
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

or

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

For the transition period from _____ to _____
Commission File Number: 001-38390

Cactus, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)
920 Memorial City Way, Suite 300
Houston, Texas
(Address of principal executive offices)

35-2586106
(I.R.S. Employer
Identification No.)

77024
(Zip code)

(713) 626-8800

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.01	WHD	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 ☒

As of June 30, 2019, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was \$1.6 billion.

As of February 24, 2020, the registrant had 47,339,551 shares of Class A common stock, \$0.01 par value per share, and 27,957,699 shares of Class B common stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Annual Report”) contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). When used in this Annual Report, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” included in this Annual Report. These forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about:

- demand for our products and services, which is affected by, among other things, changes in the price of crude oil and natural gas in domestic and international markets;
- the level of growth in number of rigs, pad sizes, well spacings and associated well count and availability of takeaway capacity;
- capital spending discipline exercised by customers;
- changes in the number of drilled but uncompleted wells (“DUC’s”) and the level of completion activity;
- the size and timing of orders;
- availability of raw materials and imported items;
- transportation differentials associated with reduced capacity in and out of the storage hub in Cushing, Oklahoma;
- expectations regarding raw materials, overhead and operating costs and margins;
- availability of skilled and qualified workers;
- potential liabilities such as warranty and product liability claims arising out of the installation, use or misuse of our products;
- the possibility of cancellation of orders;
- our business strategy;
- our financial strategy, operating cash flows, liquidity and capital required for our business;
- our future revenue, income and operating performance;
- the ability to pay dividends and the amount of any such dividends;

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- the termination of relationships with major customers or suppliers;
- laws and regulations, including environmental regulations, that may increase our costs, limit the demand for our products and services or restrict our operations;
- disruptions in the political, regulatory, economic and social conditions domestically or internationally;
- outbreaks of pandemic or contagious diseases that may disrupt our suppliers or facilities or impact demand for oil and gas;
- increases in import tariffs assessed on products from China and imported raw materials used in the manufacture of our goods in the United States which could negatively impact margins and our working capital;
- the significance of future liabilities under the Tax Receivable Agreement (the “TRA”) we entered into with certain current or past direct and indirect owners of Cactus LLC (the “TRA Holders”) in connection with our initial public offering;
- a failure of our information technology infrastructure or any significant breach of security;
- potential uninsured claims and litigation against us;
- competition within the oilfield services industry;
- our dependence on the continuing services of certain of our key managers and employees;
- currency exchange rate fluctuations associated with our international operations; and
- plans, objectives, expectations and intentions contained in this Annual Report that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the operation of our business. These risks include, but are not limited to the risks described in this Annual Report under “Item 1A. Risk Factors.”

Should one or more of the risks or uncertainties described in this Annual Report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this Annual Report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Annual Report.

PART I

Except as otherwise indicated or required by the context, all references in this Annual Report to “the Company,” “Cactus,” “we,” “us” and “our” refer to (i) Cactus Wellhead, LLC (“Cactus LLC”) and its consolidated subsidiaries prior to the completion of our initial public offering and (ii) Cactus, Inc. (“Cactus Inc.”) and its consolidated subsidiaries (including Cactus LLC) following the completion of our initial public offering on February 12, 2018.

Item 1. Business

Our History

Cactus Inc. was incorporated on February 17, 2017 as a Delaware corporation for the purpose of completing an initial public offering of equity and related transactions (our “IPO”). Cactus LLC is a Delaware limited liability company and was formed on July 11, 2011. We began operating in August 2011, following the formation of Cactus LLC by Scott Bender and Joel Bender, who have owned or operated wellhead manufacturing businesses since the late 1970s, and Cadent Energy Partners II, L.P. (“Cadent”), an affiliate of Cadent Energy Partners LLC, as its equity sponsor. We acquired our primary manufacturing facility in Bossier City, Louisiana in September 2011 and established our other production facility, located in Suzhou, China in December 2013 through our subsidiary there. Since we began operating, we have grown to 14 U.S. service centers located in Texas, Pennsylvania, Oklahoma, North Dakota, New Mexico, Louisiana, Colorado and Wyoming as well as three service centers in Eastern Australia. Our corporate headquarters are located in Houston, Texas.

Cactus Inc. and its consolidated subsidiaries, including Cactus LLC, are primarily engaged in the design, manufacture and sale of wellhead and pressure control equipment. In addition, we maintain a fleet of frac valves and ancillary equipment for short-term rental. Our products are sold and rented principally for onshore unconventional oil and gas wells and are utilized during the drilling, completion and production phases of our customers’ wells. We also provide field services for all of our products and rental items to assist with the installation, maintenance and handling of the wellhead and pressure control equipment as well as offer repair and refurbishment services.

Organization Structure

On February 12, 2018, we completed our initial public offering of 23.0 million shares of Class A common stock, par value \$0.01 per share (“Class A common stock”), at a price to the public of \$19.00 per share. We received net proceeds of \$408.0 million after deducting underwriting discounts and commissions and payment of \$2.8 million in offering expenses for the IPO. We also paid \$2.2 million in offering expenses during 2017. On February 14, 2018 we completed the sale of an additional 3.5 million shares of Class A common stock pursuant to the exercise in full by the underwriters of their option to purchase additional shares of Class A common stock (the “Option”), from which we received an additional \$61.6 million net proceeds after deducting underwriting discounts and commissions. We contributed all of the net proceeds of our IPO (including from the Option) to Cactus LLC in exchange for CW Units. Cactus LLC used the \$469.6 million of the net proceeds from our IPO to (i) repay all of the borrowings outstanding under its term loan facility, including accrued interest, of \$251.0 million and (ii) redeem \$216.4 million of CW Units from certain direct and indirect owners of Cactus LLC. The remaining \$2.2 million was retained by Cactus LLC to cover offering expenses previously paid in 2017.

