# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 2024**

**OR**

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

**For the transition period from to**

**Commission file number 001-38343**

# TARGET HOSPITALITY CORP.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **98-1378631**<br>(I.R.S. Employer Identification No.) |

**9320 Lakeside Boulevard, Suite 300**
**The Woodlands, TX 77381**
(Address, including zip code, of principal executive offices)

**(800) 832-4242**
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which is registered |
|---|---|---|
| Common stock, par value $0.0001 per share | TH | NASDAQ Capital Market |

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

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

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

| | |
|---|---|
| Large accelerated filer ☐ | 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. ☐

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

There were 100,431,350 shares of Common Stock, par value $0.0001 per share, outstanding as of August 2, 2024.

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Target Hospitality Corp.

Unaudited Consolidated Financial Statements

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Consolidated Financial Statements

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

### Target Hospitality Corp.
### Consolidated Balance Sheets
### ($ in thousands)

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Assets | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | $ 154,296 | $ 103,929 |
| Accounts receivable, less allowance for credit losses of $624 and $550, respectively | 48,737 | 67,092 |
| Prepaid expenses and other assets | 5,797 | 9,479 |
| Total current assets | 208,830 | 180,500 |
| | | |
| Specialty rental assets, net | 336,440 | 349,064 |
| Other property, plant and equipment, net | 34,885 | 34,631 |
| Operating lease right-of-use assets, net | 14,127 | 19,698 |
| Goodwill | 41,038 | 41,038 |
| Other intangible assets, net | 59,552 | 66,282 |
| Deferred financing costs revolver, net | 2,177 | 2,479 |
| Other non-current assets | — | 661 |
| Total assets | $ 697,049 | $ 694,353 |
| | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | $ 17,541 | $ 20,926 |
| Accrued liabilities | 25,758 | 33,652 |
| Deferred revenue and customer deposits | 2,721 | 1,794 |
| Current portion of operating lease obligations | 8,791 | 11,914 |
| Current portion of finance lease and other financing obligations (Note 8) | 1,518 | 1,369 |
| Current warrant liabilities | — | 675 |
| Current portion of long-term debt, net (Note 8) | 179,177 | — |
| Total current liabilities | 235,506 | 70,330 |
| | | |
| Other liabilities: | | |
| Long-term debt (Note 8): | | |
| Principal amount | — | 181,446 |
| Less: unamortized original issue discount | — | (2,619) |
| Less: unamortized term loan deferred financing costs | — | (734) |
| Long-term debt, net | — | 178,093 |
| Long-term finance lease and other financing obligations | 1,106 | 1,024 |
| Long-term operating lease obligations | 6,062 | 8,426 |
| Deferred revenue and customer deposits | 535 | 3,675 |
| Deferred tax liability | 54,173 | 53,074 |
| Asset retirement obligations | 2,501 | 2,424 |
| Total liabilities | 299,883 | 317,046 |
| | | |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Common Stock, $0.0001 par, 400,000,000 authorized, 112,135,786 issued and 100,430,681 outstanding as of June 30, 2024 and 111,091,266 issued and 101,660,601 outstanding as of December 31, 2023. | 10 | 10 |
| Common Stock in treasury at cost, 11,705,105 shares as of June 30, 2024 and 9,430,665 shares as of December 31, 2023. | (44,822) | (23,559) |
| Additional paid-in-capital | 144,772 | 142,379 |
| Accumulated other comprehensive loss | (2,678) | (2,638) |
| Accumulated earnings | 299,884 | 261,115 |
| Total stockholders' equity | 397,166 | 377,307 |
| Total liabilities and stockholders' equity | $ 697,049 | $ 694,353 |

*See accompanying notes to the unaudited consolidated financial statements.*

**Target Hospitality Corp.**
**Unaudited Consolidated Statements of Comprehensive Income**
**($ in thousands, except per share amounts)**

| | For the Three Months Ended June 30, 2024 | For the Three Months Ended June 30, 2023 | For the Six Months Ended June 30, 2024 | For the Six Months Ended June 30, 2023 |
|---|---|---|---|---|
| Revenue: | | | | |
| Services income | $ 67,491 | $ 92,523 | $ 139,889 | $ 187,359 |
| Specialty rental income | 33,230 | 51,107 | 67,504 | 104,090 |
| Total revenue | 100,721 | 143,630 | 207,393 | 291,449 |
| Costs: | | | | |
| Services | 33,557 | 35,734 | 70,472 | 75,434 |
| Specialty rental | 5,489 | 7,538 | 11,397 | 16,097 |
| Depreciation of specialty rental assets | 14,805 | 17,992 | 29,586 | 35,589 |
| Gross profit | 46,870 | 82,366 | 95,938 | 164,329 |
| Selling, general and administrative | 13,457 | 13,457 | 28,312 | 28,656 |
| Other depreciation and amortization | 3,908 | 3,841 | 7,792 | 7,644 |
| Other expense (income), net | (46) | 311 | (156) | 1,315 |
| Operating income | 29,551 | 64,757 | 59,990 | 126,714 |
| Loss on extinguishment of debt | — | — | — | 2,128 |
| Interest expense, net | 4,273 | 5,276 | 8,861 | 12,773 |
| Change in fair value of warrant liabilities | — | (675) | (675) | (4,385) |
| Income before income tax | 25,278 | 60,156 | 51,804 | 116,198 |
| Income tax expense | 6,892 | 13,703 | 13,035 | 25,920 |
| Net income | 18,386 | 46,453 | 38,769 | 90,278 |
| Change in fair value of warrant liabilities | — | (675) | — | (4,385) |
| Net income attributable to common stockholders - diluted | 18,386 | 45,778 | 38,769 | 85,893 |
| | | | | |
| Other comprehensive loss | | | | |
| Foreign currency translation | (20) | (5) | (40) | (26) |
| Comprehensive income | $ 18,366 | $ 46,448 | $ 38,729 | $ 90,252 |
| | | | | |
| Weighted average number shares outstanding - basic | 100,261,964 | 101,465,088 | 100,459,835 | 101,056,450 |
| Weighted average number shares outstanding - diluted | 101,253,180 | 105,045,608 | 101,913,814 | 105,699,684 |
| | | | | |
| Net income per share - basic | $ 0.18 | $ 0.46 | $ 0.39 | $ 0.89 |
| Net income per share - diluted | $ 0.18 | $ 0.44 | $ 0.38 | $ 0.81 |

*See accompanying notes to the unaudited consolidated financial statements.*

**Target Hospitality Corp.**
**Unaudited Consolidated Statements of Changes in Stockholders' Equity**
**For the three and six months ended June 30, 2024 and 2023**
**($ in thousands)**

| | Common Stock | | Common Stock in Treasury | | Additional Paid In Capital | Accumulated Other Comprehensive Loss | Accumulated Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| **Balances at December 31, 2022** | 100,316,701 | $ 10 | 9,430,665 | $ (23,559) | $ 139,287 | $ (2,574) | $ 87,683 | $ 200,847 |
| Adoption of ASC 326 | — | — | — | — | — | — | (268) | (268) |
| **Balances at January 1, 2023** | 100,316,701 | $ 10 | 9,430,665 | $ (23,559) | $ 139,287 | $ (2,574) | $ 87,415 | $ 200,579 |
| Net income | — | — | — | — | — | — | 43,825 | 43,825 |
| Stock-based compensation, net | 643,662 | — | — | — | 2,112 | — | — | 2,112 |
| Tax withholdings related to net share settlement of equity awards | — | — | — | — | (6,177) | — | — | (6,177) |
| Cumulative translation adjustment | — | — | — | — | — | (21) | — | (21) |
| Issuance of Common Stock from exercise of warrants | 2,869 | — | — | — | 42 | — | — | 42 |
| Issuance of Common Stock from exercise of stock options | 410,226 | — | — | — | 1,252 | — | — | 1,252 |
| **Balances at March 31, 2023** | 101,373,458 | $ 10 | 9,430,665 | $ (23,559) | $ 136,516 | $ (2,595) | $ 131,240 | $ 241,612 |
| Net income | — | — | — | — | — | — | 46,453 | 46,453 |
| Stock-based compensation, net | 207,288 | — | — | — | 2,337 | — | — | 2,337 |
| Tax withholdings related to net share settlement of equity awards | — | — | — | — | (241) | — | — | (241) |
| Cumulative translation adjustment | — | — | — | — | — | (5) | — | (5) |
| Issuance of Common Stock from exercise of warrants | 14,500 | — | — | — | 167 | — | — | 167 |
| **Balances at June 30, 2023** | 101,595,246 | $ 10 | 9,430,665 | $ (23,559) | $ 138,779 | $ (2,600) | $ 177,693 | $ 290,323 |
| **Balances at December 31, 2023** | 101,660,601 | $ 10 | 9,430,665 | $ (23,559) | $ 142,379 | $ (2,638) | $ 261,115 | $ 377,307 |
| Net income | — | — | — | — | — | — | 20,383 | 20,383 |
| Stock-based compensation, net | 658,659 | — | — | — | 1,579 | — | — | 1,579 |
| Tax withholdings related to net share settlement of equity awards | — | — | — | — | (2,615) | — | — | (2,615) |
| Cumulative translation adjustment | — | — | — | — | — | (20) | — | (20) |
| Issuance of Common Stock from exercise of warrants | 1,079 | — | — | — | 3 | — | — | 3 |
| Issuance of Common Stock from exercise of stock options | 59,524 | — | — | — | 268 | — | — | 268 |
| Repurchase of Common Stock as part of share repurchase program | (2,274,440) | — | 2,274,440 | (21,371) | — | — | — | (21,371) |
| **Balances at March 31, 2024** | 100,105,423 | $ 10 | 11,705,105 | $ (44,930) | $ 141,614 | $ (2,658) | $ 281,498 | $ 375,534 |
| Net income | — | — | — | — | — | — | 18,386 | 18,386 |
| Stock-based compensation, net | 44,329 | — | — | — | 1,612 | — | — | 1,612 |
| Cumulative translation adjustment | — | — | — | — | — | (20) | — | (20) |
| Issuance of Common Stock from exercise of stock options | 280,929 | — | — | — | 1,546 | — | — | 1,546 |
| Repurchase of Common Stock as part of share repurchase program | — | — | — | 108 | — | — | — | 108 |
| **Balances at June 30, 2024** | 100,430,681 | $ 10 | 11,705,105 | $ (44,822) | $ 144,772 | $ (2,678) | $ 299,884 | $ 397,166 |

*See accompanying notes to the unaudited consolidated financial statements.*

**Target Hospitality Corp.**
**Unaudited Consolidated Statements of Cash Flows**
**($ in thousands)**

| | For the Six Months Ended June 30, 2024 | For the Six Months Ended June 30, 2023 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 38,769 | $ 90,278 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 30,648 | 36,530 |
| Amortization of intangible assets | 6,730 | 6,703 |
| Noncash operating lease expense | 5,386 | 9,471 |
| Accretion of asset retirement obligation | 77 | 87 |
| Amortization of deferred financing costs | 540 | 1,753 |
| Amortization of original issue discount | 846 | 313 |
| Change in fair value of warrant liabilities | (675) | (4,385) |
| Stock-based compensation expense | 4,083 | 9,113 |
| (Gain) loss on disposal of specialty rental assets and other property, plant and equipment | 23 | 207 |
| Loss on extinguishment of debt | — | 2,128 |
| Deferred income taxes | 1,099 | 19,722 |
| Provision for credit losses on receivables, net of recoveries | 55 | 65 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 18,790 | (11,547) |
| Prepaid expenses and other assets | 3,675 | 5,621 |
| Accounts payable and other accrued liabilities | (13,458) | (19,425) |
| Deferred revenue and customer deposits | (2,213) | (70,359) |
| Operating lease obligation | (5,301) | (6,751) |
| Other non-current assets and liabilities | 622 | 751 |
| Net cash provided by operating activities | 89,696 | 70,275 |
| **Cash flows from investing activities:** | | |
| Purchase of specialty rental assets | (15,918) | (42,916) |
| Purchase of property, plant, and equipment | (261) | (1,493) |
| Acquired intangible assets | — | (4,547) |
| Proceeds from sale of specialty rental assets and other property, plant and equipment | 42 | 165 |
| Net cash used in investing activities | (16,137) | (48,791) |
| **Cash flows from financing activities:** | | |
| Principal payments on finance and finance lease obligations | (824) | (701) |
| Repayment of Senior Notes | — | (125,000) |
| Repurchase of Common Stock | (21,137) | — |
| Payment of issuance costs from warrant exchange | — | (1,504) |
| Proceeds from issuance of Common Stock from exercise of warrants | 3 | 209 |
| Proceeds from issuance of Common Stock from exercise of options | 1,386 | 1,252 |
| Payment of deferred financing costs | — | (1,423) |
| Taxes paid related to net share settlement of equity awards | (2,615) | (6,418) |
| Net cash used in financing activities | (23,187) | (133,585) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (5) | 6 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 50,367 | (112,095) |
| Cash and cash equivalents - beginning of period | 103,929 | 181,673 |
| Cash and cash equivalents - end of period | $ 154,296 | $ 69,578 |
| | | |
| **Non-cash investing and financing activity:** | | |
| Non-cash change in accrued capital expenditures | $ (1,109) | $ (2,142) |
| Non-cash change in accrued excise tax on repurchase of Common Stock | $ (126) | $ — |
| Non-cash change in finance lease obligations | $ (1,054) | $ (882) |
| Non-cash change in accrued proceeds from the issuance of Common Stock from the exercise of options | $ 428 | $ — |

*See accompanying notes to the unaudited consolidated financial statements* .

Target Hospitality Corp.

Notes to Unaudited Consolidated Financial Statements
*(Amounts in Thousands, Unless Stated Otherwise)*

**1. Organization and Nature of Operations, Basis of Presentation, and Summary of Significant Accounting Policies**

**Organization and Nature of Operations**

Target Hospitality Corp. ("Target Hospitality" and, together with its subsidiaries, the "Company") was formed on March 15, 2019 and is one of North America's largest providers of vertically integrated specialty rental and value-added hospitality services. The Company provides vertically integrated specialty rental and comprehensive hospitality services including: catering and food services, maintenance, housekeeping, grounds-keeping, security, health and recreation services, overall workforce community management, and laundry service. Target Hospitality serves clients in the natural resources development and government sectors principally located in the West Texas, South Texas, New Mexico and Midwest regions.

The Company, whose securities are listed on the Nasdaq Capital Market, together with its wholly owned subsidiaries, Topaz Holdings LLC, a Delaware limited liability company ("Topaz"), and Arrow Bidco, LLC, a Delaware limited liability company ("Arrow Bidco"), serve as the holding companies for the businesses of Target Logistics Management, LLC and its subsidiaries ("Target" or "TLM") and RL Signor Holdings, LLC ("Signor"). TDR Capital LLP ("TDR Capital" or "TDR") indirectly owns approximately 64% of Target Hospitality and the remaining ownership is broken out among the founders of the Company's legal predecessor, Platinum Eagle Acquisition Corp. ("Platinum Eagle" or "PEAC"), investors who purchased the shares of Platinum Eagle in a private placement transaction, and other public shareholders.

**Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") pertaining to interim financial information. Certain information in footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") has been condensed or omitted pursuant to those rules and regulations. The financial statements included in this report should be read in conjunction with Target Hospitality's Annual Report on the Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K").

The results of operations for the three and six months ended June 30, 2024 are not necessarily indicative of the operating results that may be expected for the full fiscal year ending December 31, 2024 or any future period.

The accompanying unaudited consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of financial position as of June 30, 2024, and results of operations for the three and six months ended June 30, 2024 and 2023, and cash flows for three and six months ended June 30, 2024 and 2023. The consolidated balance sheet as of December 31, 2023, was derived from the audited consolidated balance sheets of the Company, but does not contain all of the footnote disclosures from those annual financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. If the underlying estimates and assumptions upon which the financial statements are based change in future periods, actual amounts may differ from those included in the accompanying unaudited consolidated financial statements.

**Principles of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries that it controls due to ownership of a majority voting interest. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. All intercompany balances and transactions are eliminated.

**Revenue Recognition**

The Company derives revenue from specialty rental and hospitality services, specifically lodging and related ancillary services. Revenue is recognized in the period in which lodging and services are provided pursuant to the terms of contractual relationships with the customers. Certain arrangements contain a lease of lodging facilities to customers. The leases are accounted for as operating leases under the authoritative guidance for leases ("ASC 842") and are recognized as income is earned over the term of the lease agreement.

Upon lease commencement, the Company evaluates leases to determine if they meet criteria set forth in lease accounting guidance for classification as sales-type leases or direct financing leases; if a lease meets none of these criteria, the Company classifies the lease as an operating lease. As previously mentioned, the arrangements that contain a lease of the Company's lodging facilities are accounted for as operating leases, whereby the underlying asset remains on our balance sheet and is depreciated consistently with other owned assets, with income recognized as it is earned over the term of the lease agreement. For contracts that contain both a lease component and a services or non-lease component, the Company has adopted an accounting policy to account for and present the lease component under ASC 842 and the non-lease component under the authoritative guidance for revenue recognition ("ASC 606" or "Topic 606"). Refer to Note 2 for the breakout of revenue under each standard. The Company recognizes minimum rents on operating leases over the term of the customer operating lease. A lease term commences when: (1) the customer has control of the leased space (legal right to use the property); and (2) the Company has delivered the premises to the customer as required under the terms of the lease. The term of a lease includes the noncancellable periods of the lease along with periods covered by: (1) a customer option to extend the lease if the customer is reasonably certain to exercise that option; (2) a customer option to terminate the lease if the customer is reasonably certain not to exercise that option; and (3) an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the Company as the lessor. When assessing the expected lease end date, judgment is required in contemplating the significance of: any penalties a customer may incur should it choose not to exercise any existing options to extend the lease or exercise any existing options to terminate the lease; and economic incentives for the customer in the lease. Furthermore, when assessing the expected end date of a contract under ASC 606 with an extension option, judgment is required to determine whether the option contains a material right.

