that do not correspond to a distinct time increment within the contract term, are allocated across the single performance obligation and recognized ratably in proportion to the actual services performed over the initial term of the contract. If taxes are required to be collected from customers relating to our drilling services, they are excluded from revenue.

*Dayrate Drilling Revenue.* Our drilling contracts provide that revenue is earned based on a specified rate per day for the activity performed. The majority of revenue earned under daywork contracts is variable, and depends on a rate scale associated with drilling conditions and level of service provided for each fractional-hour time increment over the contract term. Such rates generally include the full operating rate, moving rate, standby rate, and force majeure rate and determination of the rate per time increment is made based on the actual circumstances as they occur. Other variable consideration under these contracts could include reduced revenue related to downtime, delays or moving caps.

*Mobilization/Demobilization Revenue.* We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the mobilization and demobilization of our rigs. These activities are not considered to be distinct within the context of the contract and therefore, the associated revenue is allocated to the overall performance obligation and recognized ratably over the initial term of the related drilling contract. We record a contract liability for mobilization fees received, which is amortized ratably to revenue as services are rendered over the initial term of the related drilling contract. Demobilization fee revenue expected to be received upon contract completion is estimated as part of the overall transaction price at contract inception and recognized in earnings ratably over the initial term of the contract with an offset to an accretive contract asset.

In our contracts, there is generally significant uncertainty as to the amount of demobilization fee revenue that may ultimately be collected due to contractual provisions which stipulate that certain conditions be present at contract completion for such revenue to be received. For example, the amount collectible may be reduced to zero if the rig has been contracted with a new customer upon contract completion. Accordingly, the estimate for such revenue may be constrained depending on the facts and circumstances pertaining to the specific contract. We assess the likelihood of receiving such revenue based on past experience and knowledge of the market conditions.

*Reimbursable Revenue.* We receive reimbursements from our customers for the purchase of supplies, equipment and other services provided at their request in accordance with a drilling contract or other agreement. Such reimbursable revenue is variable and subject to uncertainty, as the amounts received and timing thereof is highly dependent on factors outside of our influence. Accordingly, reimbursable revenue is fully constrained and not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs are incurred on behalf of a customer. We are generally considered a principal in such transactions and record the associated revenue at the gross amount billed to the customer.

*Capital Modification Revenue.* From time to time, we may receive fees (on either a fixed lump-sum or variable dayrate basis) from our customers for capital improvements to our rigs to meet their requirements. Such revenue is allocated to the overall performance obligation and recognized ratably over the initial term of the related drilling contract, as these activities are not considered to be distinct within the context of our contracts. We record a contract liability for such fees received up front, and recognize them ratably as contract drilling revenue over the initial term of the related drilling contract.

*Early Termination Revenue.* Our contracts provide for early termination fees in the event our customers choose to cancel the contract prior to the specified contract term. We record a contract liability for such fees received up front, and recognize them ratably as contract drilling revenue over the initial term of the related drilling contract or until such time that all performance obligations are satisfied.

*Intangible Revenue.* Intangible liabilities were recorded in connection with the Sidewinder Merger for drilling contracts in place at the closing date of the transaction that had unfavorable contract terms as compared to current market terms for comparable drilling rigs. The various factors considered in the determination are (1) the contracted day rate for each contract, (2) the remaining term of each contract, (3) the rig class and (4) the market conditions for each respective rig at the transaction closing date. The intangible liabilities were computed based on the present value of the differences in cash inflows over the remaining contract term as compared to a hypothetical contract with the same remaining term at an estimated current market day rate using a risk adjusted discount rate. The intangible liabilities were amortized to operating revenues over the remaining underlying contract terms.

### ***Disaggregation of Revenue***

The following table summarizes revenues from our contracts disaggregated by revenue generating activity contained therein for the years ended December 31, 2020, 2019 and 2018:

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<i>(in thousands)</i>			
Dayrate drilling	\$ 70,976	\$ 184,374	\$ 133,278
Mobilization	3,256	5,365	2,100
Reimbursables	5,838	11,237	4,970
Early termination	3,348	1,405	—
Capital modification	—	115	216
Intangible	—	1,079	2,044
Other	—	27	1
Total revenue	<u>\$ 83,418</u>	<u>\$ 203,602</u>	<u>\$ 142,609</u>

### ***Contract Balances***

Accounts receivable are recognized when the right to consideration becomes unconditional based upon contractual billing schedules. Payment terms on invoiced amounts are typically 30 days. Contract asset balances could consist of demobilization fee revenue that we expect to receive that is recognized ratably throughout the contract term, but invoiced upon completion of the demobilization activities. Once the demobilization fee revenue is invoiced the corresponding contract asset is transferred to accounts receivable. Contract liabilities include payments received for mobilization fees as well as upgrade activities, which are allocated to the overall performance obligation and recognized ratably over the initial term of the contract.

The following table provides information about receivables and contract liabilities related to contracts with customers as of December 31, 2020 and 2019, respectively. We had no contract assets in either year.

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<i>(in thousands)</i>		
Receivables, which are included in "Accounts receivable, net"	\$ 9,772	\$ 35,378
Contract liabilities, which are included in "Accrued liabilities - deferred revenue"	\$ (119)	\$ (311)

Significant changes in the contract liabilities balance during the years ended December 31, 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
<i>(in thousands)</i>		
Revenue recognized that was included in contract liabilities at beginning of period	\$ 311	\$ 1,374
Increase in contract liabilities due to cash received, excluding amounts recognized as revenue	\$ (119)	\$ (311)

### ***Transaction Price Allocated to the Remaining Performance Obligations***

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2020. The estimated revenue does not include amounts of variable consideration that are constrained.

	<b>Year Ending December 31,</b>			
	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
<i>(in thousands)</i>				
Revenue	\$ 119	\$ —	\$ —	\$ 119

The amounts presented in the table above consist only of fixed consideration related to fees for rig mobilizations and demobilizations, if applicable, which are allocated to the drilling services performance obligation as such performance obligation is satisfied. We have elected the exemption from disclosure of remaining performance obligations for variable consideration. Therefore, dayrate revenue to be earned on a rate scale associated with drilling conditions and level of service

provided for each fractional-hour time increment over the contract term and other variable consideration such as penalties and reimbursable revenues, have been excluded from the disclosure.

### ***Contract Costs***

We capitalize costs incurred to fulfill our contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy our performance obligations under the contract and (iii) are expected to be recovered through revenue generated under the contract. These costs, which principally relate to rig mobilization costs at the commencement of a new contract, are deferred as a current or noncurrent asset (depending on the length of the contract term), and amortized ratably to contract drilling expense as services are rendered over the initial term of the related drilling contract. Such contract costs, recorded as “Prepaid expenses and other current assets”, amounted to \$0.1 million and \$0.1 million on our consolidated balance sheets at December 31, 2020 and December 31, 2019, respectively. During the year ended December 31, 2020, contract costs increased by \$2.1 million and we amortized \$2.1 million of contract costs.

Costs incurred for the demobilization of rigs at contract completion are recognized as incurred during the demobilization process. Costs incurred for rig modifications or upgrades required for a contract, which are considered to be capital improvements, are capitalized as drilling and other property and equipment and depreciated over the estimated useful life of the improvement.

## **5. Leases**

Effective January 1, 2019, we adopted ASC 842. The most significant changes of the standard are (1) lessees recognize a lease liability and a right-of-use (“ROU”) asset for all leases, including operating leases, with an initial term greater than 12 months on their balance sheets and (2) lessees and lessors disclose additional key information about their leasing transactions.

We elected to implement ASC 842 using the effective date method which recognizes and measures all leases that exist at the effective date, January 1, 2019, using a modified retrospective transition approach. There was no cumulative-effect adjustment required to be recorded in connection with the adoption of the new standard and the reported amount of lease expense and cash flows are substantially unchanged under ASC 842. Comparative periods are presented in accordance with ASC 840 and do not include any retrospective adjustments.