Cactus Inc. is a holding company whose only material asset is an equity interest consisting of units representing limited liability company interests in Cactus LLC (“CW Units”). Cactus Inc. became the sole managing member of Cactus LLC upon completion of our IPO and is responsible for all operational, management and administrative decisions relating to Cactus LLC’s business. The Limited Liability Company Operating Agreement of Cactus LLC was amended and restated as the First Amended and Restated Limited Liability Company Operating Agreement of Cactus LLC (the “Cactus Wellhead LLC Agreement”) to, among other things, admit Cactus Inc. as the sole managing member of Cactus LLC. Pursuant to the Cactus Wellhead LLC Agreement, holders of CW Units are entitled to redeem their CW Units, which results in a corresponding increase in Cactus Inc.’s membership interest in Cactus LLC and an increase in the number of shares of

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Class A common stock outstanding. The following is a rollforward of ownership of legacy CW Units by legacy CW Unit Holders:

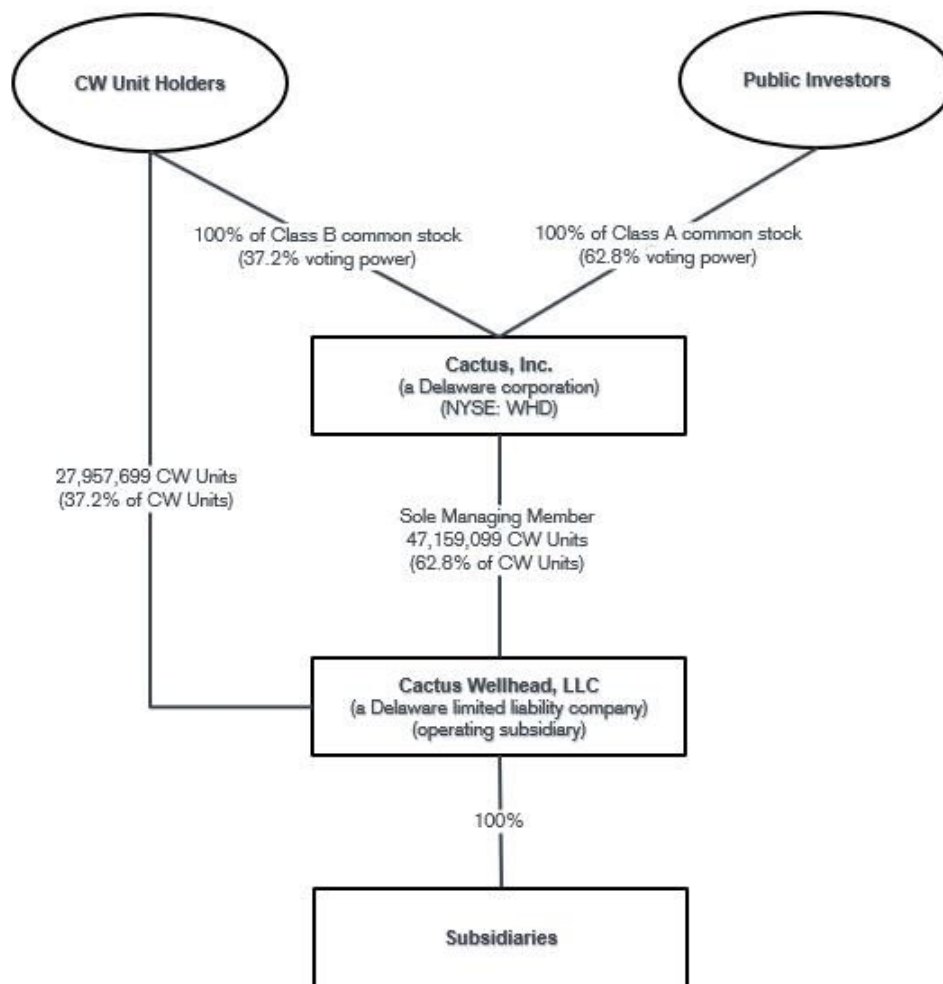
	CW Units (in thousands)
CW Units held by legacy CW Unit Holders as of February 7, 2018	60,558
IPO	(12,118)
July 2018 Follow-on Offering	(11,197)
Other CW Unit redemptions	(7)
CW Units held by legacy CW Unit Holders as of December 31, 2018	37,236
March 2019 Secondary Offering	(8,474)
Other CW Unit redemptions	(804)
CW Units held by legacy CW Unit Holders as of December 31, 2019	27,958

On July 16, 2018, we completed a public offering of 11.2 million shares (consisting of 10.0 million base shares and 1.2 million shares sold pursuant to the underwriters' option to purchase additional shares) of Class A common stock (the "Follow-on Offering") at a price to the public of \$33.25 per share and received \$359.3 million of net proceeds after deducting underwriting discounts and commissions. Cactus Inc. contributed these net proceeds to Cactus LLC in exchange for CW Units. Cactus LLC then used the net proceeds to redeem 11.2 million CW Units from certain of the owners of Cactus LLC, and Cactus Inc. canceled a corresponding number of shares of Class B common stock, par value \$0.01 per share ("Class B common stock").

On March 19, 2019, Cactus Inc. entered into an underwriting agreement by and among Cactus Inc., Cactus LLC, certain selling stockholders of Cactus (the "Selling Stockholders") and the underwriters named therein, providing for the offer and sale of Class A common stock by the Selling Stockholders (the "March 2019 Secondary Offering"). As described in the prospectus supplement dated March 19, 2019 and filed with the Securities and Exchange Commission on March 20, 2019, in connection with the March 2019 Secondary Offering, certain Selling Stockholders owning CW Units exercised their Redemption Right with respect to 8.5 million CW Units, together with a corresponding number of shares of Class B common stock, as provided in the Cactus LLC Agreement. The March 2019 Secondary Offering closed on March 21, 2019, at which time, in exercise of its Call Right, Cactus Inc. acquired the redeemed CW Units and a corresponding number of shares of Class B common stock (which shares of Class B common stock were then canceled) and issued 8.5 million shares of Class A common stock to the underwriters at the direction of the redeeming Selling Stockholders, as provided in the Cactus LLC Agreement. In addition, certain other Selling Stockholders sold 26 thousand shares of Class A common stock in the March 2019 Secondary Offering, which shares were owned by them directly prior to the closing of this offering. Cactus did not receive any of the proceeds from the sale of common stock in the March 2019 Secondary Offering. Cactus incurred \$1.0 million in offering expenses which were recorded in other income (expense), net, in the consolidated statement of income.