Because performance obligations related to specialty rental and hospitality services are satisfied over time, the majority of our revenue is recognized evenly over the contractual term of the arrangement, based on a contractual fixed minimum amount and defined period of performance. Some of our revenue is recognized on a daily basis, for each night a customer stays, at a contractual day rate. Our customers typically contract for accommodation services under committed contracts with terms that most often range from several months to multiple years. Our payment terms vary by type and location of our customer and the service offered. The time between invoicing and when payment is due is not significant.

When lodging and services are billed and collected in advance, recognition of revenue is deferred until services are rendered.

Cost of services includes labor, food, utilities, supplies, leasing and other direct costs associated with operating the lodging units as well as repair and maintenance expenses. Cost of rental includes leasing costs, utilities, and other direct costs of maintaining the lodging units. Costs associated with contracts include sales commissions which are expensed as incurred and reflected in selling, general and administrative expenses in the consolidated statements of comprehensive income.

Additionally, the Company collects sales, use, occupancy and similar taxes, which the Company presents on a net basis (excluded from revenues) in the consolidated statements of comprehensive income.

**Recently Issued Accounting Standards**

*Improvements to Reportable Segment Disclosures.* In November 2023, the FASB issued ASU 2023-07, which expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in the ASU require, among other things, disclosure of significant segment expenses that are regularly provided to an entity's chief operating decision maker (“CODM”) and a description of other segment items (the difference between segment revenue less the segment expenses disclosed under the significant expense principle and each reported measure of segment profit or loss) by reportable segment, as well as disclosure of the title and position of the CODM, and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. Annual disclosures are required for fiscal years beginning after December 15, 2023 and interim disclosures are required for periods within fiscal years beginning after December 15, 2024. Retrospective application is required, and early adoption is permitted. These requirements are not expected to have an impact on our financial statements, but will result in expanded reportable segment disclosures. The Company does not intend to early adopt ASU 2023-07.

*Improvements to Income Tax Disclosures.* In December 2023, the FASB issued ASU 2023-09, which requires disclosure of disaggregated income taxes paid, prescribes standard categories for the components of the effective tax rate reconciliation, and modifies other income tax-related disclosures. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, may be applied prospectively or retrospectively, and allows for early adoption. These requirements are not expected to have an impact on our financial statements, but will impact our income tax disclosures. The Company does not intend to early adopt ASU 2023-09.

**Recent Developments**

On March 25, 2024, the Company announced that the Board of Directors of the Company (“the Board”) received an unsolicited non-binding proposal from Arrow Holdings S.à r.l. (“Arrow”), an affiliate of TDR, to acquire all of the outstanding shares of Common Stock of the Company that are not owned by any of Arrow, any investment fund managed by TDR or any of their respective affiliates, for cash consideration of $10.80 per share (the “Proposal”).

The Board has established a special committee of independent directors (the "Special Committee"), and the Special Committee has retained Centerview Partners LLC and Ardea Partners LP as its financial advisors and Cravath, Swaine & Moore LLP as its legal advisor. The Special Committee continues its review and evaluation of the Proposal, as well as evaluating alternative proposals and other strategic alternatives.

The Special Committee has made no decision at this time with respect to the Proposal, and the Company does not undertake any obligation to provide any updates with respect to the Proposal or any other transaction, except as required by applicable law or other regulatory requirements. There can be no assurance that any transaction will result from the Special Committee’s evaluation of the Proposal, or, if so, the timing, terms and conditions of such transaction.

**2. Revenue**

Total revenue recognized under ASC 606 was approximately $ 139.9 million and $187.4 million for the six months ended June 30, 2024 and 2023, respectively, while specialty rental income was approximately $67.5 million and $104.1 million subject to the guidance of ASC 842 for the six months ended June 30, 2024 and 2023 respectively. Total revenue recognized under contracts recognized under ASC 606 was approximately $67.5 million and $92.5 million for the three months ended June 30, 2024 and 2023, respectively, while specialty rental income was approximately $33.2 million and $51.1 million subject to the guidance of ASC 842 for the three months ended June 30, 2024 and 2023, respectively.

The following table disaggregates our services income by our two reportable segments as well as the All Other category: Hospitality and Facility Services – South ("HFS – South"), Government, and All Other for the dates indicated below:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| HFS – South | $ 36,606 | $ 37,645 | $ 72,319 | $ 71,933 |
| Government | $ 28,255 | $ 51,580 | $ 62,808 | $ 109,584 |
| All Other | $ 2,630 | $ 3,298 | $ 4,762 | $ 5,842 |
| Total services revenues | $ 67,491 | $ 92,523 | $ 139,889 | $ 187,359 |

**Allowance for Credit Losses**

The Company maintains allowances for credit losses. These allowances reflect our estimate of the amount of our receivables that we will be unable to collect based on historical write-off experience and, as applicable, current conditions and reasonable and supportable forecasts that affect collectability. Our estimate could require a change based on changing circumstances, including changes in the economy or in the circumstances of individual customers.

**Contract Assets and Liabilities**

We do not have any contract assets.

Contract liabilities primarily consist of deferred revenue that represent payments for room nights that the customer may use in the future as well as advanced payments for community builds, and mobilization of asset activities related to community expansions that are being recognized over the related contract period. Activity in the deferred revenue accounts as of the dates indicated below was as follows:

| | For Six Months Ended June 30, | |
|---|---|---|
| | 2024 | 2023 |
| Balances at Beginning of the Period | $ 5,469 | $ 125,519 |
| Revenue recognized | (2,213) | (70,358) |
| Balances at End of the Period | $ 3,256 | $ 55,161 |

As of June 30, 2024, the following table discloses the estimated revenues under ASC 606 related to performance obligations that are unsatisfied (or partially unsatisfied) and when we expect to recognize the revenue, and only represents revenue expected to be recognized from contracts where the price and quantity of the product or service are fixed:

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2024 | 2025 | 2026 | Total |
| Revenue expected to be recognized as of June 30, 2024 | $ 45,377 | $ 4,088 | $ 282 | $ 49,747 |

The Company applied some of the practical expedients in ASC 606, including the "right to invoice" practical expedient, and does not disclose consideration for remaining performance obligations for contracts without minimum revenue commitments or for variable consideration related to unsatisfied (or partially unsatisfied) performance obligations. Due to the application of these practical expedients as well as excluding rental income revenue subject to the guidance included in ASC 842, the table above represents only a portion of the Company's expected future consolidated revenues and it is not necessarily indicative of the expected trend in total revenues.

### 3. Specialty Rental Assets, Net

Specialty rental assets, net at the dates indicated below consisted of the following:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Specialty rental assets | $ 764,501 | $ 751,181 |
| Construction-in-process | 6,642 | 3,665 |
| Less: accumulated depreciation | (434,703) | (405,782) |
| Specialty rental assets, net | $ 336,440 | $ 349,064 |

Depreciation expense related to specialty rental assets was $ 29.6 million and $35.6 million for the six months ended June 30, 2024 and 2023, respectively, and is included in depreciation of specialty rental assets in the consolidated statements of comprehensive income. For the three months ended June 30, 2024 and 2023, depreciation expense of specialty rental assets was $14.8 million and $18.0 million, respectively, and is included in depreciation of specialty rental assets in the consolidated statements of comprehensive income. During the six months ended June 30, 2024, the Company disposed of assets with accumulated depreciation of approximately $0.3 million along with the related gross cost of approximately $0.3 million. During the six months ended June 30, 2024, there was also a non-cash change in specialty rental assets and related accumulated depreciation due to the effect of exchange rate changes in the amount of approximately $0.4 million with no net impact to specialty rental assets, net.

During the six months ended June 30, 2023, the Company disposed of assets with accumulated depreciation of approximately $8.7 million along with the related gross cost of approximately $ 9.1 million. These disposals were primarily associated with fully depreciated asset retirement costs as well as a sale of assets. These asset disposals resulted in disposal costs of approximately $1.2 million and a net loss on the sales and disposal of assets of approximately $ 0.2 million (net of sale proceeds of approximately $0.2 million) and is reported within other expense (income), net in the accompanying consolidated statement of comprehensive income for the six months ended June 30, 2023

### 4. Other Property, Plant and Equipment, Net

Other property, plant and equipment, net at the dates indicated below, consisted of the following:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Land | $ 31,111 | $ 31,111 |
| Buildings and leasehold improvements | 905 | 901 |
| Machinery and office equipment | 2,117 | 1,820 |
| Other | 9,511 | 8,589 |
| | 43,644 | 42,421 |
| Less: accumulated depreciation | (8,759) | (7,790) |
| Total other property, plant and equipment, net | $ 34,885 | $ 34,631 |

For the six months ended June 30, 2024 and 2023, depreciation expense related to other property, plant and equipment was $1.1 million and $0.9 million, respectively, and is included in other depreciation and amortization in the consolidated statements of comprehensive income. For the three months ended June 30, 2024 and 2023, depreciation expense related to other property, plant and equipment was $0.5 million and $0.5 million, respectively, and is included in other depreciation and amortization in the consolidated statements of comprehensive income.

### 5. Goodwill and Other Intangible Assets, net

The financial statements reflect goodwill from previous acquisitions that is all attributable to the HFS – South business segment and reporting unit.

Changes in the carrying amount of goodwill were as follows:

| | HFS - South |
|---|---|
| Balance at January 1, 2023 | $ 41,038 |
| Changes in Goodwill | - |
| Balance at December 31, 2023 | 41,038 |
| Changes in Goodwill | - |
| Balance at June 30, 2024 | $ 41,038 |

Intangible assets other than goodwill at the dates indicated below consisted of the following:

| | June 30, 2024 | | | |
|---|---|---|---|---|
| | Weighted average remaining lives | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Intangible assets subject to amortization | | | | |
| Customer relationships | 3.4 | $ 133,105 | $ (90,200) | $ 42,905 |
| Non-compete agreement | 3.8 | 349 | (102) | 247 |
| Total | | 133,454 | (90,302) | 43,152 |
| Indefinite lived assets: | | | | |
| Tradenames | | 16,400 | — | 16,400 |
| Total intangible assets other than goodwill | | $ 149,854 | $ (90,302) | $ 59,552 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Weighted average remaining lives | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Intangible assets subject to amortization | | | | |
| Customer relationships | 3.9 | $ 133,105 | $ (83,505) | $ 49,600 |
| Non-compete agreement | 4.1 | 349 | (67) | 282 |
| Total | | 133,454 | (83,572) | 49,882 |
| Indefinite lived assets: | | | | |
| Tradenames | | 16,400 | — | 16,400 |
| Total intangible assets other than goodwill | | $ 149,854 | $ (83,572) | $ 66,282 |

For the six months ended June 30, 2024 and 2023, amortization expense related to intangible assets was $ 6.7 million and $6.7 million, respectively, and is included in other depreciation and amortization in the consolidated statements of comprehensive income. For the three months ended June 30, 2024 and 2023, amortization expense related to intangible assets was $3.4 million and $3.4 million, respectively and is included in other depreciation and amortization in the consolidated statements of comprehensive income.

The estimated aggregate amortization expense as of June 30, 2024 for each of the next five years and thereafter is as follows:

| | |
|---|---|
| Rest of 2024 | $ 6,745 |
| 2025 | 13,475 |
| 2026 | 12,879 |
| 2027 | 8,270 |
| 2028 | 778 |
| Thereafter | 1,005 |
| Total | $ 43,152 |

## 6. Other Non-Current Assets

Other non-current assets includes capitalized software implementation costs for the implementation of cloud computing systems. As of the dates indicated below, capitalized implementation costs and related accumulated amortization in other non-current assets on the consolidated balance sheets amounted to the following:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Cloud computing implementation costs | $ 7,436 | $ 7,428 |
| Less: accumulated amortization | (7,436) | (6,767) |
| Other non-current assets | $ — | $ 661 |

The majority of such systems were placed into service beginning January of 2020 at which time the Company began to amortize these capitalized costs on a straight-line basis over the period of the remaining service arrangements of between 2 and 4 years. Such amortization expense amounted to approximately $ 0.7 million and $0.7 million for the six months ended June 30, 2024 and 2023, respectively, and is included in selling, general and administrative expense in the accompanying consolidated statements of comprehensive income. For the three months ended June 30, 2024 and 2023, amortization expense related to other non-current assets was $0.2 million and $0.3 million, respectively. All capitalized costs were fully amortized as of June 30, 2024 as scheduled.

## 7. Accrued Liabilities

Accrued liabilities as of the dates indicated below consists of the following:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Employee accrued compensation expense | $ 8,045 | $ 9,583 |
| Other accrued liabilities | 11,804 | 20,656 |
| Accrued interest on debt | 5,909 | 3,413 |
| Total accrued liabilities | $ 25,758 | $ 33,652 |

Other accrued liabilities in the above table relates primarily to accrued utilities, real estate and sales taxes, state and federal income taxes, liability-based stock compensation awards (see Note 15), and other accrued operating expenses.

## 8. Debt

### Senior Secured Notes 2024

On March 15, 2019, Arrow Bidco issued $ 340 million in aggregate principal amount of 9.50% senior secured notes due March 15, 2024 (the “2024 Senior Secured Notes”) under an indenture dated March 15, 2019 (the “2024 Notes Indenture”). The 2024 Notes Indenture was entered into by and among Arrow Bidco, the guarantors named therein (the “2024 Senior Secured Note Guarantors”), and Deutsche Bank Trust Company Americas, as trustee and as collateral agent. Interest was payable semi-annually on September 15 and March 15 and began September 15, 2019. During the year ended December 31, 2022, the Company made an elective repayment of approximately $5.5 million on the 2024 Senior Secured Notes. On March 15, 2023, Arrow Bidco redeemed $125 million in aggregate principal amount of the outstanding 2024 Senior Secured Notes. The redemption was accounted for as a partial extinguishment of debt. In connection with the Notes Exchange Offer (defined in the Company’s 2023 Form 10-K), approximately $181.4 million of 2024 Senior Secured Notes were exchanged by Arrow Bidco on November 1, 2023 for new 10.75% Senior Secured Notes due 2025 (the “2025 Senior Secured Notes”). Following this exchange and related transactions, approximately $28.1 million aggregate principal amount of 2024 Senior Secured Notes remained outstanding, which were subsequently redeemed on November 21, 2023 resulting in an outstanding balance of $0 as of December 31, 2023. As such, none of the 2024 Senior Secured Notes remain outstanding. Refer to the “Notes Exchange Offer” section within Note 8 of the Company’s 2023 Form 10-K for further discussion regarding the exchange and subsequent pay off of the remaining 2024 Senior Secured Notes.

**Senior Secured Notes 2025**

In connection with the Notes Exchange Offer, as previously mentioned, on November 1, 2023 (the “Notes Exchange Offer Settlement Date”), approximately $181.4 million of 2024 Senior Secured Notes were exchanged by Arrow Bidco and Arrow Bidco issued approximately $181.4 million in aggregate principal amount of the 2025 Senior Secured Notes pursuant to an indenture, dated November 1, 2023, by and among Arrow Bidco, the guarantors from time to time party thereto and Deutsche Bank Trust Company Americas, as trustee and collateral agent (the “2025 Senior Secured Notes Indenture”). The 2025 Senior Secured Notes will mature on June 15, 2025. Interest on the 2025 Senior Secured Notes will accrue at 10.75% per annum, payable semi-annually on March 15 and September 15 of each year, and began March 15, 2024.

Refer to the table below for a description of the amounts related to the 2025 Senior Secured Notes, which are recognized within current portion of long-term debt, net in the accompanying consolidated balance sheet as of June 30, 2024.

| | June 30, 2024 |
|---|---|
| Principal amount of 10.75% Senior Secured Notes, due 2025 | $ 181,446 |
| Less: unamortized original issue discount | (1,772) |
| Less: unamortized term loan deferred financing costs | (497) |
| Current portion of long-term debt, net | $ 179,177 |

If Arrow Bidco undergoes a change of control or sells certain of its assets, Arrow Bidco may be required to offer to repurchase the 2025 Senior Secured Notes. Prior to September 15, 2024, the 2025 Senior Secured Notes will be redeemable at Arrow Bidco’s option at a redemption price equal to 100% of the principal amount, plus a customary make whole premium for the 2025 Senior Secured Notes being redeemed, plus accrued and unpaid interest, if any, up to but not including the redemption date. The customary make whole premium, with respect to the 2025 Senior Secured Notes on any applicable redemption date, as calculated by Arrow Bidco, is the greater of (1) 1.00% of the then outstanding principal amount of the Note; and (2) the excess of (a) the present value at such redemption date of (i) the redemption price at September 15, 2024 plus (ii) all required interest payments due on the 2025 Senior Secured Note through September 15, 2024, excluding accrued but unpaid interest to the redemption date, in each case, computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over (b) the then outstanding principal amount of the 2025 Senior Secured Notes. On and after September 15, 2024, Arrow Bidco, at its option, may redeem any outstanding 2025 Senior Secured Notes, in whole or in part, upon not less than fifteen (15) nor more than sixty (60) days’ prior written notice to holders and not less than twenty (20) days’ prior written notice to the Trustee (or such shorter timeline as the Trustee may agree), at the redemption prices (expressed as percentages of the principal amount of the 2025 Senior Secured Notes to be redeemed) set forth below, plus accrued and unpaid interest, if any, to but not including the applicable redemption date (subject to the right of holders on the relevant record date to receive interest due on an interest payment date falling on or prior to the redemption date), if redeemed during the 6-month period beginning on the dates set forth below at the redemption prices listed below:

| Date | Redemption Price |
|---|---|
| September 15, 2024 | 102.000% |
| March 15, 2025 and thereafter | 101.000% |

The 2025 Senior Secured Notes are unconditionally guaranteed by Topaz and each of Arrow Bidco’s direct and indirect wholly-owned domestic subsidiaries (collectively, the “2025 Note Guarantors”). Target Hospitality is not an issuer or a guarantor of the 2025 Senior Secured Notes. The 2025 Note Guarantors are either borrowers or guarantors under the ABL Facility. To the extent lenders under the ABL Facility release the guarantee of any 2025 Note Guarantor, such 2025 Note Guarantor is also released from obligations under the 2025 Senior Secured Notes. These guarantees are secured by a second priority security interest in substantially all of the assets of Arrow Bidco and the 2025 Note Guarantors (subject to customary exclusions). The guarantees of the 2025 Senior Secured Notes by TLM Equipment, LLC, a Delaware limited liability company which holds certain of Target Hospitality’s assets, are subordinated to its obligations under the ABL Facility (as defined below).