### ***As a Lessor***

Our daywork drilling contracts, under which the vast majority of our revenues are derived, contain both a lease component and a service component.

ASU No. 2018-11 amended ASC 842 to, among other things, provide lessors with a practical expedient to not separate non-lease components from lease components and, instead, to account for those components as a single amount, if the non-lease components otherwise would be accounted for under Topic 606 and both of the following are met:

- 1) The timing and pattern of transfer of non-lease components and lease components are the same.
- 2) The lease component, if accounted for separately, would be classified as an operating lease.

If the non-lease component is the predominant component of the combined amount, an entity is required to account for the combined amount in accordance with Topic 606. Otherwise, the entity must account for the combined amount as an operating lease in accordance with Topic 842.

Revenues from our daywork drilling contracts meet both of the criteria above and we have determined both quantitatively and qualitatively that the service component of our daywork drilling contracts is the predominant component. Accordingly, we combine the lease and service components of our daywork drilling contracts and account for the combined amount under Topic 606. See *Note 4 - Revenue from Contracts with Customers*.

### ***As a Lessee***

We have multi-year operating and financing leases for corporate office space, field location facilities, land, vehicles and various other equipment used in our operations. We also have a significant number of rentals related to our drilling operations that are day-to-day or month-to-month arrangements. Our multi-year leases have remaining lease terms of greater than one year to five years.

As a practical expedient, a lessee may elect not to apply the recognition requirements in ASC 842 to short-term leases. Instead a lessee may recognize the lease payments in profit or loss on a straight-line basis over the lease term and variable lease

payments in the period in which the obligation for those payments is incurred. We elected to utilize this practical expedient.

We elected the package of practical expedients permitted in ASC 842. Accordingly, we accounted for our existing capital leases as finance leases under the new guidance, without reassessing whether the contracts contained a lease under ASC 842, whether classification of the capital lease would be different in accordance with ASC 842 and without reassessing any initial costs associated with the lease. As a result, we recognized on January 1, 2019 a lease liability, recorded as current portion of long-term debt and long-term debt on our consolidated balance sheets, at the carrying amount of the capital lease obligation on December 31, 2018, of \$1.2 million and a ROU asset, recorded in plant, property and equipment on our consolidated balance sheets, at the carrying amount of the capital lease asset of \$1.3 million. Additionally, we accounted for our existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC 842 or (b) whether classification of the operating lease would be different in accordance with ASC 842. As a result, we recognized on January 1, 2019 a lease liability of \$1.7 million, recorded in accrued liabilities and other long-term liabilities on our consolidated balance sheets, which represents the present value of the remaining lease payments discounted using our incremental borrowing rate of 8.17%, and a ROU asset of \$0.9 million, recorded in other long-term assets on our consolidated balance sheets, which represents the lease liability of \$1.7 million plus any prepaid lease payments, and less any unamortized lease incentives, totaling \$0.8 million.

On January 1, 2019, the vehicle leases assumed in the Sidewinder Merger were amended to be consistent with our existing vehicle leases, which resulted in a change in the classification from operating leases to finance leases. On the amendment date, we recorded \$0.4 million in finance lease obligations and right of use assets.

The components of lease expense were as follows:

<i>(in thousands)</i>	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>
Operating lease expense	\$ 616	\$ 524
Short-term lease expense	2,863	4,755
Variable lease expense	382	569
Finance lease cost:		
Amortization of right-of-use assets	\$ 1,257	\$ 1,163
Interest expense on lease liabilities	806	206
Total finance lease expense	<u>2,063</u>	<u>1,369</u>
Total lease expenses	<u>\$ 5,924</u>	<u>\$ 7,217</u>

Supplemental cash flow information related to leases is as follows:

<i>(in thousands)</i>	<b>Year Ended December 31, 2020</b>	<b>Year Ended December 31, 2019</b>
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 634	\$ 509
Operating cash flows from finance leases	\$ 798	\$ 193
Financing cash flows from finance leases	\$ 4,340	\$ 2,980
Right-of-use assets obtained or recorded in exchange for lease obligations:		
Operating leases	\$ 1,601	\$ 1,427
Finance leases	\$ 2,648	\$ 13,143

Supplemental balance sheet information related to leases is as follows:

<i>(in thousands)</i>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Operating leases:</b>		
Other long-term assets, net	\$ 2,150	\$ 1,033
Accrued liabilities	\$ 964	\$ 475
Other long-term liabilities	1,729	1,250
Total operating lease liabilities	<u>\$ 2,693</u>	<u>\$ 1,725</u>
<b>Finance leases:</b>		
Property, plant and equipment	\$ 13,700	\$ 14,375
Accumulated depreciation	(981)	(1,425)
Property, plant and equipment, net	<u>\$ 12,719</u>	<u>\$ 12,950</u>
Current portion of long-term debt	\$ 3,351	\$ 3,685
Long-term debt	4,570	7,472
Total finance lease liabilities	<u>\$ 7,921</u>	<u>\$ 11,157</u>
<b>Weighted-average remaining lease term</b>		
Operating leases	3.2 years	3.6 years
Finance leases	2.0 years	2.7 years
<b>Weighted-average discount rate</b>		
Operating leases	8.25 %	8.07 %
Finance leases	8.88 %	7.64 %

Maturities of lease liabilities at December 31, 2020 were as follows:

<i>(in thousands)</i>	<b>Operating Leases</b>	<b>Finance Leases</b>
2021	\$ 1,195	\$ 3,892
2022	840	4,275
2023	760	26
2024	372	—
2025	—	—
Thereafter	—	—
Total cash lease payment	<u>3,167</u>	<u>8,193</u>
Add: expected residual value	—	534
Less: imputed interest	(474)	(806)
Total lease liabilities	<u>\$ 2,693</u>	<u>\$ 7,921</u>

Rent expense was \$5.1 million for the year ended December 31, 2018.

## 6. Inventories

Inventories consisted of the following:

<i>(in thousands)</i>	December 31,	
	2020	2019
Rig components and supplies	\$ 1,038	\$ 2,325

We determined that no reserve for obsolescence was needed at December 31, 2020 or 2019. No inventory obsolescence expense was recognized during the years ended December 31, 2020, 2019 and 2018.

## 7. Property, Plant and Equipment

Major classes of property, plant, and equipment, which include finance lease assets, consisted of the following (in millions):

<i>(in thousands)</i>	December 31,	
	2020	2019
Land	\$ 487	\$ 487
Buildings	3,189	3,408
Drilling rigs and related equipment	525,933	568,675
Machinery, equipment and other	1,576	1,396
Finance leases	13,700	14,375
Vehicles	17	355
Construction in progress	19,876	22,260
Total	\$ 564,778	\$ 610,956
Less: Accumulated depreciation	(182,539)	(153,426)
Total Property, plant and equipment, net	\$ 382,239	\$ 457,530

Repairs and maintenance expense included in operating costs in our statements of operations totaled \$9.7 million, \$27.2 million and \$19.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Depreciation expense was \$43.9 million, \$45.4 million and \$30.9 million for the years ended December 31, 2020, 2019 and 2018, respectively.