In this Annual Report, we refer to the owners of CW Units, other than Cactus Inc., (along with their permitted transferees) as "CW Unit Holders." CW Unit Holders also own one share of our Class B common stock for each CW Unit such CW Unit Holder owns. As of December 31, 2019, after giving effect to our IPO, Follow-on Offering, the March 2019 Secondary Offering and additional redemptions pursuant to the Cactus Wellhead LLC Agreement, Cactus Inc. owns an approximate 62.8% interest in Cactus LLC, and the CW Unit Holders own an approximate 37.2% interest in Cactus LLC as of December 31, 2019, which is based on 47.2 million shares of Class A common stock and 28.0 million shares of Class B common stock issued and outstanding.

The following diagram indicates our simplified ownership structure as of December 31, 2019:



Overview

Our principal products include our Cactus SafeDrill® wellhead systems as well as frac stacks, our Cactus SafeLink™ system, zipper manifolds and production trees that we design and manufacture. Every oil and gas well requires a wellhead, which is installed at the onset of the drilling process and remains with the well through its entire productive life. The Cactus SafeDrill® wellhead systems employ technology which allows technicians to land and secure casing strings more safely from the rig floor, reducing the need to descend into the cellar. We believe we are a market leader in the application of such technology, with thousands of our products sold and installed across the United States since 2011. During the completion phase of a well, we rent frac stacks, zipper manifolds and other high-pressure equipment that are used for well control and for managing the transmission of frac fluids and proppants during the hydraulic fracturing process. These severe service applications require robust and reliable equipment. For the subsequent production phase of a well, we sell production trees and the equipment to interface with various forms of artificial lift that regulate hydrocarbon production, which are installed on the wellhead after the frac stack has been removed. In addition, we provide mission-critical field services for all of our products and rental items, including 24-hour service crews to assist with the installation, maintenance, repair and safe handling of the wellhead and pressure control equipment.

Our innovative wellhead products and pressure control equipment are developed internally. We believe our close relationship with our customers provides us with insight into the specific issues encountered in the drilling and completion processes, allowing us to provide them appropriate product and service solutions. We have achieved significant market share, as measured by the percentage of total active U.S. onshore rigs that we follow (which we define as the number of active U.S. onshore drilling rigs to which we are the primary provider of wellhead products and corresponding services during drilling), and brand name recognition with respect to our engineered products, which we believe is due to our focus on safety, reliability, cost effectiveness and time saving features. We optimize our products for pad drilling (i.e., the process of drilling multiple wellbores from a single surface location) to reduce rig time and provide operators with significant efficiencies that translate to cost savings at the wellsite.

We operate through service centers in the United States, which are strategically located in the key oil and gas producing regions, including the Permian, SCOOP/STACK, Marcellus, Utica, Eagle Ford, and Bakken, among other active oil and gas regions in the United States, and in Eastern Australia. These service centers support our field services and provide equipment assembly and repair services. Our manufacturing and production facilities are located in Bossier City, Louisiana and Suzhou, China.

How We Generate Our Revenues

We operate in one business segment. Our revenues are derived from three sources: products, rentals, and field service and other. Product revenues are primarily derived from the sale of wellhead systems and production trees. Rental revenues are primarily derived from the rental and associated repair of equipment used for well control during the completion process as well as the rental of drilling tools. Field service and other revenues are primarily earned when we provide installation and other field services for both product sales and equipment rental. Additionally, other revenues are derived from providing repair and reconditioning services to customers that have previously installed wellheads or production trees on their wellsite. Items sold or rented generally have an associated service component. As a result, there is some level of correlation between field service and other revenues and revenues from product sales and rentals.

For the year ended December 31, 2019, we derived 57% of our total revenues from the sale of our products, 22% from rental and 21% from field service and other. In 2018, we derived 53% of our total revenues from the sale of our products, 25% from rental and 22% from field service and other. In 2017, we derived 55% of our total revenues from the sale of our products, 23% from rental and 22% from field service and other. We have predominantly domestic operations, with a small amount of sales being generated in Australia.

Most of our sales are made on a call out basis pursuant to agreements, wherein our clients provide delivery instructions for goods and/or services as their operations require. Such goods and/or services are most often priced in accordance with a preapproved price list. The actual pricing of our products and services is impacted by a number of factors including competitive pricing pressure, the level of utilized capacity in the oil service sector, maintenance of market share, cost of producing the product and general market conditions.

Costs of Conducting Our Business

The principal elements of cost of sales for our products are the direct and indirect costs to manufacture and supply the product, including labor, materials, machine time, tariffs and duties, freight and lease expense related to our facilities. The principal elements of cost of sales for rentals are the direct and indirect costs of supplying rental equipment, including depreciation, repairs specifically performed on such rental equipment and freight. The principal elements of cost of sales for field service and other are labor, equipment depreciation and repair, equipment lease expense, fuel and supplies.

Selling, general and administrative expense is comprised of costs such as sales and marketing, engineering, general corporate overhead, business development, compensation, employment benefits, information technology, safety and environmental, legal and professional.

Interest income (expense), net includes interest expense associated with our credit facility, finance leases and accrued interest on deferred payments under the TRA.

Impact of Section 232 of the Trade Expansion Act of 1962 (“Section 232”)

On March 8, 2018, the President of the United States issued two proclamations imposing tariffs on imports of certain steel and aluminum products, effective March 23, 2018. The decision was made in response to the Department of Commerce's findings and recommendations in its reports of its investigations into the impact of imported steel and aluminum on the national security of the United States pursuant to Section 232. Specifically, the President imposed a 25% global tariff on certain imported steel mill products and a 10% global tariff on certain imported aluminum products. The President subsequently has issued proclamations permanently excluding Argentina, Australia, Brazil, Canada, Mexico and South Korea from the steel tariff and Argentina, Australia, Canada and Mexico from the aluminum tariff, though imports of steel from Argentina, Brazil and South Korea, and imports of aluminum from Argentina, are subject to absolute quotas. The tariffs and quotas have caused the cost of raw materials to increase.