The 2025 Senior Secured Notes Indenture contains covenants that limit Arrow Bidco's and its subsidiaries' ability to, among other things, (i) incur or guarantee additional debt and issue certain types of stock, (ii) create or incur certain liens, (iii) make certain payments, including dividends or other distributions, (iv) prepay or redeem junior debt, (v) make certain investments or acquisitions, including participating in joint ventures, (vi) engage in certain transactions with affiliates and (vii) sell assets, consolidate or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions. In addition, upon the occurrence of specified change of control events, Arrow Bidco must offer to repurchase the 2025 Senior Secured Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, but excluding, the applicable repurchase date. The 2025 Senior Secured Notes Indenture also provides for events of default, to which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all of the then outstanding 2025 Senior Secured Notes to be due and payable immediately.

Arrow Bidco's ultimate parent, Target Hospitality, has no significant independent assets or operations except as included in the guarantors of the 2025 Senior Secured Notes, the guarantees under the 2025 Senior Secured Notes are full and unconditional and joint and several, and any subsidiaries of Target Hospitality that are not subsidiary guarantors of the 2025 Senior Secured Notes are minor. There are also no significant restrictions on the ability of Target Hospitality or any guarantor to obtain funds from its subsidiaries by dividend or loan. See discussion of certain negative covenants above. Therefore, pursuant to the SEC Rules, no individual guarantor financial statement disclosures are deemed necessary.

In connection with the issuance of the 2025 Senior Secured Notes, there was an original issue discount of approximately $2.7 million and the unamortized balance of approximately $ 1.8 million as of June 30, 2024 is presented as a reduction of the principal within current portion of long-term debt, net in the accompanying consolidated balance sheet. The discount is amortized over the life of the 2025 Senior Secured Notes using the effective interest method.

**Finance Lease and Other Financing Obligations**

The Company's finance lease and other financing obligations as of June 30, 2024 consisted of approximately $ 2.6 million of finance leases. The finance leases pertain to leases entered into during 2017 through June 30, 2024, for commercial-use vehicles with 36-month terms (and continue on a month-to-month basis thereafter) expiring through 2027.

The Company's finance lease and other financing obligations as of December 31, 2023 consisted of approximately $ 2.4 million of finance leases related to commercial-use vehicles with the same terms as described above.

**ABL Facility**

On March 15, 2019, Topaz, Arrow Bidco, Target, Signor and each of their domestic subsidiaries entered into an ABL credit agreement that provided for a senior secured asset based revolving credit facility in the aggregate principal amount of up to $125 million (the "ABL Facility"), which was increased to $ 175 million with the Third Amendment discussed below. During the six months ended June 30, 2024, no amounts were drawn or repaid on the ABL Facility resulting in an outstanding balance of $0 as of June 30, 2024.

In accordance with the First Amendment to the ABL Facility on February 1, 2023 (the "First Amendment"), the reference interest rate for LIBOR borrowings changed from LIBOR to Term SOFR (commencing as of the effective date of the First Amendment).

Borrowings under the ABL Facility, at the relevant borrower's (the borrowers under the ABL Facility, the "Borrowers") option, bear interest at either (1) Term SOFR or (2) a base rate, in each case plus an applicable margin. The applicable margin is 4.25% to 4.75% with respect to Term SOFR borrowings and 3.25% to 3.75% with respect to base rate borrowings based on achieving certain excess availability levels. The rates of the applicable margin were determined in connection with the Third Amendment to the ABL Facility on October 12, 2023 (the "Third Amendment").

Pursuant to the Third Amendment, the ABL Facility provides borrowing availability of an amount equal to the lesser of (a) $175 million and (b) the Borrowing Base (defined below) (the “Line Cap”).

The Borrowing Base is, at any time of determination, an amount (net of reserves) equal to the sum of:

- 85% of the net book value of the Borrowers’ eligible accounts receivables, plus
- the lesser of (i) 95% of the net book value of the Borrowers’ eligible rental equipment and (ii) 85% of the net orderly liquidation value of the Borrowers’ eligible rental equipment, minus
- customary reserves

The ABL Facility includes borrowing capacity available for standby letters of credit of up to $ 25 million and for ‘‘swingline’’ loan borrowings of up to $15 million. Any issuance of letters of credit or making of a swingline loan will reduce the amount available under the ABL Facility.

In addition, the ABL Facility will provide the Borrowers with the option to increase commitments under the ABL Facility in an aggregate amount not to exceed $25 million plus any voluntary prepayments that are accompanied by permanent commitment reductions under the ABL Facility. As a result of the First Amendment, the termination date of the ABL Facility was extended from September 15, 2023 to February 1, 2028, which extended termination date was subject to a springing maturity that would have accelerated the maturity of the ABL Facility. On August 10, 2023, Arrow Bidco and certain of the Company’s other subsidiaries entered into a second amendment (the “Second Amendment”) to the ABL Facility. The Second Amendment amended the ABL Facility to, among other things, modify the springing maturity that would have accelerated the maturity of the ABL Facility if any of the 2024 Senior Secured Notes remained outstanding from the date that was six months prior to the stated maturity date thereof to the date that was ninety-one days prior to the stated maturity date thereof. Finally, the Third Amendment amended the ABL Facility to, among other things, set the termination date of the ABL Facility to February 1, 2028, subject to springing maturity triggers that will accelerate the maturity of the ABL Facility if: (i) any of the 2024 Senior Secured Notes remain outstanding on the date that is ninety-one days prior to the stated maturity date thereof or (ii) any of the 2025 Senior Secured Notes remain outstanding on the date that is ninety-one days prior to the stated maturity date thereof. As previously mentioned, none of the 2024 Senior Secured Notes remain outstanding.

The obligations under the ABL Facility are unconditionally guaranteed by Topaz and each existing and subsequently acquired or organized direct or indirect wholly-owned U.S. organized restricted subsidiary of Arrow Bidco (together with Topaz, the “ABL Guarantors”), other than certain excluded subsidiaries. The ABL Facility is secured by (i) a first priority pledge of the equity interests of Topaz, Arrow Bidco, Target, and Signor (the “Borrowers) and of each direct, wholly-owned US organized restricted subsidiary of any Borrower or any ABL Guarantor, (ii) a first priority pledge of up to 65% of the voting equity interests in each non-US restricted subsidiary of any Borrower or ABL Guarantor and (iii) a first priority security interest in substantially all of the assets of the Borrower and the ABL Guarantors (in each case, subject to customary exceptions).

As stated in the Third Amendment, the ABL Facility requires the Borrowers to maintain a (i) minimum fixed charge coverage ratio of not less than 1.00:1.00 and (ii) maximum total leverage ratio of 2.50:1.00.

The ABL Facility also contains a number of customary negative covenants. Such covenants, among other things, limit or restrict the ability of each of the Borrowers, their restricted subsidiaries, and where applicable, Topaz, to:

- incur additional indebtedness, issue disqualified stock and make guarantees;
- incur liens on assets;
- engage in mergers or consolidations or fundamental changes;
- sell assets;
- pay dividends and distributions or repurchase capital stock;
- make investments, loans and advances, including acquisitions;
- amend organizational documents and master lease documents;
- enter into certain agreements that would restrict the ability to pay dividends;

- repay certain junior indebtedness; and
- change the conduct of its business.

The aforementioned restrictions are subject to certain exceptions including (i) the ability to incur additional indebtedness, liens, investments, dividends and distributions, and prepayments of junior indebtedness subject, in each case, to compliance with certain financial metrics and certain other conditions and (ii) a number of other traditional exceptions that grant the Borrowers continued flexibility to operate and develop their businesses. The ABL Facility also contains certain customary representations and warranties, affirmative covenants and events of default.

The carrying value of debt outstanding as of the dates indicated below consist of the following:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Finance lease and other financing obligations | $ 2,624 | $ 2,393 |
| 10.75% Senior Secured Notes due 2025, face amount | 181,446 | 181,446 |
| Less: unamortized original issue discount | (1,772) | (2,619) |
| Less: unamortized term loan deferred financing costs | (497) | (734) |
| Total debt, net | 181,801 | 180,486 |
| Less: current maturities | (180,695) | (1,369) |
| Total long-term debt | $ 1,106 | $ 179,117 |

**Interest expense, net**

The components of interest expense, net (which includes interest expense incurred) recognized in the unaudited consolidated statements of comprehensive income for the periods indicated below consist of the following, including the components of interest expense, net on the 2024 and 2025 Senior Secured Notes (collectively, the “Notes”):

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 |
| Interest incurred on finance lease and other financing obligations | $ 75 | $ 50 | $ 141 | $ 92 |
| Interest expense incurred on ABL Facility and Notes | 5,042 | 5,094 | 10,085 | 12,564 |
| Amortization of deferred financing costs on ABL Facility and Notes | 272 | 663 | 540 | 1,753 |
| Amortization of original issue discount on Notes | 430 | 121 | 846 | 313 |
| Interest income | (1,546) | (652) | (2,751) | (1,949) |
| Interest expense, net | $ 4,273 | $ 5,276 | $ 8,861 | $ 12,773 |

**Deferred Financing Costs and Original Issue Discount**

The Company presents unamortized deferred financing costs and unamortized original issue discount as a direct deduction from the principal amount of the 2025 Senior Secured Notes on the consolidated balance sheets as of June 30, 2024 and December 31, 2023, respectively. Accumulated amortization expense related to the deferred financing costs was approximately $13.8 million and $13.5 million as June 30, 2024 and December 31, 2023, respectively. Accumulated amortization of the original issue discount was approximately $3.9 million and $3.1 million as June 30, 2024 and December 31, 2023, respectively. As previously mentioned, the partial redemption of the 2024 Senior Secured Notes on March 15, 2023 was accounted for as a partial extinguishment of debt and consequently, a portion of the unamortized deferred financing costs and unamortized original issue discount were expensed through loss on extinguishment of debt on the consolidated statement of comprehensive income as of the prepayment date. The Company recognized a charge of approximately $1.7 million in loss on extinguishment of debt related to the write-off of unamortized deferred financing costs and unamortized original issue discount for the three months ended June 30, 2023.

Accumulated amortization related to revolver deferred financing costs for the ABL Facility was approximately $ 5.6 million and $5.3 million as June 30, 2024 and December 31, 2023, respectively. Revolver deferred financing costs are presented on the consolidated balance sheets as of June 30, 2024 and December 31, 2023 within deferred financing costs revolver, net. In connection with the First Amendment, which was considered a modification for accounting purposes, any unamortized deferred financing costs from the ABL Facility that pertained to non-continuing lenders were expensed through loss on extinguishment of debt on the consolidated statement of comprehensive income as of the amendment date. As such, the Company recognized a charge of approximately $0.4 million in loss on extinguishment of debt related to the write-off of unamortized deferred financing costs pertaining to non-continuing lenders for the six months ended June 30, 2023. As the borrowing capacity of each of the continuing lenders on the amended ABL Facility was greater than the borrowing capacity of the ABL Facility before the amendment, the unamortized deferred financing costs at the time of the modification of approximately $0.4 million associated with the continuing lenders was deferred and amortized over the remaining term of the ABL Facility. Additionally, the Company incurred and paid approximately $ 1.4 million and $1.0 million of deferred financing costs as a result of the First Amendment and Third Amendment of the ABL Facility, which are capitalized and presented on the consolidated balance sheets as of June 30, 2024 and December 31, 2023, respectively, within deferred financing costs revolver, net. These costs are amortized over the contractual term of the line-of-credit through the maturity date using the straight-line method.

Refer to the components of interest expense in the table above for the amounts of the amortization expense related to the deferred financing costs and original issue discount recognized for each of these debt instruments for the three and six months ended June 30, 2024 and 2023, respectively.

**Future maturities**

The aggregate annual principal maturities of debt and finance lease obligations for each of the next five years, based on contractual terms are listed in the table below.

The schedule of future maturities as of June 30, 2024, consists of the following:

| | | |
|---|---|---|
| Rest of 2024 | $ | 1,093 |
| 2025 | | 182,394 |
| 2026 | | 495 |
| 2027 | | 88 |
| Total | $ | 184,070 |

**9. Warrant Liabilities**

On January 17, 2018, Harry E. Sloan, Joshua Kazam, Fredric D. Rosen, the Sara L. Rosen Trust and the Samuel N. Rosen 2015 Trust, purchased from PEAC an aggregate of 5,333,334 warrants at a price of $1.50 per warrant (for an aggregate purchase price of $8.0 million) in a private placement (the “Private Warrants”) that occurred simultaneously with the completion of its initial public offering. Each Private Warrant entitles the holder to purchase one share of Common Stock at $11.50 per share. The purchase price of the Private Warrants was added to the proceeds from the Public Offering and was held in the Trust Account until the formation of the Company on March 15, 2019. The Private Warrants (including the shares of Common Stock issuable upon exercise of the Private Warrants) were not transferable, assignable or salable until 30 days after the formation of the Company on March 15, 2019, and they may be exercised on a cashless basis and are non-redeemable so long as they are held by the initial purchasers of the Private Warrants or their permitted transferees.

The Company evaluated the Private Warrants under ASC 815-40, *Derivatives and Hedging—Contracts in Entity’s Own Equity*, and concluded that they do not meet the criteria to be classified in stockholders’ equity and should be classified as liabilities. Since the Private Warrants meet the definition of a derivative under ASC 815, the Company recorded the Private Warrants as liabilities on the balance sheet at their estimated fair value.

Subsequent changes in the estimated fair value of the Private Warrants are reflected in the change in fair value of warrant liabilities in the accompanying consolidated statements of comprehensive income. The change in the estimated fair value of the Private Warrants resulted in a gain of approximately $(0.7) million and $(4.4) million for the six months ended June 30, 2024 and 2023, respectively. For the three months ended June 30, 2024 and 2023, the change in the estimated fair value of the Private Warrants resulted in a gain of $0 and approximately $(0.7) million, respectively. As of June 30, 2024 and 2023, 0 and 1,533,334, Private Warrants were outstanding, respectively. The Private Warrants expired unredeemed on March 15, 2024 and are no longer outstanding.

The Company determined the following estimated fair values for the outstanding Private Warrants as of the dates indicated below:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Warrant liabilities | $ — | $ 675 |
| Total | $ — | $ 675 |

**10. Income Taxes**

Income tax expense was approximately $13.0 million and $25.9 million for the six months ended June 30, 2024 and 2023 respectively. For the three months ended June 30, 2024 income tax expense was approximately $6.9 million and $13.7 million, respectively. The effective tax rate for the three months ended June 30, 2024 and 2023, was 27.3% and 22.8%, respectively. The effective tax rate for the six months ended June 30, 2024 and 2023, was 25.2% and 22.3%, respectively. The fluctuation in the rate for the three and six months ended June 30, 2024 and 2023, respectively, results primarily from the relationship of income before income tax for the three and six months ended June 30, 2024 and 2023, respectively.

The effective tax rates for the three and six months ended June 30, 2024 and 2023, respectively, differs from the US federal statutory rate of 21% primarily due to the permanent add-back related to the change in fair value of warrant liabilities on the Company's warrants, the impact of state tax expense based off of gross receipts, and a compensation deduction limitation.

The Company accounts for income taxes in interim periods under ASC 740-270, *Income Taxes – Interim Reporting*, which generally requires us to apply an estimated annual consolidated effective tax rate to consolidated pre-tax income. In addition, the guidance under ASC 740 further provides that, in establishing the estimated annual effective tax rate, the Company excludes losses from jurisdictions in which no tax benefit is expected to be recognized for such losses.

**11. Fair Value of Financial Instruments**

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Company has assessed that the fair value of cash and cash equivalents, trade receivables, trade payables, other current liabilities, and other debt approximates their carrying amounts largely due to the short-term maturities or recent commencement of these instruments. The fair value of the ABL Facility is primarily based upon observable market data, such as market interest rates, for similar debt. The fair value of the Notes is based upon observable market data.

The Company measured the Private Warrant liabilities at fair value on a recurring basis at each reporting period end as more fully discussed below. Changes in the fair value of the Private Warrants at each reporting period end date were recognized within the accompanying consolidated statements of comprehensive income in the change in fair value of warrant liabilities.

*Level 1 & 2 Disclosures:*

The carrying amounts and fair values of financial assets and liabilities, which are either Level 1 or Level 2, are as follows:

| | June 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| **Financial Assets (Liabilities) Not Measured at Fair Value** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| ABL Facility (See Note 8) - Level 2 | $ — | $ — | $ — | $ — |
| Senior Secured Notes (See Note 8) - Level 1 | $ (179,177) | $ (184,621) | $ (178,093) | $ (187,797) |

**Recurring fair value measurements**

*Level 3 Disclosures:*

There were 0 and 1,533,334 Private Warrants outstanding as of June 30, 2024 and December 31, 2023, respectively. Based on the fair value assessment that was performed, the Company determined a fair value price per Private Warrant of $0.00 and $0.44 as of June 30, 2024 and December 31, 2023, respectively. The fair value is classified as Level 3 in the fair value hierarchy due to the use of pricing inputs that are less observable in the marketplace combined with management judgment required for the assumptions underlying the calculation of value. The Company determined the estimated fair value of the Private Warrants using the Black-Scholes option-pricing model. The table below summarizes the inputs used to calculate the fair value of the warrant liabilities at each of the dates indicated below:

| | | June 30, 2024 | | December 31, 2023 |
|---|---|---|---|---|
| Exercise Price | $ | 0.00 | $ | 11.50 |
| Stock Price | $ | 0.00 | $ | 9.73 |
| Dividend Yield | % | 0.00 | % | 0.00 |
| Expected Term (in Years) | | 0.00 | | 0.20 |
| Risk-Free Interest Rate | % | 0.00 | % | 5.31 |
| Expected Volatility | % | 0.00 | % | 56.00 |
| Per Share Value of Warrants | $ | 0.00 | $ | 0.44 |

The following table presents changes in Level 3 liabilities measured at fair value for June 30, 2024:

| | | Private Placement Warrants |
|---|---|---|
| Balance at December 31, 2023 | $ | 675 |
| Change in fair value of warrant liabilities | | (675) |
| Balance at March 31, 2024 | | — |
| Change in fair value of warrant liabilities | | — |
| Balance at June 30, 2024 | $ | — |

There were no transfers of financial instruments between the three levels of the fair value hierarchy during the six months ended June 30, 2024 and 2023 and the year ended December 31, 2023. The Private Warrants expired unredeemed on March 15, 2024 and are no longer outstanding.