## 8. Supplemental Consolidated Balance Sheet and Cash Flow Information

Prepaid expenses and other current assets consisted of the following:

<i>(in thousands)</i>	December 31,	
	2020	2019
Prepaid insurance	\$ 3,346	\$ 2,450
Prepaid other	636	829
Deferred mobilization costs	89	112
Notes receivable	—	145
Insurance claim receivable	27	27
Other current assets	4	1,077
	\$ 4,102	\$ 4,640

Accrued liabilities consisted of the following:

	December 31,	
	2020	2019
<i>(in thousands)</i>		
Accrued salaries and other compensation	\$ 1,472	\$ 3,500
Insurance	2,127	2,861
Deferred revenue	119	701
Property taxes and other	2,166	4,716
Interest	3,573	3,244
Operating lease liability - current	964	475
Other	302	871
	<u>\$ 10,723</u>	<u>\$ 16,368</u>

Supplemental consolidated cash flow information:

	Year Ended December 31,		
	2020	2019	2018
<i>(in thousands)</i>			
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for interest	\$ 13,309	\$ 13,974	\$ 3,202
<b>Supplemental disclosure of non-cash investing and financing activities</b>			
Change in property, plant and equipment purchases in accounts payable	\$ (7,201)	\$ 1,607	\$ 1,175
Additions to property, plant & equipment through finance and capital leases	\$ 2,650	\$ 13,143	\$ 601
Transfer of assets from held and used to held for sale	\$ —	\$ (18,506)	\$ —
Transfer from inventory to fixed assets	\$ —	\$ (406)	\$ —
Extinguishment of finance lease obligations from sale of assets classified as finance leases	\$ (1,549)	\$ (249)	\$ —
Additions to property, plant and equipment through tenant allowance on leasehold improvement	\$ —	\$ —	\$ 694
Sidewinder Merger consideration	\$ —	\$ —	\$ 231,617

## 9. Long-term Debt

Our Long-term Debt consisted of the following:

	December 31,	
	2020	2019
<i>(in thousands)</i>		
Term Loan Facility due October 1, 2023	\$ 130,000	\$ 130,000
Revolving Credit Facility due October 1, 2023	8	—
PPP Loan	10,000	—
Finance lease obligations	7,921	11,157
	<u>147,929</u>	<u>141,157</u>
Less: current portion of PPP Loan	(4,286)	—
Less: current portion of finance leases	(3,351)	(3,685)
Less: Term Loan Facility deferred financing costs	(2,659)	(2,531)
Long-term debt	<u>\$ 137,633</u>	<u>\$ 134,941</u>

Presented below is a schedule of the principal repayment requirements of long-term debt by fiscal year as of December 31, 2020:

(in thousands)	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
Term Loan Facility	\$ —	\$ —	\$ 130,000	\$ —	\$ 130,000
PPP Loan	4,286	5,714	—	—	10,000
Total	<u>\$ 4,286</u>	<u>\$ 5,714</u>	<u>\$ 130,000</u>	<u>\$ —</u>	<u>\$ 140,000</u>

### ***Credit Facilities***

On October 1, 2018, we entered into a term loan Credit Agreement (the “Term Loan Credit Agreement”) for an initial term loan in an aggregate principal amount of \$130.0 million, (the “Term Loan Facility”) and (b) a delayed draw term loan facility in an aggregate principal amount of up to \$15.0 million (the “DDTL Facility”, and together with the Term Loan Facility, the “Term Facilities”). The Term Facilities have a maturity date of October 1, 2023, at which time all outstanding principal under the Term Facilities and other obligations become due and payable in full.

At our election, interest under the Term Loan Facility is determined by reference at our option to either (i) a “base rate” equal to the higher of (a) the federal funds effective rate plus 0.05%, (b) the London Interbank Offered Rate (“LIBOR”) with an interest period of one month, plus 1.0%, and (c) the rate of interest as publicly quoted from time to time by the Wall Street Journal as the “prime rate” in the United States; plus an applicable margin of 6.5%, or (ii) a “LIBOR rate” equal to LIBOR with an interest period of one month, plus an applicable margin of 7.5%.

The Term Loan Credit Agreement contains financial covenants, including a liquidity covenant of \$10.0 million and a springing fixed charge coverage ratio covenant of 1.00 to 1.00 that is tested when availability under the ABL Credit Facility (defined below) and the DDTL Facility is below \$5.0 million at any time that a DDTL Facility loan is outstanding. The Term Loan Credit Agreement also contains other customary affirmative and negative covenants, including limitations on indebtedness, liens, fundamental changes, asset dispositions, restricted payments, investments and transactions with affiliates. The Term Loan Credit Agreement also provides for customary events of default, including breaches of material covenants, defaults under the ABL Credit Facility or other material agreements for indebtedness, and a change of control. We are in compliance with our covenants as of December 31, 2020.

The obligations under the Term Loan Credit Agreement are secured by a first priority lien on collateral (the “Term Priority Collateral”) other than accounts receivable, deposit accounts and other related collateral pledged as first priority collateral (“Priority Collateral”) under the ABL Credit Facility (defined below) and a second priority lien on such Priority Collateral, and are unconditionally guaranteed by all of our current and future direct and indirect subsidiaries. MSD PCOF Partners IV, LLC (an affiliate of MSD Partners, L.P. “MSD Partners”) is the lender of our \$130.0 million Term Loan Facility.

In July 2019, we revised our Term Loan Credit Agreement to explicitly permit the repurchase of equity interests by the Company pursuant to the stock purchase program that was approved by our Board of Directors.

In June 2020, we revised our Term Loan Credit Agreement to elect to pay accrued and unpaid interest, solely during one three-consecutive-month period immediately following such notice, in kind (the “PIK Amount”). We agreed to pay an additional amount equal to 0.75% of the aggregate principal amount of the loans under the Term Loan Credit Agreement plus all PIK Amounts, if any, that are added to such principal amount being repaid or prepaid on either the maturity date or upon the occurrence of an acceleration of obligations under the Term Loan Credit Agreement. As such, the additional amount, approximately \$1.0 million, was recorded as a direct deduction from the face amount of the Term Loan Facility and as a long-term payable on our consolidated balance sheets. The additional amount will be amortized as interest expense over the term of the Term Loan Facility.

Additionally, on October 1, 2018, we entered into a \$40.0 million revolving Credit Agreement (the “ABL Credit Facility”), including availability for letters of credit in an aggregate amount at any time outstanding not to exceed \$7.5 million. Availability under the ABL Credit Facility is subject to a borrowing base calculated based on 85% of the net amount of our eligible accounts receivable, minus reserves. The ABL Credit Facility has a maturity date of the earlier of October 1, 2023 or the maturity date of the Term Loan Credit Agreement.

At our election, interest under the ABL Credit Facility is determined by reference at our option to either (i) a “base rate” equal to the higher of (a) the federal funds effective rate plus 0.05%, (b) LIBOR with an interest period of one month, plus 1.0%, and (c) the prime rate of Wells Fargo, plus in each case, an applicable base rate margin ranging from 1.0% to 1.5% based on quarterly availability, or (ii) a revolving loan rate equal to LIBOR for the applicable interest period plus an applicable

LIBOR margin ranging from 2.0% to 2.5% based on quarterly availability. We also pay, on a quarterly basis, a commitment fee of 0.375% (or 0.25% at any time when revolver usage is greater than 50% of the maximum credit) per annum on the unused portion of the ABL Credit Facility commitment.

The ABL Credit Facility contains a springing fixed charge coverage ratio covenant of 1.00 to 1.00 that is tested when availability is less than 10% of the maximum credit. The ABL Credit Facility also contains other customary affirmative and negative covenants, including limitations on indebtedness, liens, fundamental changes, asset dispositions, restricted payments, investments and transactions with affiliates. The ABL Credit Facility also provides for customary events of default, including breaches of material covenants, defaults under the Term Loan Agreement or other material agreements for indebtedness, and a change of control. We are in compliance with our financial covenants as of December 31, 2020.

The obligations under the ABL Credit Facility are secured by a first priority lien on Priority Collateral, which includes all accounts receivable and deposit accounts, and a second priority lien on the Term Priority Collateral, and are unconditionally guaranteed by all of our current and future direct and indirect subsidiaries. As of December 31, 2020, the weighted-average interest rate on our borrowings was 9.00%. At December 31, 2020, the borrowing base under our ABL Credit Facility was \$7.7 million, and we had \$7.5 million of availability remaining of our \$40.0 million commitment on that date.