Impact of Section 301 of the Trade Act of 1974 (“Section 301”)

On May 10, 2019, the U.S. Trade Representative announced that it was increasing the level of tariffs on approximately \$200 billion worth of Chinese imports pursuant to Section 301. The tariff rate on covered products that were exported on or after May 10, 2019 was raised from 10% to 25%. Covered products that were exported from China to the United States prior to May 10, 2019 remained subject to an additional 10% tariff if they entered the U.S. before June 15, 2019. Substantially all of the products and fractional rental equipment that we import through our Chinese supply chain are subject to the tariffs. For the year ended December 31, 2019, we estimate that approximately 50% of our goods received were sourced through our Chinese supply chain.

We believe further increases in the tariff rate above 25% may adversely affect our business, but a combination of factors may mitigate some of the impact of any future increases in tariff rates on our results of operations. These include, among other things, use of product received prior to the introduction of tariffs, our negotiations with suppliers, use of alternative supply chains and favorable currency exchange movements.

Suppliers and Raw Materials

Forgings, castings and bar stock represent the principal raw materials used in the manufacture of our products and rental equipment. In addition, we require accessory items (such as elastomers, ring gaskets, studs and nuts) and machined components. We purchase these items from vendors in the United States, China and Australia. For the years ended December 31, 2019, 2018 and 2017, approximately \$36.5 million, \$46.7 million and \$33.4 million, respectively, of machined component purchases were made from a vendor located in China, representing approximately 16%, 21% and 22%, respectively, of our total third-party vendor purchases. We do not believe that we are overly dependent on any individual vendor to supply our required materials or services. The materials and services essential to our business are normally readily available and, where we use one or a few vendors as a source of any particular materials or services, we believe that we can, within a reasonable period of time, make satisfactory alternative arrangements in the event of an interruption of supply from any vendor. We believe that our materials and services vendors have the capacity to meet additional demand should we require it, although likely at higher costs and delayed deliveries.

Manufacturing

Our manufacturing and production facilities are located in Bossier City, Louisiana and Suzhou, China. Although both facilities can produce our full range of products, our Bossier City facility has advanced capabilities and is designed to support time-sensitive and rapid turnaround orders, while our facility in China is optimized for longer lead time orders and outsources its machining requirements. Both our Bossier City and China facilities are licensed to the latest American Petroleum Institute (“API”) 6A specification for both wellheads and valves and API Q1 and ISO 9001:2015 quality management systems. Our Bossier City facility is configured to provide rapid-response production of made-to-order equipment. Where traditional manufacturing facilities are designed to run in batches with different machining processes occurring in stages, this facility uses advanced computer numeric control machines to perform multiple machining operations in a single step. We believe eliminating the setup and queue times between machining processes allows us to offer significantly shorter order-to-delivery time for equipment than our competitors, albeit at higher costs than China. Responsiveness to urgent needs strengthens our relationship with key customers.

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Our Bossier City manufacturing facility also functions as a repair and testing facility with its API 6A certification and full Quality Assurance and Quality Control department. The facility also has the ability to perform hydrostatic testing, phosphate and oiling, copper coating and frac valve remanufacturing.

Our production facility in China is configured to efficiently produce our range of pressure control products and components for less time-sensitive, higher-volume orders. All employees in our Suzhou facility are Cactus employees, which we believe is a key factor in ensuring high quality. Our Suzhou facility currently assembles and tests machined components before shipment to Cactus facilities in the United States and Australia.

Trademarks and Other Intellectual Property

Trademarks are important to the marketing of our products. We consider the Cactus Wellhead trademark to be important to our business as a whole. The Company has numerous trademarks registered with the U.S. Patent and Trademark Office and has also applied for registration status of numerous trademarks which are pending.

We also rely on trade secret protection for our confidential and proprietary information. To protect our information, we customarily enter into confidentiality agreements with our employees and suppliers. There can be no assurance, however, that others will not independently obtain similar information or otherwise gain access to our trade secrets.

We have been awarded several U.S. patents and currently have patent applications pending. We seek to protect our technology through use of patent protections, although we do not deem patents to be critical to our success.

Cyclical

We are substantially dependent on conditions in the oil and gas industry, including the level of exploration, development and production activity of, and the corresponding capital spending by, oil and natural gas companies. The level of exploration, development and production activity is directly affected by trends in oil and natural gas prices, which have historically been volatile, and by the availability of capital and the associated capital spending discipline exercised by customers. Declines, as well as anticipated declines, in oil and gas prices could negatively affect the level of these activities and capital spending, which could adversely affect demand for our products and services and, in certain instances, result in the cancellation, modification or rescheduling of existing and expected orders and the ability of our customers to pay us for our products and services. These factors could have an adverse effect on our revenue and profitability.

Seasonality

Our business is not significantly impacted by seasonality, although our fourth quarter has historically been impacted by holidays and our clients' budget cycles.

Customers

We serve over 200 customers representing majors, independents and other oil and gas companies with operations in the key U.S. oil and gas producing basins including the Permian, SCOOP/STACK, Marcellus, Utica, Eagle Ford, Bakken and other active oil and gas basins, as well as in Australia. Pioneer Natural Resources represented approximately 10% of total revenues for the year ended December 31, 2019 and 11% during each of the years ended December 31, 2018 and 2017.

Competition

The markets in which we operate are highly competitive. We believe that we are one of the largest suppliers of wellheads in the United States. We compete with divisions of Schlumberger, Baker Hughes and TechnipFMC, as well as with a number of other companies. Similar to Cactus, each of Schlumberger, Baker Hughes and TechnipFMC manufacture their own engineered products.

We believe that the rental market for frac stacks and related flow control equipment is more fragmented than the wellhead product market. Cactus does not believe that any individual company represents more than 20% of the U.S. market.

As is the case in the wellhead market, Cactus, Schlumberger, Baker Hughes and TechnipFMC rent internally engineered and manufactured products. Other competitors generally rent foreign manufactured generic products.