**12. Commitments and Contingencies**

The Company is involved in various lawsuits or claims in the ordinary course of business. Management is of the opinion that there is no pending claim or lawsuit which, if adversely determined, would have a material impact on the financial condition of the Company.

**13. Earnings (Loss) per Share**

Basic earnings (loss) per share ("EPS" or "LPS") is calculated by dividing net income or loss attributable to Target Hospitality by the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS is computed similarly to basic net income per share, except that it includes the potential dilution that could occur if dilutive securities were exercised. We apply the treasury stock method in the calculation of diluted earnings per share. During periods when net losses are incurred, potential dilutive securities would be anti-dilutive and are excluded from the calculation of diluted loss per share for that period. Net income was recorded for the three and six months ended June 30, 2024 and 2023. The following table reconciles net income attributable to common stockholders and the weighted average shares outstanding for the basic calculation to the net income attributable to common stockholders and the weighted average shares outstanding for the diluted calculation for the periods indicated below ($ in thousands, except per share amounts):

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 |
| **Numerator** | | | | |
| Net income attributable to Common Stockholders - basic | $ 18,386 | $ 46,453 | $ 38,769 | $ 90,278 |
| Change in fair value of warrant liabilities | — | (675) | — | (4,385) |
| Net income attributable to Common Stockholders - diluted | $ 18,386 | $ 45,778 | $ 38,769 | $ 85,893 |
| **Denominator** | | | | |
| Weighted average shares outstanding - basic | 100,261,964 | 101,465,088 | 100,459,835 | 101,056,450 |
| Dilutive effect of outstanding securities: | | | | |
| Warrants | — | 1,357,752 | — | 1,844,596 |
| PSUs | 489,018 | 473,115 | 464,219 | 480,882 |
| SARs | 38,184 | 191,496 | 186,138 | 233,334 |
| Stock Options | 191,887 | 418,934 | 222,076 | 606,983 |
| RSUs | 272,127 | 1,139,223 | 581,546 | 1,477,439 |
| Weighted average shares outstanding - diluted | 101,253,180 | 105,045,608 | 101,913,814 | 105,699,684 |
| Net income per share - basic | $ 0.18 | $ 0.46 | $ 0.39 | $ 0.89 |
| Net income per share - diluted | $ 0.18 | $ 0.44 | $ 0.38 | $ 0.81 |

When liability-classified warrants are in the money and the impact of their inclusion on diluted EPS is dilutive, diluted EPS also assumes share settlement of such instruments through an adjustment to net income available to common stockholders for the fair value (gain) loss on common stock warrant liabilities and inclusion of the number of dilutive shares in the denominator. The Public and Private Warrants representing a total of 8,044,287 shares of the Company's Common Stock for the three and six months ended June 30, 2023 were included in the computation of diluted EPS because their effect is dilutive as noted in the above table. No Public or Private Warrants were outstanding as of June 30, 2024 given they expired on March 15, 2024; therefore, the Public and Private Warrants had no impact on the computation of diluted EPS for the three and six months ended June 30, 2024.

As discussed in Note 15, stock-based compensation awards were outstanding for the three and six months ended June 30, 2024 and 2023. These stock-based compensation awards were included in the computation of diluted EPS for the three and six months ended June 30, 2023 because their effect is dilutive as noted in the above table. For the three and six months ended June 30, 2024, stock-based compensation awards were included in the computation of diluted EPS because their effect is dilutive as noted in the above table. However, approximately 864,775 of contingently issuable PSUs were excluded from the computation of diluted EPS for three and six months ended June 30, 2024 as not all necessary conditions for issuance of these PSUs were satisfied, which includes 239,775 of PSUs that did not meet all of the Company's Diversification EBITDA and TSR criteria (see Note 15) and 625,000 of PSUs issued in 2022 that did not meet all of the specified share price thresholds as discussed in the Company's 2023 Form 10-K.

Shares of treasury stock have been excluded from the computation of EPS.

**14. Stockholders' Equity**

**Common Stock**

As of June 30, 2024 and December 31, 2023, Target Hospitality had 112,135,786 and 111,091,266 shares of Common Stock, par value $0.0001 per share issued with 100,430,681 and 101,660,601 outstanding, respectively. Each share of Common Stock has one vote.

**Preferred Shares**

Target Hospitality is authorized to issue 1,000,000 preferred shares at $0.0001 par value. As of June 30, 2024, no preferred shares were issued and outstanding.

**Public Warrants**

On January 17, 2018, PEAC sold 32,500,000 units at a price of $10.00 per unit (the "Units") in its initial public offering (the "Public Offering"), including the issuance of 2,500,000 Units as a result of the underwriters' partial exercise of their overallotment option. Each Unit consisted of one Class A ordinary share of PEAC, par value $ 0.0001 per share (the "Public Shares"), and one-third of one warrant to purchase one ordinary share (the "Public Warrants").

Each Public Warrant entitled the holder to purchase one share of the Company's Common Stock at a price of $ 11.50 per share. No fractional shares will be issued upon exercise of the Public Warrants. If upon exercise of the Public Warrants, a holder would be entitled to receive a fractional interest in a share, the Company will upon exercise, round down to the nearest whole number, the number of shares to be issued to the Public Warrant holder. Each Public Warrant became exercisable 30 days after the formation of the Company.

During the three months ended March 31, 2024, holders of Public Warrants exercised 1,079 Public Warrants for shares of Common Stock resulting in the Company receiving cash proceeds of less than $0.1 million and issuing 1,079 shares of Common Stock. As of June 30, 2024, the Company had 0 Public Warrants issued and outstanding given they expired on March 15, 2024.

**Common Stock in Treasury**

In August 2022, the Inflation Reduction Act of 2022 was enacted into law and imposed a nondeductible 1% excise tax on the net value of certain stock repurchases made after December 31, 2022. The Company reflected the applicable excise tax in equity as part of the cost basis of the stock repurchased during the six months ended June 30, 2024 and recorded a corresponding liability for the excise taxes payable in accrued expenses on the consolidated balance sheet as of June 30, 2024 in an amount of approximately $0.1 million.

On November 3, 2022, the Company's Board of Directors approved a stock repurchase program that authorizes the Company to repurchase up to $100 million of its outstanding shares of Common Stock. The stock repurchase program does not obligate the Company to purchase any particular number of shares, and the timing and exact amount of any repurchases will depend on various factors, including market pricing and conditions, applicable legal requirements, contractual obligations, and other factors. Any shares of common stock repurchased will be held as treasury shares.

The Company may repurchase its shares in open market transactions from time to time or through privately negotiated transactions in accordance with federal securities laws, at the Company's discretion. The repurchase program, which has no expiration date, may be increased, suspended, or terminated at any time. The program is expected to be implemented over the course of several years and is conducted subject to the covenants in the agreements governing the Company's indebtedness. During the six months ended June 30, 2024, the Company repurchased 2,274,440 shares of Common Stock for an aggregated price of approximately $21.1 million (excluding the excise tax discussed above). During the three months ended June 30, 2024, the Company did not repurchase any shares of Common Stock. As of June 30, 2024, the stock repurchase program had a remaining capacity of approximately $78.9 million.

**15. Stock-Based Compensation**

On February 29, 2024, the Compensation Committee (the “Compensation Committee”) of the Board of Directors of the Company adopted a new form 2024 Executive Restricted Stock Unit Agreement (the “RSU Agreement”) and a new form 2024 Executive Performance Stock Unit Agreement (the “PSU Agreement” together with the RSU Agreement, the “Award Agreements”) with respect to the granting of restricted stock units (“RSUs”) and performance stock units (“PSUs”), respectively, under the Target Hospitality Corp. 2019 Incentive Plan (as amended, the “Plan”). The new Award Agreements will be used for all awards to executive officers made on or after February 29, 2024.

The RSU Agreement has material terms that are substantially similar to those in the form 2023 Executive Restricted Stock Unit Agreement last approved by the Compensation Committee and previously disclosed by the Company in the 2023 Form 10-K.

Each PSU awarded under the PSU Agreement represents the right to receive one share of the Company’s common stock, par value $0.0001 per share. PSUs vest and become unrestricted on the third anniversary of the grant date. The number of PSUs that vest pursuant to the PSU Agreement is based on the Company’s Total Shareholder Return (the “TSR Based Award”) performance and the Company’s Diversification EBITDA (as defined in the PSU Agreement) (the “Diversification EBITDA Based Award”), each measured based on the applicable Performance Period specified in the PSU Agreement. The number of PSUs that vest pursuant to the TSR Based Award range from 0% to 200% of the Target Level (as defined in the PSU Agreement) depending upon the achievement of a specified percentile rank during the applicable Performance Period. The number of PSUs that vest pursuant to the Diversification EBITDA Based Award range from 0% to 200% of the Target Level (as defined in the PSU Agreement) depending upon the Company’s Diversification EBITDA (as defined in the PSU Agreement) during the applicable Performance Period. Vesting of PSUs is contingent upon the executive’s continued employment through the vesting date, unless the executive’s employment is terminated by reason of death, without Cause, for Good Reason, or in the event of a Change in Control (each term as defined in the Plan).

**Restricted Stock Units**

On February 29, 2024, the Compensation Committee awarded an aggregate of 350,128 time-based RSUs to certain of the Company’s executive officers and other employees, which vest ratably over a four-year period.

On May 23, 2024, the Compensation Committee awarded an aggregate of 62,823 time-based RSUs to certain of the Company’s non-employee directors, which vest in full on the first anniversary of the grant date or, if earlier, the date of the first annual meeting of the stockholders of the Company following the grant date.

The table below represents the changes in RSUs:

| | Number of Shares | Weighted Average Grant Date Fair Value per Share |
|---|---|---|
| Balance at December 31, 2023 | 1,682,206 | $ 4.65 |
| Granted | 412,951 | 9.92 |
| Vested | (984,357) | 3.85 |
| Forfeited | (120,840) | 5.44 |
| Balance at June 30, 2024 | 989,960 | $ 7.55 |

Stock-based compensation expense for these RSUs recognized in selling, general and administrative expense in the consolidated statements of comprehensive income for the six months ended June 30, 2024 and 2023, was approximately $2.0 million and $2.7 million, respectively, with an associated tax benefit of approximately $ 0.5 million and $0.7 million, respectively. For the three months ended June 30, 2024 and 2023, stock-based compensation expense for RSUs was approximately $0.9 million and $1.4 million, respectively, with an associated tax benefit of $0.2 million and $0.4 million, respectively. At June 30, 2024, unrecognized compensation expense related to RSUs totaled approximately $7.7 million and is expected to be recognized over a remaining term of approximately 2.64 years.

**Performance Stock Units**

On February 29, 2024, the Company awarded an aggregate of 203,057 PSUs to certain of the Company's executive officers and employees, which vest upon satisfaction of continued service with the Company until the third anniversary of the Grant Date and attainment of the Company's Diversification EBITDA and TSR criteria. These PSUs were valued using a Monte Carlo simulation with the following assumptions on the grant date: the expected volatility was approximately 36.30%, the term was 2.84 years, the correlation coefficient was 0.5832, the dividend rate was 0.0% and the risk-free interest rate was approximately 4.41%, which resulted in a calculated fair value of approximately $13.50 per PSU as of the grant date.

The table below represents the changes in PSUs:

| | Number of Shares | Weighted Average Grant Date Fair Value per Share |
|---|---|---|
| Balance at December 31, 2023 | 1,358,868 | $ 5.23 |
| Granted | 203,057 | 11.59 |
| Forfeited | (160,518) | 6.36 |
| Balance at June 30, 2024 | 1,401,407 | $ 6.02 |

Stock-based compensation expense for these PSUs recognized in selling, general and administrative expense in the consolidated statement of comprehensive income for the six months ended June 30, 2024 and 2023, was approximately $1.1 million and $1.4 million, respectively, with an associated tax benefit of approximately $0.3 million and $0.4 million, respectively. For the three months ended June 30, 2024 and 2023, stock-based compensation expense was approximately $0.7 million and $0.7 million, respectively, with an associated tax benefit of $0.2 million and $0.2 million, respectively. At June 30, 2024, unrecognized compensation expense related to PSUs totaled approximately $4.3 million and is expected to be recognized over a remaining term of approximately 1.89 years.

**Stock Option Awards**

During the six months ended June 30, 2024, there were changes in stock options as shown in the following table.

| | Options | Weighted Average Exercise Price Per Share | Weighted Average Contractual Life (Years) | Intrinsic Value ($ in thousands) |
|---|---|---|---|---|
| Outstanding Options at December 31, 2023 | 740,439 | $ 6.55 | 5.17 | $ 2,570 |
| Exercised | (340,453) | 5.33 | - | 1,576 |
| Vested and expired | (29,941) | 10.83 | - | - |
| Outstanding Options at June 30, 2024 | 370,045 | $ 7.32 | 5.33 | $ 863 |

370,045 stock options were exercisable at June 30, 2024.

Stock-based compensation expense for these stock option awards recognized in selling, general and administrative expense in the consolidated statements of comprehensive income for the six months ended June 30, 2024 and 2023, was approximately $0.1 million and $0.3 million, respectively, with an associated tax benefit of approximately less than $0.1 million and $0.1 million, respectively. For the three months ended June 30, 2024 and 2023, stock-based compensation expense was $0 and approximately $0.2 million, respectively, with an associated tax benefit of $0 and less than $0.1 million, respectively. As of June 30, 2024, there was no unrecognized compensation expense related to stock options.

The fair value of each option award at the grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

| | | Assumptions |
|---|---|---|
| Weighted average expected stock volatility (range) | % | 25.94 - 30.90 |
| Expected dividend yield | % | 0.00 |
| Expected term (years) | | 6.25 |
| Risk-free interest rate (range) | % | 0.82 - 2.26 |
| Exercise price (range) | $ | 4.51 - 10.83 |

The volatility assumption used in the Black-Scholes option-pricing model is based on peer group volatility as the Company did not have a sufficient trading history as a stand-alone public company to calculate volatility at the time of estimating the fair value of each option at the grant date. Additionally, due to an insufficient history with respect to stock option activity and post vesting cancellations, the expected term assumption is based on the simplified method permitted under SEC rules, whereby, the simple average of the vesting period for each tranche of award and its contractual term is aggregated to arrive at a weighted average expected term for the award. The risk-free interest rate used in the Black-Scholes model is based on the implied US Treasury bill yield curve at the date of grant with a remaining term equal to the Company's expected term assumption. The Company has never declared or paid a dividend on its shares of Common Stock.

Stock-based payments are subject to service based vesting requirements and expense is recognized on a straight-line basis over the vesting period. Forfeitures are accounted for as they occur. No stock options were forfeited during the six months ended June 30, 2024 and 2023.

**Stock Appreciation Right Awards**

As approved by the Compensation Committee, 755,436 of the employee related exercised SARs shown in the table below were paid in cash in the amount of $10.0 million based on the difference between (a) the fair market value of a share of Common Stock on the date of exercise, over (b) the grant date price; during the first quarter of 2023.

During the six months ended June 30, 2024, as approved by the Compensation Committee, 701,086 of the employee related exercised SARs shown in the table below were paid in cash in the amount of $6.2 million based on the difference between (a) the fair market value of a share of Common Stock on the date of exercise, over (b) the grant date price.

The table below represents the changes in SARs:

| | Number of Units | | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|---|---|---|---|---|
| Outstanding SARs at December 31, 2023 | 714,539 | $ | 1.82 | 7.17 |
| Exercised | (701,086) | | 1.79 | - |
| Outstanding SARs at June 30, 2024 | 13,453 | $ | 3.54 | 7.10 |

There were no SARs exercisable at June 30, 2024.

Under the authoritative guidance for stock-based compensation, these SARs are considered liability-based awards. The Company recognized a liability associated with its SARs of approximately $0.1 million as of June 30, 2024, all of which is included in accrued liabilities in the accompanying consolidated balance sheet as of June 30, 2024. The liability associated with these SAR awards recognized as of December 31, 2023 was approximately $5.4 million, all of which is included in accrued liabilities in the accompanying consolidated balance sheet as of December 31, 2023. These SARs were valued using the Black-Scholes option pricing model with the following assumptions on the grant date: the expected volatility was approximately 43.5%, the term was 6.25 years, the dividend rate was 0.0% and the risk-free interest rate was approximately 1.07%, which resulted in a calculated fair value of approximately $ 0.78 per SAR as of the grant date. The fair value of these liability awards will be remeasured at each reporting period until the date of settlement. At

June 30, 2024, these SARs were valued using the Black-Scholes option pricing model with the following assumptions for awards granted on August 5, 2021: the expected volatility was 75.57%, the term was 3.58 years, the dividend rate was 0.0%, the risk-free interest rate was 4.42%, and the exercise price was $3.54, which resulted in a calculated fair value of $6.53 per SAR as June 30, 2024. At December 31, 2023, these SARs were valued using the Black-Scholes option pricing model with the following assumptions for awards granted on February 25, 2021 and August 5, 2021, respectively: the expected volatility was approximately 35.78% and 53.39%, the term was 0.08 years and 0.30 years, the dividend yield was 0.0% and 0.0%, the risk-free rate was approximately 5.52% and 5.33%, and the exercise price was $1.79 and $3.54, which resulted in a calculated fair value of approximately $7.95 and $6.25 per SAR, respectively, as of December 31, 2023.