On April 27, 2020, we entered into an unsecured loan in the aggregate principal amount of \$10.0 million (the “PPP Loan”) pursuant to the Paycheck Protection Program (the “PPP”), sponsored by the Small Business Administration (the “SBA”) as guarantor of loans under the PPP. The PPP is part of the CARES Act, and it provides for loans to qualifying businesses in a maximum amount equal to the lesser of \$10.0 million and 2.5 times the average monthly payroll expenses of the qualifying business. The proceeds of the loan may only be used for payroll costs, rent, utilities, mortgage interests, and interest on other pre-existing indebtedness (the “permissible purposes”) during the covered period that ended on or about October 13, 2020. Interest on the PPP loan is equal to 1.0% per annum. All or part of the loan is forgivable based upon the level of permissible expenses incurred during the covered period and changes to the Company's headcount during the covered period to headcount during the period from January 1, 2020 to February 15, 2020. On October 7, 2020, the SBA released guidance clarifying the deferral period for PPP loan payments. The Paycheck Protection Flexibility Act of 2020 extended the deferral period for loan payments to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period. While there can be no assurance that such PPP loan can be forgiven, we intend to apply for forgiveness and we believe our first payment related to any unforgiven portion would be due during the fourth quarter of 2021, with a loan maturity date of April 27, 2022.

## 10. Income Taxes

The components of the income tax expense are as follows:

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<i>(in thousands)</i>			
Current:			
Federal	\$ —	\$ —	\$ —
State	—	—	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Deferred:			
Federal	\$ —	\$ —	\$ —
State	(147)	(122)	91
Income tax (benefit) expense	<u>\$ (147)</u>	<u>\$ (122)</u>	<u>\$ 91</u>

The effective tax rate (as a percentage of net loss before income taxes) is reconciled to the U.S. federal statutory rate as follows:

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<i>(in thousands)</i>			
Income tax benefit at the statutory federal rate (21%)	\$ (20,285)	\$ (12,791)	\$ (4,233)
Nondeductible expenses	103	360	(270)
Valuation allowance	19,800	12,626	3,625
State taxes, net of federal benefit	(116)	(396)	14
Stock-based compensation and other	351	79	955
Income tax (benefit) expense	<u>\$ (147)</u>	<u>\$ (122)</u>	<u>\$ 91</u>
Effective tax rate	0.2 %	0.2 %	0.5 %

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<i>(in thousands)</i>		
<b>Deferred income tax assets</b>		
Merger-related expenses	\$ 836	\$ 836
Bad debts	119	115
Stock-based compensation	1,168	1,136
Accrued liabilities and other	49	285
Deferred revenue	28	164
Interest limitation	3,298	555
ROU Asset <sup>(1)</sup>	507	404
Net operating losses	65,635	46,975
Total net deferred tax assets	<u>\$ 71,640</u>	<u>\$ 50,470</u>
<b>Deferred income tax liabilities</b>		
Prepays	\$ (769)	\$ (563)
Property, plant and equipment	(20,159)	(21,347)
Intangible assets	(231)	(124)
ROU Liability <sup>(1)</sup>	(628)	(242)
Other	(194)	—
Total net deferred tax liabilities	<u>\$ (21,981)</u>	<u>\$ (22,276)</u>
Valuation allowance	<u>\$ (50,164)</u>	<u>\$ (28,846)</u>
Net deferred tax liability	<u>\$ (505)</u>	<u>\$ (652)</u>

(1) Certain prior year amounts have been reclassified for consistency with the current year presentation. A reclass has been made to identify the ROU Asset and ROU Liability within the Income Tax footnote. This reclassification had no effect on the reported results of operations.

As of December 31, 2020, we had a total of \$303.6 million of net operating loss carryforwards, of which \$131.4 million will begin to expire in 2031 and \$172.2 million will be carried forward indefinitely.

Section 382 of the Internal Revenue Code (“Section 382”) imposes limitations on a corporation’s ability to utilize its NOLs if it experiences an ownership change. In general terms, an ownership change may result from transactions increasing the ownership percentage of certain shareholders in the stock of the corporation by more than 50 percentage points over a three year period. In the event of an ownership change, utilization of the NOLs would be subject to an annual limitation under Section 382. We believe we had an ownership change in April 2016 and October 2018 in connection with the Sidewinder Merger. We are subject to an annual limitation on the usage of our NOL, however, we also believe that substantially all of the

NOL that existed in April 2016, as well as October 2018 at the time of the Sidewinder Merger, will be fully available to us over the life of the NOL carryforward period. Management will continue to monitor the potential impact of Section 382 with respect to our NOL carryforward.

Accounting for uncertainty in income taxes prescribes a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of December 31, 2020, we had no unrecognized tax benefits. We file income tax returns in the United States and in various state jurisdictions. With few exceptions, we are subject to United States federal, state and local income tax examinations by tax authorities for tax periods 2012 and forward. Our federal and state tax returns for 2012 and subsequent years remain subject to examination by tax authorities. Although we cannot predict the outcome of future tax examinations, we do not anticipate that the ultimate resolution of these examinations will have a material impact on our financial position, results of operations, or cash flows.

In assessing the realizability of the deferred tax assets, we consider whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future income in periods in which the deferred tax assets can be utilized. In all years presented, we determined that the deferred tax assets did not meet the more likely than not threshold of being utilized and thus recorded a valuation allowance. All of our deferred tax liability as of December 31, 2020 relates to state taxes.

Estimated interest and penalties related to potential underpayment on any unrecognized tax benefits are classified as a component of tax expense in the consolidated statement of operations. We have not recorded any interest or penalties associated with unrecognized tax benefits.

## 11. Stock-Based Compensation

Prior to June 2019, we issued common stock-based awards to employees and non-employee directors under our 2012 Long-Term Incentive Plan adopted in March 2012 (the “2012 Plan”). In June 2019, we adopted the 2019 Omnibus Incentive Plan (the “2019 Plan”) providing for common stock-based awards to employees and non-employee directors. The 2019 Plan permits the granting of various types of awards, including stock options, restricted stock and restricted stock unit awards, and up to 275,000 shares were authorized for issuance. Restricted stock and restricted stock units may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than the market price of the underlying stock on the date of grant. In connection with the adoption of the 2019 Plan, no further awards will be made under the 2012 Plan. As of December 31, 2020, approximately 105,055 shares were available for future awards. Our policy is to account for forfeitures of share-based compensation awards as they occur.

A summary of compensation cost recognized for stock-based payment arrangements is as follows:

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<i>(in thousands)</i>			
Compensation cost recognized:			
Stock options	\$ —	\$ —	\$ —
Restricted stock and restricted stock units	1,979	1,871	4,829
Total stock-based compensation	<u>\$ 1,979</u>	<u>\$ 1,871</u>	<u>\$ 4,829</u>

### Stock Options

Prior to 2016, we granted stock options that remain outstanding. No options were exercised or granted during the years ended December 31, 2020, 2019 or 2018. It is our policy that in the future any shares issued upon option exercise will be issued initially from any available treasury shares or otherwise as newly issued shares.

We use the Black-Scholes option pricing model to estimate the fair value of stock options granted to employees and non-employee directors. The fair value of the options is amortized to compensation expense on a straight-line basis over the requisite service periods of the stock awards, which are generally the vesting periods.

The following summary reflects the stock option activity and related information for the year ended December 31, 2020:

	Options	Weighted Average Exercise Price
<b>Outstanding at January 1, 2020</b>	33,458	\$ 254.80
Granted	—	—
Exercised	—	—
Forfeited/expired	—	—
<b>Outstanding at December 31, 2020</b>	<u>33,458</u>	<u>\$ 254.80</u>
<b>Exercisable at December 31, 2020</b>	<u>33,458</u>	<u>\$ 254.80</u>

The number of options exercisable at December 31, 2020 was 33,458 with a weighted-average remaining contractual life of 1.3 years and a weighted-average exercise price of \$254.80 per share.

As of December 31, 2020, there was no unrecognized compensation cost related to outstanding stock options. No options vested during the years ended December 31, 2020, 2019 and 2018.

#### Time-Based Restricted Stock and Restricted Stock Units

We have granted time-based restricted stock and restricted stock units to key employees under the 2012 plan and the 2019 plan.