We believe that the principal competitive factors in the markets we serve are technical features, equipment availability, work force competency, efficiency, safety record, reputation, experience and price. Additionally, projects are often awarded on a bid basis, which tends to create a highly competitive environment. While we seek to be competitive in our pricing, we believe many of our customers elect to work with us based on product features, safety, performance and quality of our crews, equipment and services. We seek to differentiate ourselves from our competitors by delivering the highest-quality services and equipment possible, coupled with superior execution and operating efficiency in a safe working environment.

Environmental, Health and Safety Regulation

We are subject to stringent governmental laws and regulations, both in the United States and other countries, pertaining to protection of the environment and occupational safety and health. Compliance with environmental legal requirements in the United States at the federal, state or local levels may require acquiring permits to conduct regulated activities, incurring capital expenditures to limit or prevent emissions, discharges and any unauthorized releases, and complying with stringent practices to handle, recycle and dispose of certain wastes. These laws and regulations include, among others:

- the Federal Water Pollution Control Act (the “Clean Water Act”);
- the Clean Air Act;
- the Comprehensive Environmental Response, Compensation and Liability Act;
- the Resource Conservation and Recovery Act;
- the Occupational Safety and Health Act; and
- national and local environmental protection laws in the People’s Republic of China.

New, modified or stricter enforcement of environmental laws and regulations could be adopted or implemented that significantly increase our compliance costs, pollution mitigation costs, or the cost of any remediation of environmental contamination that may become necessary, and these costs could be material. Our clients are also subject to most, if not all, of the same laws and regulations relating to environmental protection and occupational safety and health in the United States and in foreign countries where we operate. Consequently, to the extent these environmental compliance costs, pollution mitigation costs or remediation costs are incurred by our clients, those clients could elect to delay, restrict or cancel drilling, exploration or production programs, which could reduce demand for our products and services and, as a result, have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Consistent with our quality assurance and control principles, we have established proactive environmental and worker safety policies in the United States and foreign countries for the management, handling, recycling or disposal of chemicals and gases and other materials and wastes resulting from our operations. Substantial fines and penalties can be imposed and orders or injunctions limiting or prohibiting certain operations may be issued in connection with any failure to comply with laws and regulations relating to worker health and safety.

API Certifications. Our manufacturing facility and our production facility are currently certified by the API as being in compliance with API 6A, 21st Edition product specification for both wellheads and valves and API Q1, 9th Edition, Addendum 2, and ISO 9001:2015 quality management systems. API’s standards are subject to revision, however, and there is no guarantee that future amendments or substantive changes to the standards would not require us to modify our operations or manufacturing processes to meet the new standards. Doing so may materially affect our operational costs. We also cannot guarantee that changes to the standards would not lead to the rescission of our licenses should we be unable to make the changes necessary to meet the new standards. Furthermore, these facilities are subjected to annual audits by the API. Loss of our API licenses could materially affect demand for these products.

Hydraulic Fracturing. Many of our customers utilize hydraulic fracturing in their operations. Environmental concerns have been raised regarding the potential impact of hydraulic fracturing on underground water supplies and seismic activity. These concerns have led to several regulatory and governmental initiatives in the United States to restrict the hydraulic fracturing process, which could have an adverse impact on our customers' completions or production activities.

Although we do not conduct hydraulic fracturing, increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition to oil and gas production activities using hydraulic fracturing techniques. In addition, the adoption of new laws or regulations at the federal, state, local or foreign level imposing reporting obligations on, or otherwise limiting, delaying or banning, the hydraulic fracturing process or other processes on which hydraulic fracturing and subsequent hydrocarbon production relies, such as water disposal, could make it more difficult to complete oil and natural gas wells. Further, it could increase our customers' costs of compliance and doing business, and otherwise adversely affect the hydraulic fracturing services they perform, which could negatively impact demand for our products.

Climate Change. State, national and international governments and agencies continue to evaluate, and in some instances adopt, climate-related legislation and other regulatory initiatives that would restrict emissions of greenhouse gases. Changes in environmental requirements related to greenhouse gases, climate change and alternative energy sources may negatively impact demand for our services. For example, oil and natural gas exploration and production may decline as a result of environmental requirements, including land use policies responsive to environmental concerns. Because our business depends on the level of activity in the oil and natural gas industry, existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, may reduce demand for oil and natural gas and could have a negative impact on our business. Likewise, such restrictions may result in additional compliance obligations that could have a material adverse effect on our business, consolidated results of operations and consolidated financial condition.

Insurance and Risk Management

We rely on customer indemnifications and third-party insurance as part of our risk mitigation strategy. However, our customers may be unable to satisfy indemnification claims against them. In addition, we indemnify our customers against certain claims and liabilities resulting or arising from our provision of goods or services to them. Our insurance may not be sufficient to cover any particular loss or may not cover all losses. We carry a variety of insurance coverages for our operations, and we are partially self-insured for certain claims, in amounts that we believe to be customary and reasonable. Historically, insurance rates have been subject to various market fluctuations that may result in less coverage, increased premium costs, or higher deductibles or self-insured retentions.

Our insurance includes coverage for commercial general liability, damage to our real and personal property, damage to our mobile equipment, sudden and accidental pollution liability, workers' compensation and employer's liability, auto liability, foreign package policy, commercial crime, fiduciary liability employment practices, cargo, excess liability, and directors and officers' insurance. We also maintain a partially self-insured medical plan that utilizes specific and aggregate stop loss limits. Our insurance includes various limits and deductibles or self-insured retentions, which must be met prior to, or in conjunction with, recovery.

Employees

As of December 31, 2019, we employed over 1,100 people. Our future success will depend partially on our ability to attract, retain and motivate qualified personnel. We are not a party to any collective bargaining agreements and have not experienced any strikes or work stoppages. We consider our relations with our employees to be good.

Available Information

Our principal executive offices are located at 920 Memorial City Way, Suite 300, Houston, TX 77024, and our telephone number at that address is (713) 626-8800. Our website address is www.CactusWHD.com. Our periodic reports and other information filed with or furnished to the Securities and Exchange Commission ("SEC") are available, free of charge, through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference into this Annual Report and does not constitute a part of this Annual Report.