The estimated weighted-average fair value of each SAR as of June 30, 2024 and December 31, 2023 was $ 6.53 and $7.96, respectively. Increases and decreases in stock-based compensation expense are recognized over the vesting period, or immediately for vested awards. For the six months ended June 30, 2024 and 2023, the Company recognized compensation expense related to these awards of approximately $0.9 million and $4.7 million, respectively, in selling, general and administrative expense in the consolidated statements of comprehensive income. For the three months ended June 30, 2024 and 2023, the Company recognized compensation expense related to these awards of approximately $(0.3) million and $1.1 million, respectively. At June 30, 2024, unrecognized compensation expense related to SARs totaled less than $0.1 million and is expected to be recognized over a remaining weighted-average term of approximately 0.10 years. At June 30, 2024, the intrinsic value of the SARs was approximately $ 0.1 million.

The volatility assumption used in the Black-Scholes option-pricing model for purposes of estimating the fair value as of December 31, 2023 and the grant date, is based on peer group volatility as the Company did not have a sufficient trading history as a stand-alone public company to calculate volatility as of December 31, 2023 and as of the grant date. Additionally, due to an insufficient history with respect to stock appreciation right activity and post vesting cancellations, the expected term assumption on the grant date and as of June 30, 2024 is based on the simplified method permitted under SEC rules, whereby, the simple average of the vesting period for each tranche of award and its contractual term is aggregated to arrive at a weighted average expected term for the award. The risk-free interest rate used in the Black-Scholes model is based on the implied US Treasury bill yield curve at the date of grant with a remaining term equal to the Company's expected term assumption. The Company has never declared or paid a dividend on its shares of common stock.

Stock-based payments are subject to service based vesting requirements and expense is recognized on a straight-line basis over the vesting period. Forfeitures are accounted for as they occur. No SARs were forfeited during the six months ended June 30, 2024.

**16. Retirement plans**

We offer a defined contribution 401(k) retirement plan to substantially all of our U.S. employees. Participants may contribute from 1% to 90% of eligible compensation, inclusive of pretax and/or Roth deferrals (subject to Internal Revenue Service limitations), and we make matching contributions under this plan on the first 5% of the participant's compensation (100% match of the first 3% employee contribution and 50% match on the next 2% contribution). Our matching contributions fully vest upon participation. For the six months ended June 30, 2024 and 2023, we recognized expense of $0.6 million and $0.6 million, respectively. For the three months ended June 30, 2024 and 2023, we recognized expense of $0.2 million and $0.2 million, respectively.

**17. Business Segments**

The Company is organized primarily on the basis of geographic region and customer industry group and operates in two reportable segments.

Our remaining operating segments have been consolidated and included in an "All Other" category.

The following is a brief description of our reportable segments and a description of business activities conducted by All Other.

**HFS – South** **—** Segment operations consist primarily of specialty rental and vertically integrated hospitality services revenue from customers in the natural resources and development industry located primarily in Texas and New Mexico.

**Government** — Segment operations consist primarily of specialty rental and vertically integrated hospitality services revenue from customers with Government contracts located in Texas.

**All Other —** Segment operations consist primarily of revenue from specialty rental and vertically integrated hospitality services revenue from customers primarily in the natural resources and development industry located outside of the HFS – South segment.

The table below presents information about reported segments for the dates indicated below:

**2024**

| | HFS - South | Government | All Other | Total |
|---|---|---|---|---|
| **For the Six Months Ended June 30, 2024** | | | | |
| Revenue | $ 75,165 | $ 127,466 | $ 4,762 (a) | $ 207,393 |
| Adjusted gross profit | $ 25,906 | $ 101,277 | $ (1,659) | $ 125,524 |
| Total Assets | $ 180,723 | $ 200,470 | $ 29,259 | $ 410,452 |
| | | | | |
| **For the Three Months Ended June 30, 2024** | | | | |
| Revenue | $ 38,232 | $ 59,860 | $ 2,629 (a) | $ 100,721 |
| Adjusted gross profit | $ 13,065 | $ 48,844 | $ (234) | $ 61,675 |

**2023**

| | HFS - South | Government | All Other | Total |
|---|---|---|---|---|
| **For the Six Months Ended June 30, 2023** | | | | |
| Revenue | $ 74,925 | $ 210,682 | $ 5,842 (a) | $ 291,449 |
| Adjusted gross profit | $ 24,950 | $ 176,309 | $ (1,341) | $ 199,918 |
| Total Assets (as of December 31, 2023) | $ 184,453 | $ 207,409 | $ 30,987 | $ 422,849 |
| | | | | |
| **For the Three Months Ended June 30, 2023** | | | | |
| Revenue | $ 39,154 | $ 101,179 | $ 3,297 (a) | $ 143,630 |
| Adjusted Gross Profit | $ 13,294 | $ 87,535 | $ (471) | $ 100,358 |

(a) Revenues from segments below the quantitative thresholds are reported in the “All Other” category previously described.

A reconciliation of total segment adjusted gross profit to total consolidated income before income taxes for the dates indicated below, is as follows:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 |
| Total reportable segment adjusted gross profit | $ 61,909 | $ 100,829 | $ 127,183 | $ 201,259 |
| Other adjusted gross profit | (234) | (471) | (1,659) | (1,341) |
| Depreciation and amortization | (18,713) | (21,833) | (37,378) | (43,233) |
| Selling, general, and administrative expenses | (13,457) | (13,457) | (28,312) | (28,656) |
| Other income (expense), net | 46 | (311) | 156 | (1,315) |
| Loss on extinguishment of debt | — | — | — | (2,128) |
| Interest expense, net | (4,273) | (5,276) | (8,861) | (12,773) |
| Change in fair value of warrant liabilities | — | 675 | 675 | 4,385 |
| Consolidated income before income taxes | $ 25,278 | $ 60,156 | $ 51,804 | $ 116,198 |

A reconciliation of total segment assets to total consolidated assets as of the dates indicated below, is as follows:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Total reportable segment assets | $ 381,193 | $ 391,862 |
| Other assets | 31,170 | 32,871 |
| Other unallocated amounts | 284,686 | 269,620 |
| Total Assets | $ 697,049 | $ 694,353 |

Other unallocated assets consist of the following as reported in the consolidated balance sheets of the Company as of the dates indicated below:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Total current assets | $ 208,830 | $ 180,500 |
| Other intangible assets, net | 59,552 | 66,282 |
| Operating lease right-of-use assets, net | 14,127 | 19,698 |
| Deferred financing costs revolver, net | 2,177 | 2,479 |
| Other non-current assets | — | 661 |
| Total other unallocated amounts of assets | $ 284,686 | $ 269,620 |

**Cautionary Statement Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for the business. Specifically, forward-looking statements may include statements relating to:

- operational, economic, including inflation, political and regulatory risks;
- our ability to effectively compete in the specialty rental accommodations and hospitality services industry, including growing the HFS and Government segments;
- effective management of our communities;
- natural disasters and other business disruptions including outbreaks of epidemic or pandemic disease;
- the duration of any future public health crisis, related economic repercussions and the resulting negative impact to global economic demand;
- the effect of changes in state building codes on marketing our buildings;
- changes in demand within a number of key industry end-markets and geographic regions;
- changes in end-user demand requirements, including variable occupancy levels associated with contracts in the Government segment;
- our reliance on third party manufacturers and suppliers;
- failure to retain key personnel;
- increases in raw material and labor costs;
- the effect of impairment charges on our operating results;
- our future operating results fluctuating, failing to match performance or to meet expectations;
- our exposure to various possible claims and the potential inadequacy of our insurance;
- unanticipated changes in our tax obligations;
- our obligations under various laws and regulations;
- the effect of litigation, judgments, orders, regulatory or customer bankruptcy proceedings on our business;
- our ability to successfully acquire and integrate new operations;
- global or local economic and political movements, including any changes in policy under the Biden administration or any future administration;
- federal government budgeting and appropriations;
- our ability to effectively manage our credit risk and collect on our accounts receivable;

- our ability to fulfill our public company obligations;
- any failure of our management information systems;
- our ability to refinance debt on favorable terms and meet our debt service requirements and obligations; and
- risks related to Arrow Bidco's obligations under the 2025 Senior Secured Notes.

These forward-looking statements are based on information available as of the date of this Form 10-Q and our management's current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date. We undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

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

**TARGET HOSPITALITY CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and capital resources of Target Hospitality Corp. and is intended to help the reader understand Target Hospitality Corp., our operations and our present business environment. This discussion should be read in conjunction with the Company's unaudited consolidated financial statements and notes to those statements included elsewhere in this Quarterly Report on Form 10-Q.

**Executive Summary**

Target Hospitality Corp. is one of North America's largest providers of vertically integrated specialty rental and value-added hospitality services including: catering and food services, maintenance, housekeeping, grounds-keeping, security, health and recreation facilities, overall workforce community management, concierge services and laundry service. As of June 30, 2024, our network included 28 communities, to better serve our customers across the US and Canada.

*Economic Update*

On June 10, 2024, the Company received notice that the U.S. government intends to terminate the South Texas Family Residential Center contract ("STFRC Contract"), effective in 60 days, on August 9, 2024. The STFRC Contract was based on a fixed minimum lease revenue commitment and for the year ended December 31, 2023, contributed approximately $55.9 million in total consolidated revenue, all of which is related to the Company's Government segment. The Company will retain ownership of the South Texas Family Residential Center assets enabling the Company to continue utilizing these modular solutions to support customer demand across its existing operating segments and other potential growth opportunities. The Company's Government segment continued to benefit from the Pecos Children's Center ("PCC") and the New PCC Contract that became effective November 16, 2023. The PCC Community contributed lower revenues as compared to the second quarter of 2023 driven primarily by lower non-cash revenue amortization of an advanced payment for community expansion associated with the prior contract that became fully amortized as of November 2023, and to a lesser extent, by a decrease in the minimum lease revenue component of the New PCC Contract compared to the prior contract that ended in November 2023. The Company generated cash inflows from operations for the six months ended June 30, 2024 of approximately $89.7 million compared to approximately $70.3 million the six months ended June 30, 2023, representing an increase in cash flows from operations of approximately $19.4 million or 28% driven by an increase in cash collections, a decrease in operating expenses, partially offset by an increase in cash paid for income taxes, and an $8.6 million decrease in cash paid for interest driven by a significant reduction in debt outstanding during the current period compared to the prior period. During the six months ended June 30, 2024, the Company also purchased 2,274,440 shares of Common Stock for an aggregate purchase price of approximately $21.1 million (exclusive of estimated excise taxes of approximately $0.1 million).

*For the three months ended June 30, 2024, other key drivers of financial performance included:*

- Decreased revenue of $42.9 million, or 30% compared to the same period in 2023, driven by lower revenue generated from the Government segment primarily from lower non-cash revenue amortization of an advanced payment for community build-out and mobilization of asset activities associated with the Company's PCC community, which was fully amortized as of November 2023 in line with the prior PCC Contract termination date.
- Generated net income of approximately $18.4 million for the three months ended June 30, 2024 as compared to a net income of approximately $46.5 million for the three months ended June 30, 2023, which is primarily attributable to a decrease in revenue and the change in the estimated fair value of warrant liabilities, partially offset by a decrease service costs driven primarily by lower costs in the Government segment as a result of operational efficiencies and reduced leasing costs associated with certain leases that were terminated at the PCC Community, a decrease in specialty rental costs, a decrease in depreciation of specialty rental assets, a decrease

in interest expense, net led by a significant reduction in debt, a decrease in loss on disposal of assets reported in other expense (income), net, and a decrease in income tax expense led by a decrease in income before income tax.

- Generated consolidated Adjusted EBITDA of $52.2 million representing a decrease of $38.7 million, or 43% as compared to the same period in 2023, driven primarily by the decrease in revenue led by the lower non-cash revenue amortization mentioned above that ended in November 2023 associated with the prior PCC Contract, partially offset by a 10% decrease in operating expenses comprised of a decrease in services costs and specialty rental costs.

Adjusted EBITDA is a non-GAAP measure. The GAAP measure most comparable to Adjusted EBITDA is Net Income. Please see "Non-GAAP Financial Measures" for a definition and reconciliation to the most comparable GAAP measure.

Our Government segment, including several communities in West, Texas supporting critical United States government humanitarian aid efforts, delivers essential services and accommodations near the southern United States border where there is insufficient housing and infrastructure solutions to appropriately care for unaccompanied minor immigrants. Demand for these communities and services is influenced by immigration activity, where continued increases in migrant populations has increased government spending and demand for appropriate government supported solutions. Demand for these communities and services is also impacted by federal government budgeting, appropriations, and federal government administration policy decisions.

Our proximity to customer activities influences occupancy and demand. We have built, own and operate the largest specialty rental and hospitality services network available to customers operating in the HFS – South region. Our broad network often results in us having communities that are the closest to our customers' job sites, which reduces commute times and costs, and improves the overall safety of our customers' workforce. Our communities provide customers with cost efficiencies, as they are able to jointly use our communities and related infrastructure (i.e., power, water, sewer and IT) services alongside other customers operating in the same vicinity. Demand for our services is dependent upon activity levels, particularly our customers' capital spending on natural resource development activities.

**Factors Affecting Results of Operations**

We expect our business to continue to be affected by the key factors discussed below, as well as factors discussed in the section titled "*Risk Factors*" included in our 2023 Form 10-K. Our expectations are based on assumptions made by us and information currently available to us. To the extent our underlying assumptions about, or interpretations of, available information prove to be incorrect, our actual results may vary materially from our expected results.

*Supply and Demand for Natural Resources*

As a provider of vertically integrated specialty rental and hospitality services, we are not directly impacted by commodity price fluctuations. However, these price fluctuations indirectly influence our activities and results of operations because the natural resource development workforce is directly affected by price fluctuations and the industry's expansion or contraction as a result of these fluctuations. Our occupancy volume depends on the size of the workforce within the natural resources industry and the demand for labor. Commodity prices are volatile and influenced by numerous factors beyond our control, including the domestic and global supply of and demand for natural resources, the commodities trading markets, as well as other supply and demand factors that may influence commodity prices.

*Availability and Cost of Capital*

Capital markets conditions could affect our ability to access the debt and equity capital markets to the extent necessary to fund our future growth. Interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly, and could limit our ability to raise funds, or increase the price of raising funds, in the capital markets and may limit our ability to expand.

*Regulatory Compliance*

We are subject to extensive federal, state, local, and foreign environmental, health and safety laws and regulations concerning matters such as air emissions, wastewater discharges, solid, and hazardous waste handling and disposal and the investigation and remediation of contamination. In addition, we may be subject, indirectly, to various statutes and regulations applicable to doing business with the U.S. government as a result of our contracts with U.S. government contractor clients. The risks of substantial costs, liabilities, and limitations on our operations related to compliance with these laws and regulations are an inherent part of our business, and future conditions may develop, arise, or be discovered that create substantial compliance or environmental remediation liabilities and costs.

*Public Policy*

We derive a significant portion of our revenues from our subcontracts with government contractors. The U.S. government and, by extension, our U.S. government contractor customers, may from time to time adopt, implement or modify certain policies or directives that may adversely affect our business. Changes in government policy, presidential administration or other changes in the political landscape relating to immigration policies may similarly result in a decline in our revenues in the Government segment.

*Natural Disasters or Other Significant Disruption*

An operational disruption in any of our facilities could negatively impact our financial results. The occurrence of a natural disaster, such as earthquake, tornado, severe weather including hail storms, flood, fire, or other unanticipated problems such as public health threats or outbreaks, labor difficulties, equipment failure, capacity expansion difficulties or unscheduled maintenance could cause operational disruptions of varied duration. These types of disruptions could materially adversely affect our financial condition and results of operations to varying degrees dependent upon the facility, the duration of the disruption, our ability to shift business to another facility or find alternative solutions.

**Overview of Our Revenue and Operations**

We derive the majority of our revenue from specialty rental accommodations and vertically integrated hospitality services. Approximately 67% of our revenue was earned from specialty rental with vertically integrated hospitality services, specifically lodging and related ancillary services, whereas the remaining 33% of revenues were earned through leasing of lodging facilities for the six months ended June 30, 2024. Revenue is recognized in the period in which lodging and services are provided pursuant to the terms of contractual relationships with our customers. In certain of our contracts, rates may vary over the contract term, in these cases, revenue is generally recognized on a straight-line basis over the contract term. We enter into arrangements with multiple deliverables for which arrangement consideration is allocated between lodging and services based on the relative estimated standalone selling price of each deliverable. The estimated price of lodging and services deliverables is based on the prices of lodging and services when sold separately or based upon the best estimate of selling price.

**Key Indicators of Financial Performance**

Our management uses a variety of financial and operating metrics to analyze our performance. We view these metrics as significant factors in assessing our operating results and profitability and tend to review these measurements frequently for consistency and trend analysis. We primarily review the following profit and loss information when assessing our performance:

*Revenue*

We analyze our revenues by comparing actual revenues to our internal budgets and projections for a given period and to prior periods to assess our performance. We believe that revenues are a meaningful indicator of the demand and pricing for our services. Key drivers to change in revenues may include average utilization of existing beds, levels of development activity in the HFS – South segment, the consumer price index impacting government contracts, and government spending on housing programs.

*Adjusted Gross Profit*

We analyze our adjusted gross profit, which is a Non-GAAP measure, which we define as revenues less cost of sales, excluding impairment and depreciation of specialty rental assets to measure our financial performance. Please see “Non-GAAP Financial Measures” for a definition and reconciliation to the most comparable GAAP measure. We believe adjusted gross profit is a meaningful metric because it provides insight into the financial performance of our revenue streams without consideration of company overhead. Additionally, using adjusted gross profit gives us insight on factors impacting cost of sales, such as efficiencies of our direct labor and material costs. When analyzing adjusted gross profit, we compare actual adjusted gross profit to our budgets and internal projections and to prior period results for a given period in order to assess our performance.

We also use Non-GAAP measures such as EBITDA, Adjusted EBITDA, and Discretionary cash flows to evaluate the operating performance of our business. For a more in-depth discussion of the Non-GAAP measures, please refer to the "Non-GAAP Financial Measures" section.

**Segments**

We have identified two reportable business segments: HFS – South and Government:

*HFS – South*

The HFS – South segment reflects our facilities and operations in the HFS – South region from customers in the natural resources development industry and includes our 16 communities located across Texas and New Mexico.