##### *Time-Based Restricted Stock*

Time-based restricted stock awards consist of grants of our common stock that vest over three to five years. We recognize compensation expense on a straight-line basis over the vesting period. The fair value of time-based restricted stock awards is determined based on the estimated fair market value of our shares on the grant date. As of December 31, 2020, there was \$1.5 million in unrecognized compensation cost related to unvested time-based restricted stock awards. This cost is expected to be recognized over a weighted-average period of 1.5 years.

A summary of the status of our time-based restricted stock awards and of changes in our time-based restricted stock awards outstanding for the year ended December 31, 2020, 2019 and 2018 is as follows:

	Shares	Weighted Average Grant-Date Fair Value Per Share
<b>Outstanding at January 1, 2018</b>	—	\$ —
Granted – Former Sidewinder executives (1)	32,331	64.40
Granted - Other	36,964	64.40
Vested	—	—
Forfeited/expired	—	—
<b>Outstanding at January 1, 2019</b>	<u>69,295</u>	<u>64.40</u>
Granted	—	—
Vested	—	—
Forfeited/expired	(6,478)	64.40
<b>Outstanding at January 1, 2020</b>	<u>62,817</u>	<u>64.40</u>
Granted	—	—
Vested	(16,767)	64.40
Forfeited/expired	(5,716)	64.40
<b>Outstanding at December 31, 2020</b>	<u>40,334</u>	<u>\$ 64.40</u>

(1) Time-based restricted stock unit awards granted to former executives of Sidewinder Drilling, LLC relating to their becoming officers of ICD following the Sidewinder Merger.

### Time-Based Restricted Stock Units

We have granted three-year time-based vested restricted stock unit awards where each unit represents the right to receive, at the end of a vesting period, one share of ICD common stock with no exercise price. The fair value of time-based restricted stock unit awards is determined based on the estimated fair market value of our shares on the grant date. As of December 31, 2020, there was \$1.0 million of total unrecognized compensation cost related to unvested time-based restricted stock unit awards. This cost is expected to be recognized over a weighted-average period of 0.7 years.

A summary of the status of our time-based restricted stock unit awards and of changes in our time-based restricted stock unit awards outstanding for the year ended December 31, 2020, 2019 and 2018 is as follows:

	Shares	Weighted Average Grant-Date Fair Value Per Share
<b>Outstanding at January 1, 2018</b>	39,449	\$ 101.00
Granted – Former Sidewinder executives (1)	20,479	95.80
Granted - Other	20,726	89.20
Vested and converted	(51,020)	98.20
Forfeited/expired	(9,155)	90.00
<b>Outstanding at January 1, 2019</b>	20,479	95.80
Granted	28,244	38.80
Vested and converted	(2,737)	94.20
Forfeited/expired	(1,547)	94.20
<b>Outstanding at January 1, 2020</b>	44,439	59.71
Granted	64,914	12.96
Vested and converted	(26,490)	54.97
Forfeited/expired	(18,966)	30.75
<b>Outstanding at December 31, 2020</b>	<u>63,897</u>	<u>\$ 22.78</u>

(1) Time-based restricted stock granted to former executives of Sidewinder Drilling, LLC relating to their becoming officers of ICD following the Sidewinder Merger.

### Performance-Based and Market-Based Restricted Stock Units

We have granted three-year performance-based and market-based restricted stock unit awards, where each unit represents the right to receive, at the end of a vesting period, up to two shares of ICD common stock with no exercise price. Exercisability of the market-based restricted stock unit awards is based on our total shareholder return ("TSR") as measured against the TSR of a defined peer group and vesting of the performance-based restricted stock unit awards is based on our cumulative return on invested capital ("ROIC") as measured against ROIC performance goals determined by the compensation committee of our Board of Directors, over a three-year period. We used a Monte Carlo simulation model to value the TSR market-based restricted stock unit awards. The fair value of the performance-based restricted stock unit awards is based on the market price of our common stock on the date of grant. During the restriction period, the performance-based and market-based restricted stock unit awards may not be transferred or encumbered, and the recipient does not receive dividend equivalents or have voting rights until the units vest. As of December 31, 2020, unrecognized compensation cost related to unvested performance-based and market-based restricted stock unit awards totaled \$0.3 million, which is expected to be recognized over a weighted-average period of 0.9 years.

The assumptions used to value our TSR market-based restricted stock unit awards granted during the year ended December 31, 2018 were a risk-free interest rate of 2.13%, an expected volatility of 60.6% and an expected dividend yield of 0.0%. Based on the Monte Carlo simulation, these restricted stock unit awards were valued at \$104.60.

The assumptions used to value our TSR market-based restricted stock unit awards granted during the year ended December 31, 2019 were a risk-free interest rate of 1.86%, an expected volatility of 58.2% and an expected dividend yield of 0.0%. Based on the Monte Carlo simulation, these restricted stock unit awards were valued at \$29.00.

The assumptions used to value our TSR market-based restricted stock unit awards granted during the year ended December 31, 2020 were a risk-free interest rate of 1.38%, an expected volatility of 68.5% and an expected dividend yield of 0.0%. Based on the Monte Carlo simulation, these restricted stock unit awards were valued at \$12.42.

A summary of the status of our performance-based and market-based restricted stock unit awards and of changes in our restricted stock unit awards outstanding for the year ended December 31, 2020, 2019 and 2018 is as follows:

	Shares	Weighted Average Grant-Date Fair Value Per Share
<b>Outstanding at January 1, 2018</b>	10,215	\$ 107.00
Granted	11,326	94.40
Vested and converted	(8,147)	100.80
Forfeited/expired	(13,394)	100.00
<b>Outstanding at January 1, 2019</b>	—	—
Granted	23,480	33.90
Vested and converted	—	—
Forfeited/expired	—	—
<b>Outstanding at January 1, 2020</b>	23,480	33.90
Granted	24,854	12.42
Vested and converted	(1,260)	30.89
Forfeited/expired	(8,515)	21.24
<b>Outstanding at December 31, 2020</b>	<u>38,559</u>	<u>\$ 22.95</u>

## 12. Stockholders' Equity and Loss per Share

As of December 31, 2020, we had a total of 6,175,818 shares of common stock, \$0.01 par value, outstanding, including 40,334 shares of restricted stock. We also had 78,578 shares held as treasury stock. Total authorized common stock is 50,000,000 shares.

Basic earnings (loss) per common share ("EPS") are computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. A reconciliation of the numerators and denominators of the basic and diluted losses per share computations is as follows:

	For the Years Ended December 31,		
	2020	2019	2018
<i>(in thousands, except for per share data)</i>			
Net loss (numerator)	\$ (96,638)	\$ (60,788)	\$ (19,993)
Loss per share:			
Basic and diluted <sup>(1)</sup>	\$ (19.69)	\$ (16.11)	\$ (8.40)
Shares (denominator):			
Weighted-average number of shares outstanding-basic <sup>(1)</sup>	4,907	3,774	2,379
Net effect of dilutive stock options and restricted stock units	—	—	—
Weighted-average common shares outstanding-diluted <sup>(1)</sup>	4,907	3,774	2,379

(1) Prior period results have been adjusted to reflect the 1-for-20 reverse stock split that took place in February 2020. See *Reverse Stock Split in Note 1 - Nature of Operations and Recent Developments*.

For all years presented, the computation of diluted loss per share excludes the effect of certain outstanding stock options and restricted stock units because their inclusion would be anti-dilutive. The number of options that were excluded from diluted loss per share were 33,458, 33,458 and 33,458 during the years ended December 31, 2020, 2019 and 2018, respectively. RSUs, which are not participating securities and are excluded from our diluted loss per share because they are anti-dilutive were 102,456, 44,447 and 20,480 for the years ended December 31, 2020, 2019 and 2018, respectively.

## 13. Segment and Geographical Information

We report one segment because all of our drilling operations are all located in the United States and have similar economic characteristics. We build rigs and engage in land contract drilling for oil and natural gas in the United States. Corporate management administers all properties as a whole rather than as discrete operating segments. Operational data is tracked by rig; however, financial performance is measured as a single enterprise and not on a rig-by-rig basis. Allocation of

capital resources is employed on a project-by-project basis across our entire asset base to maximize profitability without regard to individual areas.