Item 1A. Risk Factors

Investing in our Class A common stock involves risks. You should carefully consider the information in this Annual Report, including the matters addressed under “Cautionary Statement Regarding Forward-Looking Statements,” and the following risks before making an investment decision. Our business, results of operations and financial condition could be materially and adversely affected by any of these risks. Additional risks or uncertainties not currently known to us, or that we deem immaterial, may also have an effect on our business, results of operations and financial condition. The trading price of our Class A common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to the Oilfield Services Industry and Our Business

Demand for our products and services depends on oil and gas industry activity and customer expenditure levels, which are directly affected by trends in the demand for and price of crude oil and natural gas and availability of capital.

Demand for our products and services depends primarily upon the general level of activity in the oil and gas industry, including the number of drilling rigs in operation, the number of oil and gas wells being drilled, the depth and drilling conditions of these wells, the volume of production, the number of well completions and the level of well remediation activity, and the corresponding capital spending by oil and gas companies. Oil and gas activity is in turn heavily influenced by, among other factors, current and anticipated oil and natural gas prices locally and worldwide, which have historically been volatile.

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

Factors affecting the prices of oil and natural gas include, but are not limited to, the following:

- demand for hydrocarbons, which is affected by worldwide population growth, economic growth rates and general economic and business conditions;
- available excess production capacity within the Organization of Petroleum Exporting Countries (“OPEC”) and the level of oil and gas production by non-OPEC countries;
- the continued development of shale plays which may influence worldwide supply;
- transportation differentials associated with reduced capacity in and out of the storage hub in Cushing, Oklahoma;
- costs of exploring for, producing and delivering oil and natural gas;
- political and economic uncertainty and sociopolitical unrest;
- oil refining capacity and shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- conservation measures and technological advances affecting energy consumption;
- potential acceleration of the commercial development of alternative energy sources (such as wind, solar, geothermal, tidal, fuel cells and biofuels);
- access to capital and credit markets, which may affect our customers’ activity levels and spending for our products and services;

- changes in laws and regulations related to hydraulic fracturing activities;
- changes in environmental laws and regulations (including relating to the use of coal in power plants); and
- natural disasters.

The oil and gas industry is cyclical and has historically experienced periodic downturns, which have been characterized by diminished demand for our products and services and downward pressure on the prices we charge. These downturns cause many exploration and production (“E&P”) companies to reduce their capital budgets and drilling activity. Any future downturn or expected downturn could result in a significant decline in demand for oilfield services and adversely affect our results of operations, financial condition and cash flows.

Growth in U.S. drilling and completion activity, and our ability to benefit from such growth, could be adversely affected by any significant constraints in equipment, labor or takeaway capacity in the regions in which we operate.

Growth in U.S. drilling and completion activity may be impacted by, among other things, pressure pumping capacity, pipeline capacity, and material and labor shortages. While there is no perceived shortage in capacity, should significant growth in activity occur there could be concerns over availability of the equipment, materials and labor required to drill and complete a well, together with the ability to move the produced oil and natural gas to market. Should significant constraints develop that materially impact the economics of oil and gas producers, growth in U.S. drilling and completion activity could be adversely affected. This would have an adverse impact on the demand for the products we sell and rent, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may be unable to employ a sufficient number of skilled and qualified workers to sustain or expand our current operations.

The delivery of our products and services requires personnel with specialized skills and experience. Our ability to be productive and profitable will depend upon our ability to attract and retain skilled workers. In addition, our ability to expand our operations depends in part on our ability to increase the size of our skilled labor force. The demand for skilled workers is high, the supply is limited, and the cost to attract and retain qualified personnel has increased. During industry downturns, skilled workers may leave the industry, reducing the availability of qualified workers when conditions improve. In addition, a significant increase in the wages paid by competing employers could result in increases in the wage rates that we must pay. If we are not able to employ and retain skilled workers, our ability to respond quickly to customer demands or strong market conditions may inhibit our growth, which could have a material adverse effect on our business, results of operations and financial condition.

Our business is dependent on the continuing services of certain of our key managers and employees.

We depend on key personnel. The loss of key personnel could adversely impact our business if we are unable to implement certain strategies or transactions in their absence. The loss of qualified employees or an inability to retain and motivate additional highly-skilled employees required for the operation and expansion of our business could hinder our ability to successfully maintain and expand our market share.

Equity interests in us are a substantial portion of the net worth of our executive officers and several of our other senior managers. Following the completion of our IPO, those executive officers and other senior managers have increased liquidity with respect to their equity interests in us. As a result, those executive officers and senior managers may have less incentive to remain employed by us. After terminating their employment with us, some of them may become employed by our competitors.

Political, regulatory, economic and social disruptions in the countries in which we conduct business could adversely affect our business or results of operations.

In addition to our facilities in the United States, we operate one production facility in China and have facilities in Australia that sell and rent equipment as well as provide parts, repair services and field services associated with installation. Instability and unforeseen changes in any of the markets in which we conduct business could have an adverse effect on the

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demand for, or supply of, our products and services, our results of operations and our financial condition. These factors include, but are not limited to, the following:

- nationalization and expropriation;
- potentially burdensome taxation;
- inflationary and recessionary markets, including capital and equity markets;
- civil unrest, labor issues, political instability, natural disasters, terrorist attacks, cyber-terrorism, military activity and wars;
- outbreaks of pandemic or contagious diseases;
- supply disruptions in key oil producing countries;
- tariffs, trade restrictions, trade protection measures, including those associated with Section 232 and Section 301, or price controls;
- foreign ownership restrictions;
- import or export licensing requirements;
- restrictions on operations, trade practices, trade partners and investment decisions resulting from domestic and foreign laws and regulations;
- changes in, and the administration of, laws and regulations;
- inability to repatriate income or capital;
- reductions in the availability of qualified personnel;
- development and implementation of new technologies;
- foreign currency fluctuations or currency restrictions; and
- fluctuations in the interest rate component of forward foreign currency rates.

Our operations and results may be negatively impacted by the coronavirus outbreak.