*Government*

The Government segment includes the facilities and operations of the family residential center and the related support communities in Dilley, Texas (the “South Texas Family Residential Center”) provided under a lease and services agreement with a national provider of migrant programming (the “FRCC Partner”). As previously mentioned, the contract for the South Texas Family Residential Center with the FRCC Partner is scheduled to terminate on August 9, 2024. The Company will retain ownership of the assets associated with the South Texas Family Residential Center enabling the Company to continue utilizing these modular solutions to support customer demand across its existing operating segments and other potential growth opportunities. Additionally, this segment also includes facilities and operations provided under a lease and services agreement with our NP Partner, backed by a committed U.S. Government contract, to provide a suite of comprehensive service offerings in support of their humanitarian aid efforts.

*All Other*

Our other facilities and operations which do not meet the criteria to be a separate reportable segment are consolidated and reported as “All Other” which represents the facilities and operations of one community in Canada, three communities in North Dakota, and the catering and other services provided to communities and other workforce accommodation facilities for the natural resource development industries not owned by us.

**Key Factors Impacting the Comparability of Results**

The historical results of operations for the periods presented may not be comparable, either to each other or to our future results of operations, for the reasons described below:

*Government Segment*

During the year ended December 31, 2022, the Company executed the Expanded Humanitarian Contract that went into effect in May 2022 to provide enhanced infrastructure and comprehensive facility services that support the critical hospitality solutions the Company provides to the NP Partner and the United States Government in their humanitarian aid missions. The Expanded Humanitarian Contract provided for a significant scope expansion and term extension for the continuation of services provided under the agreement that originated in March 2021. The Expanded Humanitarian Contract operated with similar structure to the Company's prior and existing government services subcontracts, which are centered around minimum revenue commitments supported by the United States Government. Additionally, the Expanded Humanitarian Contract included occupancy-based variable services revenue that aligned with active community population. The minimum revenue commitments, which consisted of annual recurring lease revenue and nonrecurring infrastructure enhancement revenue, provided for a minimum annual revenue contribution of approximately $390 million and was fully committed over its initial contract term. Inclusive of all potential occupancy-based variable services revenue, the Expanded Humanitarian Contract provided for a maximum initial annual total contract amount of approximately $575 million. On May 15, 2023, the Company executed a six-month extension of the Expanded Humanitarian Contract, which extended the period of performance through November 15, 2023 and increased the contract value, with no change to contract structure or any other existing economic terms. The Expanded Humanitarian Contract expired as of November 15, 2023. The non-recurring infrastructure enhancement revenue was generated from an advance payment made during the year ended December 31, 2022 for the community build-out, and mobilization of asset activities related to the community expansion associated with the Expanded Humanitarian Contract. The advanced payment was determined to be related to future services to be amortized to revenue over the estimated term of the Expanded Humanitarian Contract. This advance payment revenue amortization ended when the Expanded Humanitarian Contract expired on November 15, 2023. As such, the prior period for the three and six months ended June 30, 2023 included this revenue amortization in the amount of approximately $34.9 million and $69.4 million, respectively. whereas the current period does not. Additionally, the Expanded Humanitarian Contract included an annual minimum lease revenue commitment of approximately $196 million that impacted the prior period compared to the current period being impacted by an annual minimum lease revenue commitment of approximately $178 million under the New PCC Contract explained below.

During the year ended December 31, 2023, the Company executed the New PCC Contract, pursuant to an Indefinite Delivery, Indefinite Quantity Task Order between our NP Partner and the United States Government, that replaced the Expanded Humanitarian Contract and became effective on November 16, 2023. The New PCC Contract includes a one-year base period through November 15, 2024, an option to extend for up to four additional one-year periods, and an option to extend for up to six months upon the conclusion of the base period or any of the option periods. Under the New PCC Contract, the Company will maintain similar facility size and operational scope compared to the Expanded Humanitarian Contract. The New PCC Contract operates with similar structure to the Company's prior and existing government services subcontracts, which are centered around minimum revenue commitments supported by the United States Government. Additionally, the New PCC Contract includes occupancy-based variable services revenue that will align with active community population. The minimum revenue commitments, which consist of annual recurring lease revenue, provide for a minimum annual revenue contribution of approximately $178 million. Assuming all option periods are exercised, the 5-year cumulative minimum revenue commitment of the New PCC Contract is expected to be approximately $892 million through 2028.

As such, the change from the prior Expanded Humanitarian Contract to the New PCC Contract impacts comparability between periods.

## Results of Operations

The period-to-period comparisons of our results of operations have been prepared using the historical periods included in our unaudited consolidated financial statements. The following discussion should be read in conjunction with the unaudited consolidated financial statements and related notes included elsewhere in this document.

***Consolidated Results of Operations for the three months ended June 30, 2024 and 2023 ($ in thousands)*** **:**

| | For the Three Months Ended June 30, 2024 | For the Three Months Ended June 30, 2023 | Amount of Increase (Decrease) | Percentage Change Increase (Decrease) |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Services income | $ 67,491 | $ 92,523 | $ (25,032) | (27)% |
| Specialty rental income | 33,230 | 51,107 | (17,877) | (35)% |
| Total revenue | 100,721 | 143,630 | (42,909) | (30)% |
| Costs: | | | | |
| Services | 33,557 | 35,734 | (2,177) | (6)% |
| Specialty rental | 5,489 | 7,538 | (2,049) | (27)% |
| Depreciation of specialty rental assets | 14,805 | 17,992 | (3,187) | (18)% |
| Gross Profit | 46,870 | 82,366 | (35,496) | (43)% |
| Selling, general and administrative | 13,457 | 13,457 | — | 0% |
| Other depreciation and amortization | 3,908 | 3,841 | 67 | 2% |
| Other expense (income), net | (46) | 311 | (357) | (115)% |
| Operating income | 29,551 | 64,757 | (35,206) | (54)% |
| Interest expense, net | 4,273 | 5,276 | (1,003) | (19)% |
| Change in fair value of warrant liabilities | — | (675) | 675 | (100)% |
| Income before income tax | 25,278 | 60,156 | (34,878) | (58)% |
| Income tax expense | 6,892 | 13,703 | (6,811) | (50)% |
| Net income | $ 18,386 | $ 46,453 | $ (28,067) | (60)% |

*For the three months ended June 30, 2024 compared to the three months ended June 30, 2023*

***Total Revenue.*** Total revenue was $100.7 million for the three months ended June 30, 2024 and consisted of $67.5 million of services income and $33.2 million of specialty rental income. Total revenue for the three months ended June 30, 2023 was $143.6 million, which consisted of $92.5 million of services income and $51.1 million of specialty rental income.

Services income consists primarily of specialty rental and vertically integrated and comprehensive hospitality services, including room revenue, catering and food services, maintenance, housekeeping, grounds-keeping, security, overall workforce community management, health and recreation facilities, concierge services, and laundry service. The main driver of the decrease in services income revenue year over year was lower revenue in the Government segment in the current period from the decrease in the non-cash revenue amortization that ended in November 2023 associated with the advanced payment from the prior Expanded Humanitarian Contract that expired on November 15, 2023 and partially by lower minimum lease revenue generated by the New PCC contract in the current period.

Specialty rental income consists primarily of revenues from leasing rooms and other facilities at certain communities that include contractual arrangements with customers that are considered leases under the authoritative accounting guidance for leases. Specialty rental income decreased primarily as a result of lower revenue in the Government segment from the decrease in the non-cash revenue amortization that ended in November 2023 associated with the advanced payment from the prior Expanded Humanitarian Contract that expired on November 15, 2023 and partially by lower minimum lease revenue generated by the New PCC contract in the current period.

***Cost of services.*** Cost of services was $33.6 million for the three months ended June 30, 2024 as compared to $35.7 million for the three months ended June 30, 2023. The decrease in services costs is primarily due to a decrease in services costs from the Government segment driven by operational efficiencies and reduced leasing costs associated with certain leases that were terminated at the PCC Community, including lease terminations as a result of the purchase of certain previously leased equipment and partially by operational efficiencies achieved in the current period in the HFS-South segment.

***Specialty rental costs.*** Specialty rental costs were $5.5 million for the three months ended June 30, 2024 as compared to $7.5 million for the three months ended June 30, 2023. The decrease in specialty rental costs is primarily due to a decrease in costs from the Government segment driven by operational efficiencies and reduced leasing costs associated with certain leases that were terminated at the PCC Community.

***Depreciation of specialty rental assets.*** Depreciation of specialty rental assets was $14.8 million for the three months ended June 30, 2024 as compared to $18.0 million for the three months ended June 30, 2023. The decrease in depreciation expense is primarily attributable to a decrease in depreciation on certain specialty rental assets and related leasehold improvements acquired or built in 2022 to support growth of the Government segment related to the contract that originated in May of 2022 with the NP Partner, which became fully depreciated during the year ended December 31, 2023.

***Selling, general and administrative.*** Selling, general and administrative was $13.5 million for the three months ended June 30, 2024 as compared to $13.5 million for the three months ended June 30, 2023. There was no net change in selling, general and administrative expense from the prior period as a result of a decrease in stock compensation expense of approximately $1.9 million led primarily by the liability-based stock appreciation right awards ("SARs") driven by a lower number of SAR awards outstanding during the current period compared to the prior period as approximately 51% of such awards were outstanding as of June 30, 2023 compared to approximately 1% of such awards outstanding as of June 30, 2024 as the majority of these awards vested and were exercised as of June 30, 2024. This was offset by an increase in transaction fees of approximately $1.9 million associated primarily with the Proposal described in "Recent Developments" in Note 1 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q.

***Other depreciation and amortization.*** Other depreciation and amortization expense was $3.9 million for the three months ended June 30, 2024 as compared to $3.8 million for the three months ended June 30, 2023. The increase in other depreciation and amortization is primarily driven by an increase in depreciation associated with an increase in finance leases for commercial use vehicles.

***Other expense (income), net.*** Other expense (income), net was less than $(0.1) million for the three months ended June 30, 2024 as compared to $0.3 million for the three months ended June 30, 2023. The decrease in expense was primarily driven by the prior period including loss on the disposal of older assets in the HFS-South segment, which didn't recur in the current period.

***Interest expense, net.*** Interest expense, net was $4.3 million for the three months ended June 30, 2024 as compared to $5.3 million for the three months ended June 30, 2023. The change in interest expense, net was primarily driven by an increase in interest income earned on cash equivalents funded by the increase in available cash as a result of cash flows from operations.

***Change in fair value of warrant liabilities.*** Change in fair value of warrant liabilities represents the fair value adjustments to the outstanding Private Warrant liabilities based on the change in their estimated fair value at each reporting period end. The change in fair value of the warrant liabilities was $0 for the three months ended June 30, 2024 as compared to $(0.7) million for the three months ended June 30, 2023 as a result of the Private Warrants expiring unredeemed on March 15, 2024 as discussed in Note 9 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q.

***Income tax expense.*** Income tax expense was $6.9 million for the three months ended June 30, 2024 as compared to $13.7 million for the three months ended June 30, 2023. The decrease in income tax expense is primarily attributable to the decrease in income before taxes for the three months ended June 30, 2024 led by a decrease in revenue, partially offset by cost decreases previously mentioned.

***Consolidated Results of Operations for the six months ended June 30, 2024 and 2023 ($ in thousands)* :**

| | For the Six Months Ended June 30, 2024 | For the Six Months Ended June 30, 2023 | Amount of Increase (Decrease) | Percentage Change Increase (Decrease) |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Services income | $ 139,889 | $ 187,359 | $ (47,470) | (25)% |
| Specialty rental income | 67,504 | 104,090 | (36,586) | (35)% |
| Total revenue | 207,393 | 291,449 | (84,056) | (29)% |
| Costs: | | | | |
| Services | 70,472 | 75,434 | (4,962) | (7)% |
| Specialty rental | 11,397 | 16,097 | (4,700) | (29)% |
| Depreciation of specialty rental assets | 29,586 | 35,589 | (6,003) | (17)% |
| Gross Profit | 95,938 | 164,329 | (68,391) | (42)% |
| Selling, general and administrative | 28,312 | 28,656 | (344) | (1)% |
| Other depreciation and amortization | 7,792 | 7,644 | 148 | 2% |
| Other expense (income), net | (156) | 1,315 | (1,471) | (112)% |
| Operating income | 59,990 | 126,714 | (66,724) | (53)% |
| Loss on extinguishment of debt | — | 2,128 | (2,128) | (100)% |
| Interest expense, net | 8,861 | 12,773 | (3,912) | (31)% |
| Change in fair value of warrant liabilities | (675) | (4,385) | 3,710 | (85)% |
| Income before income tax | 51,804 | 116,198 | (64,394) | (55)% |
| Income tax expense | 13,035 | 25,920 | (12,885) | (50)% |
| Net income | $ 38,769 | $ 90,278 | $ (51,509) | (57)% |

*For the six months ended June 30, 2024 compared to the six months ended June 30, 2023*

***Total Revenue.*** Total revenue was $207.4 million for the six months ended June 30, 2024 and consisted of $139.9 million of services income and $67.5 million of specialty rental income. Total revenue was $291.4 million for the six months ended June 30, 2023 and consisted of $187.4 million of services income and $104.1 million of specialty rental income.

Services income consists primarily of specialty rental and vertically integrated and comprehensive hospitality services, including room revenue, catering and food services, maintenance, housekeeping, grounds-keeping, security, overall workforce community management, health and recreation facilities, concierge services, and laundry service. The main driver of the decrease in services income revenue year over year was lower revenue in the Government segment in the current period from the decrease in the non-cash revenue amortization that ended in November 2023 associated with the advanced payment from the prior Expanded Humanitarian Contract that expired on November 15, 2023 and partially by lower minimum lease revenue generated by the New PCC contract in the current period, partially offset by an increase in revenue in the HFS – South segment led by an increase in average daily rate and an increase in customer activity.

Specialty rental income consists primarily of revenues from leasing rooms and other facilities at certain communities that include contractual arrangements with customers that are considered leases under the authoritative accounting guidance for leases. Specialty rental income decreased primarily as a result of lower revenue in the Government segment from the decrease in the non-cash revenue amortization that ended in November 2023 associated with the advanced payment from the prior Expanded Humanitarian Contract that expired on November 15, 2023 and partially by lower minimum lease revenue generated by the New PCC contract in the current period.

***Cost of services.*** Cost of services was $70.5 million for the six months ended June 30, 2024 as compared to $75.4 million for the six months ended June 30, 2023.

The decrease in services costs is primarily due to a decrease in services costs in the Government segment driven by operational efficiencies and reduced leasing costs associated with certain leases that were terminated at the PCC

Community, including lease terminations as a result of the purchase of certain previously leased equipment. Approximately $0.8 million of this decrease was driven by a community in the All Other category that incurred lodge removal and transportation costs in the prior period that didn't recur in the current period, while approximately $0.5 million of this decrease was driven by the HFS-South segment related to the prior period including asset mobilization and integration costs associated with a new community acquired in January 2023 that didn't recur in the current period and operational efficiencies achieved in the current period, partially offset by an increase in operational costs from community expansion to support increased customer demand in the HFS-South segment.

***Specialty rental costs.*** Specialty rental costs were $11.4 million for the six months ended June 30, 2024 as compared to $16.1 million for the six months ended June 30, 2023. The decrease in specialty rental costs is primarily due to a decrease in costs from the Government segment driven by operational efficiencies and reduced leasing costs associated with certain leases that were terminated at the PCC Community and partially by operational efficiencies achieved in the current period in the HFS-South segment.

***Depreciation of specialty rental assets.*** Depreciation of specialty rental assets was $29.6 million for the six months ended June 30, 2024 as compared to $35.6 million for the six months ended June 30, 2023. The decrease in depreciation expense is primarily attributable to a decrease in depreciation on certain specialty rental assets and related leasehold improvements acquired or built in 2022 to support growth of the Government segment related to the contract that originated in May of 2022 with the NP Partner, which became fully depreciated during the year ended December 31, 2023.

***Selling, general and administrative***. Selling, general and administrative was $28.4 million for the six months ended June 30, 2024 as compared to $28.7 million for the six months ended June 30, 2023. The decrease in selling, general and administrative expense of $(0.3) million was primarily driven by a decrease in stock compensation expense of approximately $5 million led primarily by the liability-based stock appreciation right awards ("SARs") driven by a lower number of SAR awards outstanding during the current period compared to the prior period as approximately 51% of such awards were outstanding as of June 30, 2023 compared to approximately 1% of such awards outstanding as of June 30, 2024 as the majority of these awards vested and were exercised as of June 30, 2024. Other corporate costs (i.e. recruiting, market research, and outside services) also decreased by approximately $0.2 million from the prior period. These decreases were partially offset by an increase in severance of approximately $1 million for certain terminated employees during the six months ended June 30, 2024, other compensation and benefits cost increases of approximately $0.9 million, audit fee increases of approximately $0.4 million, other professional fee increases of approximately $0.3 million, insurance expense increase of approximately $0.2 million, and an increase in transaction fees of approximately $2.1 million associated with certain transactions, including primarily the Proposal described in "Recent Developments" in Note 1 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q.

***Other depreciation and amortization.*** Other depreciation and amortization expense was $7.8 million for the six months ended June 30, 2024 as compared to $7.6 million for the six months ended June 30, 2023. The increase in other depreciation and amortization is primarily driven by an increase in depreciation associated with an increase in finance leases for commercial use vehicles.

***Other expense (income), net.*** Other expense (income), net was $(0.2) million for the six months ended June 30, 2024 as compared to $1.3 million for the six months ended June 30, 2023. The decrease in expense is primarily driven by costs incurred on the disposal of assets in the All Other segment category in the prior period, which didn't recur in the current period.

***Loss on extinguishment of debt.*** Loss on extinguishment of debt was $0 for the six months ended June 30, 2024 as compared to $2.1 million for the six months ended June 30, 2023. The decrease in loss on extinguishment of debt is due to the partial redemption of the 2024 Senior Secured Notes on March 15, 2023, which was accounted for as a partial extinguishment of debt and resulted in a charge of approximately $1.7 million related to the write-off of unamortized deferred financing costs and unamortized original issue discount. Approximately $0.4 million of the change related to the write-off of unamortized deferred financing costs for non-continuing lenders in connection with the First Amendment to the ABL Facility on February 1, 2023. No such activity occurred in the current period.