## **14. Commitments and Contingencies**

### **Purchase Commitments**

As of December 31, 2020, we had outstanding purchase commitments to a number of suppliers totaling \$0.6 million related primarily to rig equipment or components ordered but not received. We have paid deposits of \$0.2 million related to these commitments.

### **Letters of Credit**

As of December 31, 2020, we had outstanding letters of credit totaling \$0.2 million as collateral for Sidewinder's pre-acquisition insurance programs. As of December 31, 2020, no amounts had been drawn under these letters of credit.

### **Employment Agreements**

We have entered into employment agreements with six key executives, with original terms of three years, that automatically extend a year prior to expiration, provided that neither party has provided a written notice of termination before that date. These agreements in aggregate provide for minimum annual cash compensation of \$1.7 million and cash severance payments totaling \$4.4 million for termination by ICD without cause, or termination by the employee for good reason, both as defined in the agreements.

### **Contingencies**

Our operations inherently expose us to various liabilities and exposures that could result in third party lawsuits, claims and other causes of action. While we insure against the risk of these proceedings to the extent deemed prudent by our management, we can offer no assurance that the type or value of this insurance will meet the liabilities that may arise from any pending or future legal proceedings related to our business activities. There are no current legal proceedings that we expect will have a material adverse impact on our consolidated financial statements.

## **15. Concentration of Market and Credit Risk**

We derive all our revenues from drilling services contracts with companies in the oil and natural gas exploration and production industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility in oil and natural gas prices. We have a number of customers that account for 10% or more of our revenues. For 2020, these customers included Diamondback Energy, Inc. (16%), BPX Operating Company (15%), GeoSouthern Energy Corporation (12%) and Indigo Minerals, LLC (12%). For 2019, these customers included Diamondback Energy, Inc. (17%), GeoSouthern Energy Corporation (15%) and COG Operating, LLC, a subsidiary of Concho Resources, Inc. (14%). For 2018, these customers included GeoSouthern Energy Corporation (23%) and COG Operating, LLC, a subsidiary of Concho Resources, Inc. (22%).

Our trade receivables are with a variety of E&P and other oilfield service companies. We perform ongoing credit evaluations of our customers, and we generally do not require collateral. We do occasionally require deposits from customers whose creditworthiness is in question prior to providing services to them. As of December 31, 2020, BPX Operating Company (26%), Indigo Minerals, LLC (25%), GeoSouthern Energy Corporation (13%) and Triple Crown Resources, LLC (10%) accounted for 10% or more of our accounts receivable. As of December 31, 2019, Diamondback Energy, Inc. (21%) and GeoSouthern Energy Corporation (14%) accounted for 10% or more of our accounts receivable. As of December 31, 2018, COG Operating, LLC, a subsidiary of Concho Resources, Inc. (21%), Diamondback Energy, Inc. (14%), GeoSouthern Energy Corporation (14%) and BP p.l.c (10%) accounted for 10% or more of our accounts receivable.

We have concentrated credit risk for cash by maintaining deposits in major banks, which may at times exceed amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation ("FDIC"). We monitor the financial health of the banks and have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk. As of December 31, 2020, we had approximately \$11.8 million in cash and cash equivalents in excess of FDIC limits.

## **16. Related Parties and Other Matters**

In conjunction with the closing of the Sidewinder Merger on October 1, 2018, we entered into the Term Loan Credit Agreement for an initial term loan in an aggregate principal amount of \$130.0 million and a delayed draw term loan facility in

an aggregate principal amount of up to \$15.0 million. MSD PCOF Partners IV, LLC (an affiliate of MSD Partners) is the lender of our \$130.0 million Term Loan Facility.

We made interest payments on the Term Loan Facility totaling \$12.0 million during the year ended December 31, 2020. Additionally, we have recorded merger consideration payable to an affiliate of \$2.9 million plus accrued interest of \$0.3 million related to proceeds received from the sale of specific assets earmarked in the Sidewinder Merger agreement as assets held for sale with the Sidewinder unitholders receiving the net proceeds. We are contractually obligated to make this payment to MSD, the unitholders' representative, by the earlier of (i) June 30, 2022 and (ii) a Change of Control Transaction.

## 17. Unaudited Quarterly Financial Data

A summary of our unaudited quarterly financial data is as follows:

	Year Ended December 31, 2020			
	Quarter Ended			
	March 31	June 30	September 30	December 31
<i>(in thousands, except for per share data)</i>				
Revenue	\$ 38,494	\$ 21,381	\$ 10,224	\$ 13,319
Operating loss	(24,661)	(6,477)	(11,676)	(39,344)
Income tax (benefit) expense	(42)	(11)	(31)	(63)
Net loss	(28,223)	(10,120)	(15,199)	(43,096)
Loss per share:				
Basic and diluted	\$ (7.53)	\$ (2.52)	\$ (2.67)	\$ (7.02)
	Year Ended December 31, 2019			
	Quarter Ended			
	March 31	June 30	September 30	December 31
<i>(in thousands, except for per share data)</i>				
Revenue	\$ 60,358	\$ 52,879	\$ 45,073	\$ 45,292
Operating loss	(1,152)	(6,368)	(6,755)	(32,220)
Income tax (benefit) expense	(2,540)	2,898	232	(712)
Net loss	(2,373)	(12,858)	(10,547)	(35,010)
Loss per share:				
Basic and diluted <sup>(1)</sup>	\$ (0.63)	\$ (3.4)	\$ (2.80)	\$ (9.32)

(1) Prior period results have been adjusted to reflect the 1-for-20 reverse stock split that took place in February 2020. See *Reverse Stock Split in Note 1 - Nature of Operations and Recent Developments*.

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<i>(in thousands)</i>	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other <sup>(1)</sup>	Balance at End of Period
<b>Year Ended December 31, 2020:</b>					
Allowance for doubtful accounts	\$ 502	\$ 16	\$ —	\$ —	\$ 518
Valuation allowance for deferred tax assets	\$ 28,846	\$ 21,318	\$ —	\$ —	\$ 50,164
<b>Year Ended December 31, 2019:</b>					
Allowance for doubtful accounts	\$ —	\$ 502	\$ —	\$ —	\$ 502
Valuation allowance for deferred tax assets	\$ 16,022	\$ 12,626	\$ —	\$ 198	\$ 28,846
<b>Year Ended December 31, 2018:</b>					
Allowance for doubtful accounts	\$ 8	\$ 22	\$ (30)	\$ —	\$ —
Valuation allowance for deferred tax assets	\$ 12,396	\$ 3,626	\$ —	\$ —	\$ 16,022

(1) Amount comprised principally of purchase accounting adjustments in connection with the Sidewinder Merger.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Form 10-K. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Our principal executive officer and principal financial officer have concluded that our current disclosure controls and procedures were effective as of December 31, 2020 at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 framework). Based on this assessment using this criteria, our management determined that our internal control over financial reporting was effective as of December 31, 2020.

**Attestation Report of the Independent Registered Public Accounting Firm**

Not applicable.

**ITEM 9B. OTHER INFORMATION**

None.

### **PART III**

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

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2021 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of December 31, 2020.

Our Board of Directors has adopted a Code of Business Conduct and Ethics, which applies to all our officers and employees, a Code of Ethics for Senior Officers of the Company and a Code of Business Conduct and Ethics for Directors, which applies to all our directors. A copy of each of these codes of business conduct and ethics is available on our website at <http://icdrilling.investorroom.com>. Stockholders may also request a printed copy of either code of business conduct and ethics, free of charge, by contacting us at Independence Contract Drilling, Inc., 20475 State Highway 249, Suite 300, Houston, TX 77070 or by telephone at (281) 598-1230 or by emailing [Investor.relations@icdrilling.com](mailto:Investor.relations@icdrilling.com). Any waiver of any of the codes of business conduct and ethics for executive officers or directors may be made only by our Board of Directors or a committee of the Board of Directors committee to which the Board of Directors has delegated that authority and will be promptly disclosed to our stockholders as required by applicable United States federal securities laws and the corporate governance rules of the NYSE. Amendments to either code of business conduct and ethics must be approved by our Board of Directors and will be promptly disclosed (other than technical, administrative or non-substantive changes) on our website.