During January 2020, a novel strain of coronavirus surfaced in the Hubei province in China. We operate one facility in China in Suzhou, located in the Jiangsu province. While the Jiangsu province does not share any borders with the Hubei province, it is approximately 500 miles from Hubei. On January 27, 2020, in an effort to halt the outbreak, China's State Council announced an extension of the Lunar New Year celebration and thus extended the mandatory closure of all non-essential enterprises until February 10, 2020 in the Jiangsu province. As a result of these measures, we temporarily closed our facility in Suzhou for 10 days. Although the Suzhou facility reopened on February 10, 2020, it is currently operating at a reduced capacity due to, among other reasons, employee shortages resulting in part from government-imposed travel restrictions and local statutory quarantines. We cannot be sure the Suzhou facility will not face additional closures or assess how long it will continue operating at a reduced capacity. Additionally, even once our operations at the Suzhou facility are fully restored, continued government-imposed transportation restrictions or subsequent bottlenecks in the shipment of our products may result in additional negative effects to our supply chain or our ability to transport our products to our customers. There are still too many variables and uncertainties regarding the coronavirus outbreak to fully assess the potential impact on our business, including the ultimate geographic spread of the virus, the duration and severity of the outbreak and the extent of travel restrictions and business closures imposed in China or other affected countries. We believe that our

existing inventory levels and other operations will be able to meet customer commitments and demand for the near future, and we do not believe that the coronavirus is likely to have a material adverse impact on our results of operations for the first quarter of 2020. However, a prolonged shutdown or reduction in capacity of our Chinese operations or other facilities in China that are engaged in our supply chain will likely have a negative effect on our results of operations, which could be material. Broader global effects of potentially reduced consumer confidence, reduced demand for oil and gas and other macro issues could also have a negative effect on our overall business.

We are dependent on a relatively small number of customers in a single industry. The loss of an important customer could adversely affect our results of operations and financial condition.

Our customers are engaged in the oil and natural gas E&P business primarily in the United States and Australia. Historically, we have been dependent on a relatively small number of customers for our revenues. For the years ended December 31, 2019 and 2018, Pioneer Natural Resources represented 10% and 11%, respectively, of our total revenue and no other customer represented more than 10% of our total revenue.

Our business, results of operations and financial condition could be materially adversely affected if an important customer ceases to engage us for our services on favorable terms or at all or fails to pay or delays in paying us significant amounts of our outstanding receivables.

Additionally, the E&P industry is characterized by frequent consolidation activity. Changes in ownership of our customers may result in the loss of, or reduction in, business from those customers, which could materially and adversely affect our business, results of operations and financial condition.

Delays in obtaining, or inability to obtain or renew, permits or authorizations by our customers for their operations could impair our business.

In both the United States and Australia, our customers are required to obtain permits or authorizations from one or more governmental agencies or other third parties to perform drilling and completion activities, including hydraulic fracturing. Such permits or approvals are typically required by state agencies but can also be required by federal and local governmental agencies or other third parties. The requirements for such permits or authorizations vary depending on the location where such drilling and completion activities will be conducted. As with most permitting and authorization processes, there is a degree of uncertainty as to whether a permit will be granted, the time it will take for a permit or approval to be issued and the conditions which may be imposed in connection with the granting of the permit. In some jurisdictions, certain regulatory authorities have delayed or suspended the issuance of permits or authorizations while the potential environmental impacts associated with issuing such permits can be studied and appropriate mitigation measures evaluated. In Texas, rural water districts have begun to impose restrictions on water use and may require permits for water used in drilling and completion activities. Permitting, authorization or renewal delays, the inability to obtain new permits or the revocation of current permits could cause a loss of revenue and potentially have a materially adverse effect on our business, results of operations and financial condition.

Competition within the oilfield services industry may adversely affect our ability to market our services.

The oilfield services industry is highly competitive and fragmented and includes numerous small companies capable of competing effectively in our markets on a local basis, as well as several large companies that possess substantially greater financial and other resources than we do. The amount of equipment available may exceed demand, which could result in active price competition. Many contracts are awarded on a bid basis, which may further increase competition based primarily on price. In addition, adverse market conditions lower demand for well servicing equipment, which results in excess equipment and lower utilization rates. If market conditions in our oil-oriented operating areas were to deteriorate or if adverse market conditions in our natural gas-oriented operating areas persist, the prices we are able to charge and utilization rates may decline. The competitive environment intensified in late 2014 and again in late 2019 as a result of the industry downturn and oversupply of oilfield equipment and services. Any significant future increase in overall market capacity for the products, rental equipment or services that we offer could adversely affect our business and results of operations.

New technology may cause us to become less competitive.

The oilfield services industry is subject to the introduction of new drilling and completions techniques and services using new technologies, some of which may be subject to patent or other intellectual property protections. Although we believe our equipment and processes currently give us a competitive advantage, as competitors and others use or develop new or comparable technologies in the future, we may lose market share or be placed at a competitive disadvantage. Further, we may face competitive pressure to develop, implement or acquire certain new technologies at a substantial cost. Some of our competitors have greater financial, technical and personnel resources that may allow them to enjoy various competitive advantages in the development and implementation of new technologies. We cannot be certain that we will be able to continue to develop and implement new technologies or products. Limits on our ability to develop, bring to market, effectively use and implement new and emerging technologies may have a material adverse effect on our business, results of operations and financial condition, including a reduction in the value of assets replaced by new technologies.

Increased costs, or lack of availability, of raw materials and other components may result in increased operating expenses and adversely affect our results of operations and cash flows.

Our ability to source low cost raw materials and components, such as steel castings and forgings, is critical to our ability to manufacture and sell our products and provide our services competitively. Our results of operations may be adversely affected by our inability to manage the rising costs and availability of raw materials and components used in our wide variety of products and systems. We cannot assure that we will be able to continue to purchase these raw materials on a timely basis or at commercially viable prices, nor can we be certain of the impact of changes to Section 232 or Section 301 and future legislation that may impact trade with China. Further, unexpected changes in the size of regional and/or product markets, particularly for short lead-time products, could affect our results of operations and cash flows. Should our current suppliers be unable to provide the necessary raw materials or components or otherwise fail to deliver such materials and components timely and in the quantities required, resulting delays in the provision of products or services to our customers could have a material adverse effect on our business.