***Interest expense, net.*** Interest expense, net was $8.9 million for the six months ended June 30, 2024 as compared to $12.8 million for the six months ended June 30, 2023. The change in interest expense, net was primarily driven by a decrease in interest expense on the Senior Secured Notes of approximately $2.6 million driven by the lower outstanding debt balance in the current period as approximately $153.1 million of the Senior Secured Notes were paid off during the year ended December 31, 2023. Approximately $1.3 million of this decrease was driven by lower deferred financing cost amortization on the Senior Secured Notes during the current period due to the write-off of unamortized deferred financing costs during the six months ended June 30, 2023 driven by the partial extinguishment of debt associated with the partial redemption of the 2024 Senior Secured Notes on March 15, 2023 discussed above. Approximately $0.8 million of this decrease was driven by an increase in interest income earned on cash equivalents funded by the increase in available cash as a result of cash flows from operations. These decreases were partially offset by an increase in Senior Secured Note original issue discount amortization of approximately $0.5 million driven by fees incurred in connection with the Senior Note Exchange that closed on November 1, 2023 as more fully discussed in Note 8 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q. Additionally, these decreases were partially offset by an increase in ABL Facility deferred financing costs amortization and unused line fee expenses combined of approximately $0.2 million driven by the ABL Facility amendments completed in the prior year as more fully discussed in Note 8 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q.

***Change in fair value of warrant liabilities*** . Change in fair value of warrant liabilities represents the fair value adjustments to the outstanding Private Warrant liabilities based on the change in their estimated fair value at each reporting period end. The change in fair value of the warrant liabilities was $(0.7) million for the six months ended June 30, 2024 as compared to $(4.4) million for the six months ended June 30, 2023. The change in the fair value of the warrant liabilities is the result of changes in market prices deriving the value of the financial instruments. The estimated value of the Private Warrants have decreased in the current period, generating an increase to income in the current period. There is also a lower number of outstanding Private Warrants in the current period compared to the prior period given the Private Warrants expired on March 15, 2024 as discussed in Note 9 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q.

***Income tax expense.*** Income tax expense was $13.0 million for the six months ended June 30, 2024 as compared to $25.9 million for the six months ended June 30, 2023. The decrease in income tax expense is primarily attributable to the decrease in income before taxes for the six months ended June 30, 2024 led by a decrease in revenue, partially offset by cost decreases previously mentioned.

**Segment Results**

The following table sets forth our selected results of operations for each of our reportable segments and All Other for the three months ended June 30, 2024 and 2023 ($ in thousands, except for Average Daily Rate).

| | For the Three Months Ended June 30, 2024 | For the Three Months Ended June 30, 2023 | Amount of Increase (Decrease) | Percentage Change Increase (Decrease) |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Government | $ 59,860 | $ 101,179 | $ (41,319) | (41)% |
| HFS - South | 38,232 | 39,154 | (922) | (2)% |
| All Other | 2,629 | 3,297 | (668) | (20)% |
| Total Revenues | $ 100,721 | $ 143,630 | $ (42,909) | (30)% |
| | | | | |
| Adjusted Gross Profit | | | | |
| Government | $ 48,844 | $ 87,535 | $ (38,691) | (44)% |
| HFS - South | 13,065 | 13,294 | (229) | (2)% |
| All Other | (234) | (471) | 237 | (50)% |
| Total Adjusted Gross Profit | $ 61,675 | $ 100,358 | $ (38,683) | (39)% |
| | | | | |
| Average Daily Rate | | | | |
| HFS - South | $ 74.33 | $ 75.21 | $ (0.88) | |

*Note: Adjusted gross profit for the chief operating decision maker's ("CODM") analysis includes the services and rental costs recognized in the financial statements and excludes depreciation on specialty rental assets, certain severance costs, and loss on impairment. Average daily rate is calculated based on specialty rental income and services income received over the period indicated, divided by utilized bed nights.*

**Government**

Revenue for the Government segment was $59.9 million for the three months ended June 30, 2024, as compared to $101.2 million for the three months ended June 30, 2023.

Adjusted gross profit for the Government segment was $48.8 million for the three months ended June 30, 2024, as compared to $87.5 million for the three months ended June 30, 2023.

Revenue decreased primarily due to the decrease in the non-cash revenue amortization that ended in November 2023 associated with the advanced payment from the prior Expanded Humanitarian Contract that expired on November 15, 2023 and partially by lower minimum lease revenue generated by the New PCC contract in the current period. This was partially offset by an increase in revenue of approximately $1.7 million from the South Texas Family Residential Center led primarily by accelerated non-cash deferred revenue amortization from the early termination of the STFRC Contract as previously mentioned, and partially by an increase of approximately $0.4 million in other ancillary revenue driven by an increase in occupancy.

Adjusted gross profit decreased as a result of the decrease in revenue mentioned above, partially offset by lower costs due to operational efficiencies and reduced leasing costs associated with certain leases that were terminated at the PCC Community, including lease terminations as a result of the purchase of certain previously leased equipment.

**HFS – South**

Revenue for the HFS – South segment was $38.2 million for the three months ended June 30, 2024, as compared to $39.2 million for the three months ended June 30, 2023.

Adjusted gross profit for the HFS – South segment was $13.1 million for the three months ended June 30, 2024, as compared to $13.3 million for the three months ended June 30, 2023.

The decrease in revenue of approximately $(0.9) million was primarily attributable to a decrease in average daily rate and a decrease in customer activity.

The decrease in adjusted gross profit of approximately $(0.2) million was primarily attributable to the decrease in revenue discussed above, partially offset by a decrease in service costs driven by operational efficiencies achieved in the current period.

**Segment Results**

The following table sets forth our selected results of operations for each of our reportable segments and All Other for the six months ended June 30, 2024 and 2023 ($ in thousands, except for Average Daily Rate).

| | For the Six Months Ended June 30, | | Amount of Increase | Percentage Change Increase |
|---|---|---|---|---|
| | 2024 | 2023 | (Decrease) | (Decrease) |
| **Revenue:** | | | | |
| Government | $ 127,466 | $ 210,682 | $ (83,216) | (39)% |
| HFS - South | 75,165 | 74,925 | 240 | 0% |
| All Other | 4,762 | 5,842 | (1,080) | (18)% |
| Total Revenues | $ 207,393 | $ 291,449 | $ (84,056) | (29)% |
| | | | | |
| Adjusted Gross Profit | | | | |
| Government | $ 101,277 | $ 176,309 | $ (75,032) | (43)% |
| HFS - South | 25,906 | 24,950 | 956 | 4% |
| All Other | (1,659) | (1,341) | (318) | 24% |
| Total Adjusted Gross Profit | $ 125,524 | $ 199,918 | $ (74,394) | (37)% |
| | | | | |
| Average Daily Rate | | | | |
| HFS - South | $ 74.60 | $ 74.34 | $ 0.26 | |

*Note: Adjusted gross profit for the chief operating decision maker's ("CODM") analysis includes the services and rental costs recognized in the financial statements and excludes depreciation on specialty rental assets, certain severance costs, and loss on impairment. Average daily rate is calculated based on specialty rental income and services income received over the period indicated, divided by utilized bed nights.*

**Government**

Revenue for the Government segment was $127.5 million for the six months ended June 30, 2024, as compared to $210.7 million for the six months ended June 30, 2023.

Adjusted gross profit for the Government segment was $101.3 million for the six months ended June 30, 2024, as compared to $176.3 million for the six months ended June 30, 2023.

Revenue decreased primarily due to the decrease in the non-cash revenue amortization that ended in November 2023 associated with the advanced payment from the prior Expanded Humanitarian Contract that expired on November 15, 2023 and partially by lower minimum lease revenue generated by the New PCC contract in the current period. This was partially offset by an increase in revenue of approximately $1.9 million from the South Texas Family Residential Center led primarily by accelerated non-cash deferred revenue amortization from the early termination of the STFRC Contract as previously mentioned, and partially by an increase of approximately $0.6 million in other ancillary revenue driven by an increase in occupancy.

Adjusted gross profit decreased as a result of the decrease in revenue mentioned above, partially offset by lower costs due to operational efficiencies and reduced leasing costs associated with certain leases that were terminated at the PCC Community, including lease terminations as a result of the purchase of certain previously leased equipment.

**HFS – South**

Revenue for the HFS – South segment was $75.2 million for the six months ended June 30, 2024, as compared to $74.9 million for the six months ended June 30, 2023.

Adjusted gross profit for the HFS – South segment was $26.0 million for the six months ended June 30, 2024, as compared to $25.0 million for the six months ended June 30, 2023.

The increase in revenue of $0.2 million was primarily attributable to an increase in average daily rate and an increase in customer activity, which led to more communities in operation during the current period, including a new community acquired in January 2023 to support growth in the HFS – South segment.

The increase in adjusted gross profit of $1.0 million was primarily attributable to a decrease in service costs driven by the prior period including asset mobilization and integration costs associated with the new community acquired in January 2023 that didn’t recur in the current period and by operational efficiencies achieved in the current period. Additionally, the increase in revenue noted above partially contributed to this increase.

**Liquidity and Capital Resources**

We depend on cash flow from operations, cash on hand and borrowings under our ABL Facility to finance our acquisition strategy, working capital needs, and capital expenditures. As of June 30, 2024, the ABL Facility had unused available borrowing capacity of $175 million. We currently believe that our cash on hand, along with these sources of funds will provide sufficient liquidity to fund debt service requirements, support our growth, acquisition, and diversification strategy discussed in Item 1, “Business” of the Company’s 2023 Form 10-K, lease obligations, contingent liabilities and working capital investments for at least the next 12 months. However, we cannot assure you that we will be able to obtain future debt or equity financings adequate for our future cash requirements on commercially reasonable terms or at all.

If our cash flows and capital resources are insufficient, we may be forced to reduce or delay additional acquisitions, future investments and capital expenditures, and seek additional capital. Significant delays in our ability to finance planned acquisitions or capital expenditures may materially and adversely affect our future revenue prospects.

We continue to review available acquisition opportunities with the awareness that any such acquisition may require us to incur additional debt to finance the acquisition and/or to issue shares of our Common Stock or other equity securities as acquisition consideration or as part of an overall financing plan. We will continue to evaluate alternatives to optimize our capital structure, which could include the issuance or repurchase of additional unsecured and secured debt, equity securities and/or equity-linked securities. There can be no assurance as to the timing of any such issuance or repurchase. From time to time, we may also seek to streamline our capital structure and improve our financial position through refinancing or restructuring our existing debt or retiring certain of our securities for cash or other consideration.

*Capital Requirements*

During the six months ended June 30, 2024, we incurred approximately $18.3 million in capital expenditures, with approximately $9.3 million driven by capital expenditures in the Government segment. Maintenance capital expenditures for specialty rental assets amounted to approximately $9.4 million for the six months ended June 30, 2024. As we pursue growth, we monitor which capital resources, including equity and debt financings, are available to us to meet our future financial obligations, planned capital expenditure activities and liquidity requirements. However, future cash flows are subject to a number of variables, including the ability to maintain existing contracts, obtain new contracts and manage our operating expenses. The failure to achieve anticipated revenue and cash flows from operations could result in a reduction in future capital spending. We cannot assure you that operations and other needed capital will be available on acceptable terms or at all. In the event we make additional acquisitions and the amount of capital required is greater than the amount we have available for acquisitions at that time, we could be required to reduce the expected level of capital expenditures or seek additional capital. We cannot assure you that needed capital will be available on acceptable terms or at all.

The following table sets forth general information derived from our unaudited consolidated statements of cash flows:

| ($ in thousands) | For the Six Months Ended June 30, 2024 | 2023 |
|---|---|---|
| Net cash provided by operating activities | $ 89,696 | $ 70,275 |
| Net cash used in investing activities | (16,137) | (48,791) |
| Net cash used in financing activities | (23,187) | (133,585) |
| Effect of exchange rate changes on cash and cash equivalents | (5) | 6 |
| Net increase (decrease) in cash and cash equivalents | $ 50,367 | $ (112,095) |

*For the six months ended June 30, 2024 compared to the six months ended June 30, 2023*

*Cash flows provided by operating activities* . Net cash provided by operating activities was $89.7 million for the six months ended June 30, 2024 compared to $70.3 million for the six months ended June 30, 2023.

The current period is up by approximately $19.4 million when compared to 2023 driven by an increase in cash collections from customers of approximately $10.8 million, and a net decrease in payments for operating expenses and payroll of approximately $14.3 million driven by a decrease of approximately $4 million in cash payments for the vested SAR awards, and by a decrease in operating expenses led by the Government segment as well as operational efficiencies achieved in the HFS-South segment, partially offset by an increase in cash paid for severance, increase in cash paid for audit and other professional fees, and payroll increases in the HFS-South segment. There was also an increase in interest received by approximately $0.6 million (driven by a higher average outstanding cash balance in the current period that generated interest income), and a decrease in cash paid for interest during the period of approximately $8.6 million driven by lower debt as a result of a decrease in the outstanding balance of the Senior Secured Notes. These increases in net cash flows from operations were partially offset by an increase in cash paid for income taxes of approximately $14.9 million as our United States federal tax loss carryforward deductions were fully utilized during the year ended December 31, 2023.

*Cash flows used in investing activities*. Net cash used in investing activities was $16.1 million for the six months ended June 30, 2024 compared to $48.8 million for the six months ended June 30, 2023. This decrease in net cash used in investing activities was primarily related to a decrease in growth capital expenditures in the HFS – South segment with the largest single driver being the $18.6 million acquisition of community assets and related intangibles in January 2023, supporting continued customer demand. To a lesser extent, the decrease was related to a $5.0 million acquisition of community assets in April 2023, supporting Government segment growth. The remainder of the decrease was driven by a decrease in other growth capital expenditures in the Government segment as the prior period included expansion related activities associated with the Expanded PCC Community contract that became effective on May 16, 2022 and drove a significant amount of capital expenditure spend into 2023.

*Cash flows used in financing activities*. Net cash used in financing activities was $23.2 million for the six months ended June 30, 2024 compared to $133.6 million for the six months ended June 30, 2023. This decrease in net cash used in financing activities was primarily driven by the $125 million partial redemption of the 2024 Senior Secured Notes on March 15, 2023 combined with the prior period including the payment of deferred financing costs of $1.4 million associated with the ABL Facility amendment, payment of accrued issuance costs from the warrant exchange of $1.5 million that closed in December of 2022, and taxes paid related to net share settlement of equity awards of approximately $6.4 million, partially offset by the current period increase in net cash used in financing activities of approximately $21.1 million for the repurchase of Common Stock as part of the share repurchase program, combined with taxes paid related to net share settlement of equity awards of $2.6 million in the current period.

***Indebtedness***

*Finance lease and other financing obligations*

The Company's finance lease and other financing obligations as of June 30, 2024 consisted of approximately $2.6 million of finance leases. The finance leases pertain to leases entered into during 2017 through June 30, 2024, for commercial-use vehicles with 36-month terms (and continue on a month-to-month basis thereafter) expiring through 2027.

The Company's finance lease and other financing obligations as of December 31, 2023 consisted of approximately $2.4 million of finance leases related to commercial-use vehicles with the same terms as described above.

*ABL Facility*

During the six months ended June 30, 2024, no amounts were drawn or repaid on the ABL Facility resulting in an outstanding balance of $0 as of June 30, 2024. The maturity date of the ABL Facility is February 1, 2028, which extended termination date is subject to a springing maturity that will accelerate the maturity of the ABL Facility if any of the 2025 Senior Secured Notes remain outstanding on the date that is ninety-one days prior to the stated maturity date thereof. Refer to Note 8 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q for additional discussion of the ABL Facility.

*Senior Secured Notes*

On March 15, 2019, Arrow Bidco issued $340 million in aggregate principal amount of 2024 Senior Secured Notes under the 2024 Notes Indenture by and among Arrow Bidco, the Note Guarantors, and Deutsche Bank Trust Company Americas, as trustee and as collateral agent. Interest was payable semi-annually on September 15 and March 15 and began September 15, 2019. During the year ended December 31, 2022, the Company made an elective repayment of approximately $5.5 million on the 2024 Senior Secured Notes, reducing the principal balance outstanding to $334.5 million from an original principal balance of $340 million. On March 15, 2023, Arrow Bidco redeemed $125 million in aggregate principal amount of the outstanding 2024 Senior Secured Notes. In connection with the Notes Exchange Offer (as defined in the Company's 2023 Form 10-K), on November 1, 2023, approximately $181.4 million of 2024 Senior Secured Notes were exchanged by Arrow Bidco and Arrow Bidco issued approximately $181.4 million in aggregate principal amount of the 2025 Senior Secured Notes under the 2025 Senior Secured Notes Indenture by and among Arrow Bidco, the guarantors from time to time party thereto and Deutsche Bank Trust Company Americas, as trustee and collateral agent. Interest is payable semi-annually on March 15 and September 15 of each year, and began on March 15, 2024. Following this issuance and related transactions, approximately $28.1 million aggregate principal amount of 2024 Senior Secured Notes remained outstanding, which were subsequently redeemed on November 21, 2023 resulting in an outstanding balance of $0. As of June 30, 2024, none of the 2024 Senior Secured Notes remain outstanding and the 2025 Senior Secured Notes had an outstanding principal balance of $181.4 million. Refer to Note 8 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q for additional discussion of the 2024 Senior Secured Notes, the Notes Exchange Offer, and the 2025 Senior Secured Notes.

*Cash requirements*

We expect that our principal short-term (over the next 12 months) and long-term needs for cash relating to our operations will be to primarily fund (i) operating activities and working capital, (ii) maintenance expenditures for specialty rental assets, (iii) payments due under finance and operating leases, and (iv) debt service interest payments. We plan to fund such cash requirements from our existing sources of liquidity as previously discussed.