#### **ITEM 11. *EXECUTIVE COMPENSATION***

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2021 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of December 31, 2020.

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

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2021 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of December 31, 2020.

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

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2021 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of December 31, 2020.

#### **ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES***

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2021 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of December 31, 2020.

## PART IV

### ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES*

(a) List of filed documents:

(1) Financial Statements

Our Consolidated Financial Statements and accompanying footnotes are included under Part II, “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

(2) Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts is included under Part II, “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

(3) Exhibits

The exhibits required by Item 601 of Regulation S-K are listed in subparagraph (b) below.

(b) Exhibits

The exhibits required to be filed pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Exhibit Index accompanying this Annual Report on Form 10-K and are incorporated herein by reference.

### 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 Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

### INDEPENDENCE CONTRACT DRILLING, INC.

Date: March 1, 2021

By: /s/ J. Anthony Gallegos, Jr.  
Name: J. Anthony Gallegos, Jr.  
Title: President, Chief Executive Officer and Director  
(Principal Executive Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints J. Anthony Gallegos, Jr. and Philip A. Choyce, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date:

March 1, 2021

By: /s/ J. Anthony Gallegos, Jr.  
Name: J. Anthony Gallegos, Jr.  
Title: President, Chief Executive Officer and Director  
(Principal Executive Officer)

March 1, 2021

By: /s/ Philip A. Choyce  
Name: Philip A. Choyce  
Title: Executive Vice President, Chief Financial Officer,  
Treasurer and Secretary (Principal Financial Officer)

March 1, 2021

By: /s/ Katherine Kokenes  
Name: Katherine Kokenes  
Title: Vice President and Chief Accounting Officer (Principal  
Accounting Officer)

March 1, 2021

By: /s/ Matthew D. Fitzgerald  
Name: Matthew D. Fitzgerald  
Title: Director

March 1, 2021

By: /s/ Daniel F. McNease  
Name: Daniel F. McNease  
Title: Director

March 1, 2021

By: /s/ James G. Minmier  
Name: James G. Minmier  
Title: Director

March 1, 2021

By: /s/ Stacy D. Nieuwoudt  
Name: Stacy D. Nieuwoudt  
Title: Director

March 1, 2021

By: /s/ Adam J. Piekarski  
Name: Adam J. Piekarski  
Title: Director

## Glossary of Oil and Natural Gas Terms

### Glossary of Oil and Natural Gas Terms

<b>AC programmable rig</b>	An AC electric rig with programmable controls.
<b>Basin</b>	A large depression on the Earth's surface in which sediments accumulate and may be a source of oil and natural gas.
<b>Blowout</b>	An uncontrolled flow of reservoir fluids into the wellbore, and in extreme cases to the surface.
<b>BOP</b>	Blowout preventer; a large valve at the top of a well that may be closed to prevent a loss of pressure.
<b>Completion</b>	The process of treating a drilled well followed by the installation of permanent equipment for the production of oil or natural gas, or in the case of a dry hole, abandonment.
<b>Cratering</b>	Caving in of a well that has already been drilled.
<b>Dayrate</b>	The daily fee paid to the drilling contractor, which includes the cost of renting the drilling rig.
<b>Daywork contract</b>	A contract under which the drilling contractor is paid a certain price or rate for work performed as requested by the operator over a 24-hour period, with the price determined by the location, depth and complexity of the well to be drilled, operating conditions, the duration of the contract and the competitive forces of the market.
<b>E&amp;P</b>	Exploration and production.
<b>GHG</b>	Greenhouse gases.
<b>Horizontal drilling</b>	A subset of the more general term "directional drilling," used where the departure of the wellbore from vertical exceeds about 80 degrees.
<b>HP</b>	Horsepower.
<b>Hydraulic fracturing</b>	A stimulation treatment routinely performed on oil and natural gas wells in low permeability reservoirs.
<b>Pad</b>	Location where well operators perform drilling operations on multiple wells from a single drilling site.
<b>Reservoir</b>	A subsurface body of rock having sufficient permeability to store and transmit fluids.
<b>Rig down</b>	To take apart equipment for storage and portability of the rig.
<b>Rig up</b>	To prepare and assemble the drilling rig for drilling; and to install tools and machinery before drilling is started.
<b>Top drive</b>	A device that turns the drillstring while suspended from the derrick above the rig floor.
<b>Unconventional resource</b>	A term for oil and natural gas that is produced from lower permeability reservoirs by unconventional means, such as horizontal drilling and multistage fracturing.
<b>Utilization</b>	Rig utilization percentage is calculated as rig operating days divided by the total number of days our drilling rigs are available in the applicable period.
<b>Walking rig</b>	A land drilling rig that is capable of lifting legs through hydraulic lifts and moving to a nearby location without having to rig down and disassembling the rig. A "multi-directional" or "omni-directional" walking rig has the ability to walk on either the X or Y axis. A "walking" rig is technologically superior to a "skidding" rig, which requires disconnecting the rig and engaging hydraulic cylinders to push the rig across steel skid beams.
<b>Wellbore</b>	The hole drilled by the bit that is equipped for oil or natural gas production on a completed well. Also called well or borehole.

## EXHIBIT INDEX

Exhibit Number	Document Description	Incorporated by Reference Herein
2.1	Agreement and Plan of Merger, dated as of July 18, 2018, by and among Independence Contract Drilling, Inc., Patriot Saratoga Merger Sub LLC, and Sidewinder Drilling, LLC.	Incorporated herein by reference to Exhibit 2.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on July 19, 2018 (File No. 001-36590)
3.1	Amended and Restated Certificate of Incorporation of Independence Contract Drilling, Inc.	Incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on August 13, 2014 (File No. 001-36590)
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Independence Contract Drilling, Inc.	Incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on October 2, 2018 (File No. 001-36590)
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated as of March 11, 2020.	Incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on March 11, 2020 (File No. 001-36590)
3.4	Second Amended and Restated Bylaws of Independence Contract Drilling, Inc. (adopted as of February 27, 2019)	Incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on March 5, 2019 (File No. 001-36590)
4.1	Form of Common Stock Certificate	Incorporated herein by reference to Exhibit 4.1 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)
4.2	Form of Senior Indenture	Incorporated herein by reference to Exhibit 4.1 of the Registration Statement on Form S-3 filed by Independence Contract Drilling, Inc. on September 1, 2015 (File No. 333-206715)
4.3	Form of Subordinated Indenture	Incorporated herein by reference to Exhibit 4.3 of the Registration Statement on Form S-3 filed by Independence Contract Drilling, Inc. on September 1, 2015 (File No. 333-206715)
4.4	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities and Exchange Act of 1934	Incorporated herein by reference to Exhibit 4.4 of the Annual Report on Form 10-K filed by Independence Contract Drilling, Inc. on March 2, 2020 (File No. 001-36590)
10.1	Amended and Restated Stockholders' Agreement, dated as of October 1, 2018, by and among Independence Contract Drilling, Inc. and the Member Parties thereto.	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on October 2, 2018 (File No. 001-36590)
10.2	Credit Agreement, dated as of October 1, 2018, by and among Wells Fargo Bank, National Association, as Agent, the Lenders party thereto, Independence Contract Drilling, Inc., Patriot Saratoga Merger Sub, LLC, and ICD Operating LLC, as Borrowers, the Lenders party thereto, and U.S. Bank National Association, as Agent.	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on October 2, 2018 (File No. 001-36590)
10.3	Credit Agreement, dated as of October 1, 2018, by and among Independence Contract Drilling, Inc. and Patriot Saratoga Merger Sub, LLC, as initial Borrowers, and (following the consummation of the Merger) Independence Contract Drilling, Inc. and ICD Operating LLC, each as Borrower, the Lenders party thereto, and U.S. Bank National Association, as Agent.	Incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on October 2, 2018 (File No. 001-36590)
10.4	First Amendment to Credit Agreement, dated as of October 1, 2018, by and among Independence Contract Drilling, Inc. and Sidewinder Drilling LLC, each as Borrowers, the Lender party thereto, and U.S. Bank National Association, as Agent, dated as of July 31, 2019.	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on August 1, 2019 (File No. 001-36590)
10.5	Second Amendment to Credit Agreement, dated as of November 22, 2019, to Credit Agreement, dated as of October 1, 2018, by and among Independence Contract Drilling, Inc. and Sidewinder Drilling LLC (formerly named ICD Operating LLC), each as a Borrower, the Lenders party thereto, and U.S. Bank National Association, as Agent.	Incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed by Independence Contract Drilling, Inc. on November 3, 2020 (File No. 001-36590)

10.6	Third Amendment, dated as of June 4, 2020, to Credit Agreement, dated as of October 1, 2018, by and among Independence Contract Drilling, Inc., ICD Operating LLC, the Lenders party thereto and U.S. National Bank Association, as Agent.	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on June 5, 2020 (File No. 001-36590)
10.7	Paycheck Protection Program Note dated April 27, 2020	Incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed by Independence Contract Drilling, Inc. on May 7, 2020 (File No. 001-36590)
10.8	Voting and Support Agreement, dated as of July 18, 2018, by and among Independence Contract Drilling, Inc., and the directors and officers party there.	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on July 19, 2018 (File No. 001-36590)
10.9†	Executive Employment Agreement, dated as of July 18, 2018, by and among Independence Contract Drilling, Inc., and J. Anthony Gallegos, Jr.	Incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on July 19, 2018 (File No. 001-36590)
10.10†	Amended and Restated Executive Employment Agreement between Independence Contract Drilling, Inc. and Philip A. Choyce, dated August 13, 2014	Incorporated herein by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed by Independence Contract Drilling, Inc. on September 19, 2014 (File No. 001-36590)
10.11†	Executive Employment Agreement with Philip A. Dalrymple dated December 18, 2020	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on December 21, 2020 (File No. 001-36590)
10.12†	Executive Employment Agreement with Scott A. Keller dated December 18, 2020	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on December 21, 2020 (File No. 001-36590)
10.13†	Executive Employment Agreement with Katherine Kokenes dated December 18, 2020	Incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on December 21, 2020 (File No. 001-36590)
10.14†	Amended and Restated Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan, dated August 13, 2014	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on August 13, 2014 (File No. 001-36590)
10.15†	Amendment No. 1 to the Second Amended and Restated Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on June 24, 2016 (File No. 001-36590)
10.16†	Amendment No. 2 to the Second Amended and Restated Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.12 of the Current Report on Form 10-K filed by Independence Contract Drilling, Inc. on February 28, 2017 (File No. 001-36590)
10.17†	Form of Restricted Stock Award Agreement pursuant to the Amended and Restated Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on December 28, 2018 (File No. 001-36590)
10.18†	Form of Restricted Stock Award Agreement pursuant to the Amended and Restated Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.15 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)
10.19†	Form of Nonqualified Stock Option Award Agreement pursuant to the Amended and Restated Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.16 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)
10.20†	Form of Restricted Stock Award Agreement pursuant to the Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.17 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)
10.21†	Form of Nonqualified Stock Option Award Agreement pursuant to the Independence Contract Drilling, Inc. 2012 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.18 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)

10.22†	Form of Performance Unit Award Agreement Total Shareholder Return	Incorporated herein by reference to Exhibit 10.19 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)
10.23†	Form of Performance Unit Award Agreement Cumulative EBITDA	Incorporated herein by reference to Exhibit 10.20 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)
10.24†	Form of 2016 TSR Performance Unit Award Agreement	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 14, 2017 (File No. 001-36590)
10.25†	Form of 2016 Safety Performance Unit Award Agreement	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 14, 2017 (File No. 001-36590)
10.26†	Form of 2016 Utilization Performance Unit Award Agreement	Incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 14, 2017 (File No. 001-36590)
10.27†	Form of Time Based Restricted Stock Unit Agreement	Incorporated herein by reference to Exhibit 10.4 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 14, 2017 (File No. 001-36590)
10.28†	Form of Director Restricted Stock Unit Agreement	Incorporated herein by reference to Exhibit 10.5 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 14, 2017 (File No. 001-36590)
10.29†	Independence Contract Drilling 2019 Omnibus Incentive Plan, effective as of February 27, 2019	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on March 5, 2019 (File No. 001-36590)
10.30†	Form of 2019 Outside Director Restricted Stock Unit Award Agreement	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on March 5, 2019 (File No. 001-36590)
10.31†	Form of 2019 Restricted Stock Unit Award Agreement (Time-Based)	Incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on March 5, 2019 (File No. 001-36590)
10.32†	Form of 2019 Performance Unit Award Agreement (Return on Invested Capital)	Incorporated herein by reference to Exhibit 10.4 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on March 5, 2019 (File No. 001-36590)
10.33†	Form of 2019 Performance-Based Unit Award Agreement (Total Shareholder Return)	Incorporated herein by reference to Exhibit 10.5 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on March 5, 2019 (File No. 001-36590)
10.34†	Form of Time Based Restricted Stock Unit Agreement (2020)	Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 13,2020 (File No. 001-36590)
10.35†	Form of TSR Cash Settlement Award Agreement (2020)	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 13,2020 (File No. 001-36590)
10.36†	Form of ROIC Cash Settlement Award Agreement (2020)	Incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 13,2020 (File No. 001-36590)
10.37†	Form of Director RSU Award Agreement - Partial Cash Settlement (2020)	Incorporated herein by reference to Exhibit 10.4 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on February 13,2020 (File No. 001-36590)
10.38†	Form of Change of Control Agreement	Incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on December 28, 2018 (File No. 001-36590)

10.39†	Form of Change of Control Agreement	Incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on December 28, 2018 (File No. 001-36590)
10.40†	Form of Change of Control Agreement	Incorporated herein by reference to Exhibit 10.21 of the Registration Statement on Form S-1 filed by Independence Contract Drilling, Inc. on July 18, 2014 (Registration No. 333-196914)
10.41	Letter Agreement re Mechanical Rig Net Proceeds, dated as of June 4, 2020, between Independence Contract Drilling, Inc. and MSD Credit Opportunity Master Fund, L.P., as Members' Representative and Representative.	Incorporated by reference herein to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on June 5, 2020 (File No. 001-36590)
10.42	Common Stock Purchase Agreement, dated as of November 11, 2020, by and between Independence Contract Drilling, Inc. and Tumim Stone Capital LLC.	Incorporated by reference herein to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on November 12, 2020 (File No. 001-36590)
10.43	Registration Rights Agreement, dated as of November 11, 2020, by and between Independence Contract Drilling, Inc., and Tumim Stone Capital LLC.	Incorporated by reference herein to Exhibit 10.2 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on November 12, 2020 (File No. 001-36590)
10.44	Form of Indemnification Agreement	Incorporated by reference herein to Exhibit 10.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on May 20, 2020 (File No. 001-36590)
16.1	Letter from PricewaterhouseCoopers LLP addressed to the Securities and Exchange Commission, dated April 7, 2015	Incorporated by reference herein to Exhibit 16.1 of the Current Report on Form 8-K filed by Independence Contract Drilling, Inc. on April 7, 2015 (File No. 001-36590)
23.1*	Consent of BDO USA, LLP	
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	
101.SCH*	XBRL Taxonomy Extension Schema Document	
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document	
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	

\* Filed herewith.

\*\* Furnished, not filed.

† Indicates a management contract or compensatory plan or arrangement filed pursuant to Item 601(b)(10)(iii) of Regulation S-K.