The table below presents information on payments coming due under the most significant categories of our needs for cash (excluding operating cash flows pertaining to normal business operations, other than operating lease obligations) as of June 30, 2024:

| ($ in thousands) | Total | Rest of 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| Interest Payments(1) | $ 24,382 | $ 9,753 | $ 14,629 | $ — | $ — |
| 2025 Senior Secured Notes | 181,446 | — | 181,446 | — | — |
| Operating lease obligations, including imputed interest (2) | 15,303 | 5,343 | 5,519 | 3,674 | 767 |
| Total | $ 221,131 | $ 15,096 | $ 201,594 | $ 3,674 | $ 767 |

(1) We will incur and pay interest expense at 10.75% of the remaining face value of $181.4 million annually, or $19.5 million in connection with our 2025 Senior Secured Notes. Over the remaining term of the Notes, interest payments total approximately $24.4 million.

(2) Represents interest on operating lease obligations calculated using the appropriate discount rate for each lease.

**Concentration of Risks**

In the normal course of business, we grant credit to customers based on credit evaluations of their financial condition and generally require no collateral or other security. Major customers are defined as those individually comprising more than 10% of our revenues or accounts receivable. For the six months ended June 30, 2024, we had two customers, who accounted for 47% and 14% of revenues, respectively, while no other customers accounted for more than 10% of revenues. The largest customers accounted for 30% and 10% of accounts receivable, respectively, while no other customers accounted for more than 10% of the accounts receivable balance as of June 30, 2024.

Our largest customer for the six months ended June 30, 2023 accounted for 63% of revenues, while no other customer accounted for more than 10% of revenues. The largest customer accounted for 15% of accounts receivable, respectively, while no other customers accounted for more than 10% of the accounts receivable balance as of June 30, 2023.

Major suppliers are defined as those individually comprising more than 10% of the annual goods purchased by the Company. For the six months ended June 30, 2024, we had one major supplier representing 20% of goods purchased. For the six months ended June 30, 2023, we had one major supplier that represented 16.2% of goods purchased.

We provide services almost entirely to customers in the government and natural resource industries and as such, are almost entirely dependent upon the continued activity of such customers.

**Commitments and Contingencies**

The Company leases certain land, buildings, offices, modular units, and equipment under non-cancellable operating leases, the terms of which vary and generally contain renewal options. Such operating lease obligations are recognized in the Company's accompanying consolidated balance sheet as of June 30, 2024 as current portion of operating lease obligations and long-term operating lease obligations.  Refer to the Company's unaudited consolidated balance sheet included elsewhere in this Quarterly Report on Form 10-Q for the amounts recognized as current portion of operating lease obligations and long-term operating lease obligations as of June 30, 2024.

Rent expense included in services costs in the unaudited consolidated statements of comprehensive income for cancelable and non-cancelable leases was $6.7 million and $12.4 million for the six months ended June 30, 2024 and 2023, respectively. Rent expense included in services costs in the unaudited consolidated statements of comprehensive income for cancelable and non-cancelable leases was $3.2 million and $6.0 million for the three months ended June 30, 2024 and 2023, respectively. Rent expense included in the selling, general, and administrative expenses in the unaudited consolidated statements of comprehensive income for cancelable and non-cancelable leases was $0.2 million and $0.3 million for the six months ended June 30, 2024 and 2023, respectively. Rent expense included in the selling, general, and administrative expenses in the unaudited consolidated statements of comprehensive income for cancelable and non-cancelable leases was $0.1 million and $0.1 million for the three months ended June 30, 2024 and 2023, respectively.

**Critical Accounting Policies and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our unaudited consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP").

For a discussion of the critical accounting policies and estimates, refer to the "Critical Accounting Policies and Estimates" section in Part II, Item 7 of our 2023 Form 10-K. There have been no material changes during the three and six months ended June 30, 2024 to the judgments, assumptions and estimates upon which our critical accounting estimates are based.

Additionally, refer to Note 1 of our notes to our unaudited consolidated financial statements included in this Form 10-Q for additional discussion of our summary of significant accounting policies and use of estimates. These estimates require significant judgments and assumptions.

*Principles of Consolidation*

Refer to Note 1 of the notes to our unaudited consolidated financial statements included in this Form 10-Q for a discussion of principles of consolidation.

**Recently Issued Accounting Standards**

Refer to Note 1 of the notes to our unaudited consolidated financial statements included in this Form 10-Q for our assessment of recently issued accounting standards.

**Non-GAAP Financial Measures**

We have included Adjusted gross profit, EBITDA, Adjusted EBITDA, and Discretionary cash flows which are measurements not calculated in accordance with US GAAP, in the discussion of our financial results because they are key metrics used by management to assess financial performance. Our business is capital-intensive and these additional metrics allow management to further evaluate our operating performance.

Target Hospitality defines Adjusted gross profit, as gross profit plus depreciation of specialty rental assets and loss on impairment, and certain severance costs.

Target Hospitality defines EBITDA as net income (loss) before interest expense and loss on extinguishment of debt, income tax expense (benefit), depreciation of specialty rental assets, and other depreciation and amortization.

Adjusted EBITDA reflects the following further adjustments to EBITDA to exclude certain non-cash items and the effect of what management considers transactions or events not related to its core business operations:

- ***Other expense (income), net:*** Other expense (income), net includes miscellaneous cash receipts, gains and losses on disposals of property, plant, and equipment, and other immaterial expenses and non-cash items.

- ***Transaction expenses:*** Target Hospitality incurred certain immaterial transaction costs during 2023. During 2024, Target Hospitality incurred transaction costs associated with certain transactions, primarily driven by the Proposal described in "Recent Developments" in Note 1 of the notes to our unaudited consolidated financial statements included elsewhere within this Form 10-Q.

- ***Stock-based compensation:*** Charges associated with stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy.

- ***Change in fair value of warrant liabilities:*** Non-cash change in estimated fair value of warrant liabilities.

- ***Other adjustments:*** System implementation costs, including non-cash amortization of capitalized system implementation costs, business development, accounting standard implementation costs and certain severance costs.

We define Discretionary cash flows as cash flows from operations less maintenance capital expenditures for specialty rental assets.

EBITDA reflects net income (loss) excluding the impact of interest expense and loss on extinguishment of debt, provision for income taxes, depreciation, and amortization. We believe that EBITDA is a meaningful indicator of operating performance because we use it to measure our ability to service debt, fund capital expenditures, and expand our business. We also use EBITDA, as do analysts, lenders, investors, and others, to evaluate companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be dependent on a company's capital structure, debt levels, and credit ratings. Accordingly, the impact of interest expense on earnings can vary significantly among companies. The tax positions of companies can also vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and provision for income taxes can vary considerably among companies. EBITDA also excludes depreciation and amortization expense, because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies.

Target Hospitality also believes that Adjusted EBITDA is a meaningful indicator of operating performance. Our Adjusted EBITDA reflects adjustments to exclude the effects of additional items, including certain items, that are not reflective of the ongoing operating results of Target Hospitality. In addition, to derive Adjusted EBITDA, we exclude gains or losses on the sale or disposal of depreciable assets and impairment losses because including them in EBITDA is inconsistent with reporting the ongoing performance of our remaining assets. Additionally, the gain or loss on sale or disposal of depreciable assets and impairment losses represents either accelerated depreciation or excess depreciation in previous periods, and depreciation is excluded from EBITDA.

Target Hospitality also presents Discretionary cash flows because we believe it provides useful information regarding our business as more fully described below. Discretionary cash flows indicate the amount of cash available after maintenance capital expenditures for specialty rental assets for, among other things, investments in our existing business.

Adjusted gross profit, EBITDA, Adjusted EBITDA, and Discretionary cash flows are not measurements of Target Hospitality's financial performance under GAAP and should not be considered as alternatives to gross profit, net income or other performance measures derived in accordance with GAAP, or as alternatives to cash flow from operating activities as measures of Target Hospitality's liquidity. Adjusted gross profit, EBITDA, Adjusted EBITDA, and Discretionary cash flows should not be considered as discretionary cash available to Target Hospitality to reinvest in the growth of our business or as measures of cash that is available to it to meet our obligations. In addition, the measurement of Adjusted gross profit, EBITDA, Adjusted EBITDA, and Discretionary cash flows may not be comparable to similarly titled measures of other companies. Target Hospitality's management believes that Adjusted gross profit, EBITDA, Adjusted EBITDA, and Discretionary cash flows provides useful information to investors about Target Hospitality and its financial condition and results of operations for the following reasons: (i) they are among the measures used by Target Hospitality's management team to evaluate its operating performance; (ii) they are among the measures used by Target Hospitality's management team to make day-to-day operating decisions, (iii) they are frequently used by securities analysts, investors and other interested parties as a common performance measure to compare results across companies in Target Hospitality's industry.

The following table presents a reconciliation of Target Hospitality's consolidated gross profit to Adjusted gross profit:

| ($ in thousands) | For the Three Months Ended June 30, 2024 | For the Three Months Ended June 30, 2023 | For the Six Months Ended June 30, 2024 | For the Six Months Ended June 30, 2023 |
|---|---|---|---|---|
| **Gross Profit** | **$ 46,870** | **$ 82,366** | **$ 95,938** | **$ 164,329** |
| Depreciation of specialty rental assets | 14,805 | 17,992 | 29,586 | 35,589 |
| **Adjusted gross profit** | **$ 61,675** | **$ 100,358** | **$ 125,524** | **$ 199,918** |

The following table presents a reconciliation of Target Hospitality's consolidated net income to EBITDA and Adjusted EBITDA:

| ($ in thousands) | For the Three Months Ended June 30, 2024 | For the Three Months Ended June 30, 2023 | For the Six Months Ended June 30, 2024 | For the Six Months Ended June 30, 2023 |
|---|---|---|---|---|
| **Net income** | **$ 18,386** | **$ 46,453** | **$ 38,769** | **$ 90,278** |
| Income tax expense | 6,892 | 13,703 | 13,035 | 25,920 |
| Interest expense, net | 4,273 | 5,276 | 8,861 | 12,773 |
| Loss on extinguishment of debt | — | — | — | 2,128 |
| Other depreciation and amortization | 3,908 | 3,841 | 7,792 | 7,644 |
| Depreciation of specialty rental assets | 14,805 | 17,992 | 29,586 | 35,589 |
| **EBITDA** | **48,264** | **87,265** | **98,043** | **174,332** |
| | | | | |
| **Adjustments** | | | | |
| Other expense (income), net | (46) | 311 | (156) | 1,315 |
| Transaction expenses | 1,922 | 37 | 2,162 | 88 |
| Stock-based compensation | 1,336 | 3,466 | 4,083 | 9,113 |
| Change in fair value of warrant liabilities | — | (675) | (675) | (4,385) |
| Other adjustments | 703 | 511 | 2,409 | 1,050 |
| **Adjusted EBITDA** | **$ 52,179** | **$ 90,915** | **$ 105,866** | **$ 181,513** |

The following table presents a reconciliation of Target Hospitality's Net cash provided by operating activities to Discretionary cash flows:

| ($ in thousands) | For the Six Months Ended June 30, 2024 | For the Six Months Ended June 30, 2023 |
|---|---|---|
| **Net cash provided by operating activities** | **$ 89,696** | **$ 70,275** |
| Less: Maintenance capital expenditures for specialty rental assets | (9,387) | (4,503) |
| **Discretionary cash flows** | **$ 80,309** | **$ 65,772** |
| | | |
| Purchase of specialty rental assets | (15,918) | (42,916) |
| Purchase of property, plant and equipment | (261) | (1,493) |
| Acquired intangible assets | — | (4,547) |
| Proceeds from sale of specialty rental assets and other property, plant and equipment | 42 | 165 |
| **Net cash used in investing activities** | **$ (16,137)** | **$ (48,791)** |
| | | |
| Principal payments on finance and finance lease obligations | (824) | (701) |
| Repayment of Senior Notes | — | (125,000) |
| Repurchase of Common Stock | (21,137) | — |
| Payment of issuance costs from warrant exchange | — | (1,504) |
| Proceeds from issuance of Common Stock from exercise of warrants | 3 | 209 |
| Proceeds from issuance of Common Stock from exercise of options | 1,386 | 1,252 |
| Payment of deferred financing costs | — | (1,423) |
| Taxes paid related to net share settlement of equity awards | (2,615) | (6,418) |
| **Net cash used in financing activities** | **$ (23,187)** | **$ (133,585)** |

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our principal market risks are our exposure to interest rates and commodity risks.

**Interest Rates**

We are exposed to interest rate risk through our ABL Facility, which is subject to the risk of higher interest charges associated with increases in interest rates. As of June 30, 2024, we had $0 of outstanding floating-rate obligations under our credit facilities. These floating-rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates. If floating interest rates increased by 100 basis points, our consolidated interest expense would not be impacted, however, based on our floating-rate debt obligations, which had no outstanding balances as of June 30, 2024.

**Commodity Risk**

Commodity price fluctuations also indirectly influence our activities and results of operations over the long-term because they may affect production rates and investments by natural resource development companies in the development of commodity reserves.

We have limited direct exposure to risks associated with fluctuating commodity prices. However, both our profitability and our cash flows are affected by volatility in commodity prices. We do not currently hedge our exposure to commodity prices.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, the Company’s management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). 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 Chief Executive Officer and Chief 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. Based upon that evaluation, the Company’s management and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2024, at the reasonable assurance level.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are involved in various lawsuits, claims and legal proceedings, the majority of which arise out of the ordinary course of business. The nature of the Company’s business is such that disputes occasionally arise with vendors including suppliers and subcontractors, and customers over contract specifications and contract interpretations among other things. The company assesses these matters on a case-by-case basis as they arise. Reserves are established, as required, based on its assessment of exposure. We have insurance policies to cover general liability and workers’ compensation-related claims. In the opinion of management, the ultimate amount of liability not covered by insurance, if any, under such pending lawsuits, claims and legal proceedings will not have a material adverse effect on its financial condition or results of operations. Because litigation is subject to inherent uncertainties including unfavorable rulings or developments, it is possible that the ultimate resolution of our legal proceedings could involve amounts that are different from our currently recorded accruals, and that such differences could be material.

**Item 1A. Risk Factors**

The Company's financial position, results of operations and cash flows are subject to various risks, many of which are not exclusively within the Company's control and which may cause actual performance to differ materially from historical or projected future performance. For additional information about our risk factors, you should carefully consider the risk factors included in the 2023 Form 10-K, which have not materially changed.

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

**Unregistered Sales of Equity Securities**

The Company did not sell any securities during the quarter ended June 30, 2024 that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

**Issuer Purchases of Equity Securities**

On November 3, 2022, the Company's Board of Directors approved a stock repurchase program that authorizes the Company to repurchase up to $100 million of its outstanding shares of Common Stock. The stock repurchase program does not obligate the Company to purchase any particular number of shares, and the timing and exact amount of any repurchases will depend on various factors, including market pricing and conditions, applicable legal requirements, contractual obligations, and other factors. Any shares of common stock repurchased will be held as treasury shares.

The Company may repurchase its shares in open market transactions from time to time or through privately negotiated transactions in accordance with federal securities laws, at the Company's discretion. The repurchase program, which has no expiration date, may be increased, suspended, or terminated at any time. The program is expected to be implemented over the course of several years and is conducted subject to the covenants in the agreements governing the Company's indebtedness. During the six months ended June 30, 2024, the Company repurchased 2,274,440 shares of Common Stock for an aggregated price of approximately $21.1 million (exclusive of estimated excise taxes of approximately $0.1 million). During the three months ended June 30, 2024, the Company did not repurchase any shares of Common Stock. As of June 30, 2024, the stock repurchase program had a remaining capacity of approximately $78.9 million.

The following table summarizes all of the share repurchases during the three and six months ended June 30, 2024:

| Period | Total number of shares | Average price paid per share | Total number of shares purchased as part of publicly announced plan or program | Maximum number of shares yet to be purchased under the plan (1) |
|---|---|---|---|---|
| January 1, 2024 through January 31, 2024 | 903,444 | $ 9.37 | 903,444 | 9,465,382 |
| February 1, 2024 through February 29, 2024 | 754,556 | $ 9.47 | 754,556 | 8,717,615 |
| March 1, 2024 through March 31, 2024 | 616,440 | $ 8.89 | 616,440 | 7,259,287 |
| Total | 2,274,440 | | 2,274,440 | |

(1) The maximum number of shares that may be repurchased under the stock repurchase program is calculated by dividing the total dollar amount available to repurchase shares by the closing price of our Common Stock on the last business day of the respective month.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| Exhibit No. | Exhibit Description |
|---|---|
| 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 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of 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 | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline 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

** The certifications furnished in Exhibit 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

**SIGNATURES**

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

Target Hospitality Corp.

Dated: August 7, 2024

By: /s/ JASON P. VLACICH

**Jason P. Vlacich**
**Chief Financial Officer and Chief Accounting Officer**

**Exhibit 31.1**

**SECTION 302 CERTIFICATION**

1. I have reviewed this report on Form 10-Q of Target Hospitality Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

I, James B. Archer, certify that:

Date: August 7, 2024

By: /s/ JAMES B. ARCHER

**James B. Archer**
**President and Chief Executive Officer**

**Exhibit 31.2**

**SECTION 302 CERTIFICATION**

1. I have reviewed this report on Form 10-Q of Target Hospitality Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

I, Jason P. Vlacich, certify that:

| | | | |
|---|---|---|---|
| Date: | August 7, 2024 | By: | /s/ JASON P. VLACICH |
| | | | **Jason P. Vlacich** |
| | | | **Chief Financial Officer and Chief Accounting Officer** |

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

**(ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the periodic report of Target Hospitality Corp. (the "Company") on Form 10-Q for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James B. Archer, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for the purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: August 7, 2024

By: /s/ JAMES B. ARCHER

**James B. Archer**
**President and Chief Executive Officer**

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

**(ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the periodic report of Target Hospitality Corp. (the "Company") on Form 10-Q for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jason P. Vlacich, Chief Financial Officer and Chief Accounting Officer of the Company, hereby certify as of the date hereof, solely for the purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: August 7, 2024

By: /s/ JASON P. VLACICH

**Jason P. Vlacich**
**Chief Financial Officer and Chief Accounting Officer**