In accordance with Section 1502 of the Dodd-Frank Act, the SEC's rules regarding mandatory disclosure and reporting requirements by public companies of their use of "conflict minerals" (tantalum, tin, tungsten and gold) originating in the Democratic Republic of Congo and adjoining countries became effective in 2014. While the conflict minerals rule continues in effect as adopted, there remains uncertainty regarding how the conflict minerals rule, and our compliance obligations, will be affected in the future. Additional requirements under the rule could affect sourcing at competitive prices and availability in sufficient quantities of tungsten, which is used in the manufacture of our products or in the provision of our services. This could have a material adverse effect on our ability to purchase these products in the future. The costs of compliance, including those related to supply chain research, the limited number of suppliers and possible changes in the sourcing of these minerals, could have a material adverse effect on our results of operations and cash flows.

Our relationship with one of our vendors is important to us.

We obtain certain important materials and machining services from one of our vendors located in China. For the years ended December 31, 2019, 2018 and 2017, approximately \$36.5 million, \$46.7 million and \$33.4 million, respectively, of purchases of machined components were made from this vendor, representing approximately 16%, 21% and 22%, respectively, of our total third party vendor purchases of raw materials, finished products, equipment, machining and other services. If we are not able to maintain our relationship or we experience supply-related issues with such vendor, our results of operations could be adversely impacted until we are able to find an alternative vendor.

We design, manufacture, sell, rent and install equipment that is used in oil and gas E&P activities, which may subject us to liability, including claims for personal injury, property damage and environmental contamination should such equipment fail to perform to specifications.

We provide products and systems to customers involved in oil and gas exploration, development and production. Some of our equipment is designed to operate in high-temperature and/or high-pressure environments, and some equipment is designed for use in hydraulic fracturing operations. We also provide parts, repair services and field services associated with installation at all of our facilities and service centers in the United States and Australia, as well as at customer sites. Because of applications to which our products and services are exposed, particularly those involving high pressure environments, a

failure of such equipment, or a failure of our customers to maintain or operate the equipment properly, could cause damage to the equipment, damage to the property of customers and others, personal injury and environmental contamination and could lead to a variety of claims against us that could have an adverse effect on our business and results of operations.

We indemnify our customers against certain claims and liabilities resulting or arising from our provision of goods or services to them. In addition, we rely on customer indemnifications, generally, and third-party insurance as part of our risk mitigation strategy. However, our insurance may not be adequate to cover our liabilities. In addition, our customers may be unable to satisfy indemnification claims against them. Further, insurance companies may refuse to honor their policies, or insurance may not generally be available in the future, or if available, premiums may not be commercially justifiable. We could incur substantial liabilities and damages that are either not covered by insurance or that are in excess of policy limits, or incur liability at a time when we are not able to obtain liability insurance. Such potential liabilities could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our operations are subject to hazards inherent in the oil and natural gas industry, which could expose us to substantial liability and cause us to lose customers and substantial revenue.

Risks inherent in our industry include the risks of equipment defects, installation errors, the presence of multiple contractors at the wellsite over which we have no control, vehicle accidents, fires, explosions, blowouts, surface cratering, uncontrollable flows of gas or well fluids, pipe or pipeline failures, abnormally pressured formations and various environmental hazards such as oil spills and releases of, and exposure to, hazardous substances. For example, our operations are subject to risks associated with hydraulic fracturing, including any mishandling, surface spillage or potential underground migration of fracturing fluids, including chemical additives. The occurrence of any of these events could result in substantial losses to us due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigations and penalties, suspension of operations and repairs required to resume operations. The cost of managing such risks may be significant. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators. In particular, our customers may elect not to purchase our products or services if they view our environmental or safety record as unacceptable, which could cause us to lose customers and substantial revenues.

Our insurance may not be adequate to cover all losses or liabilities we may suffer. Also, insurance may no longer be available to us or its availability may be at premium levels that do not justify its purchase. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by us or a claim at a time when we are not able to obtain liability insurance could have a material adverse effect on our ability to conduct normal business operations and on our results of operations, financial condition and cash flows. In addition, we may not be able to secure additional insurance or bonding that might be required by new governmental regulations. This may cause us to restrict our operations, which might severely impact our financial condition.

Oilfield anti-indemnity provisions enacted by many states may restrict or prohibit a party's indemnification of us.

We typically enter into agreements with our customers governing the provision of our services, which usually include certain indemnification provisions for losses resulting from operations. Such agreements may require each party to indemnify the other against certain claims regardless of the negligence or other fault of the indemnified party; however, many states place limitations on contractual indemnity agreements, particularly agreements that indemnify a party against the consequences of its own negligence. Furthermore, certain states, including Louisiana, New Mexico, Texas, and Wyoming, have enacted statutes generally referred to as "oilfield anti-indemnity acts" expressly prohibiting certain indemnity agreements contained in or related to oilfield services agreements. Such oilfield anti-indemnity acts may restrict or void a party's indemnification of us, which could have a material adverse effect on our business, financial condition, prospects, and results of operations.

Our operations require us to comply with various domestic and international regulations, violations of which could have a material adverse effect on our results of operations, financial condition and cash flows.

We are exposed to a variety of federal, state, local and international laws and regulations relating to matters such as environmental, workplace, health and safety, labor and employment, customs and tariffs, export and re-export controls, economic sanctions, currency exchange, bribery and corruption and taxation. These laws and regulations are complex,

frequently change and have tended to become more stringent over time. They may be adopted, enacted, amended, enforced or interpreted in such a manner that the incremental cost of compliance could adversely impact our results of operations, financial condition and cash flows.

Our operations outside of the United States require us to comply with numerous anti-bribery and anti-corruption regulations. The U.S. Foreign Corrupt Practices Act, among others, applies to us and our operations. Our policies, procedures and programs may not always protect us from reckless or criminal acts committed by our employees or agents, and severe criminal or civil sanctions may be imposed as a result of violations of these laws. We are also subject to the risks that our employees and agents outside of the United States may fail to comply with applicable laws.

In addition, we import raw materials, semi-finished goods, and finished products into the United States, China and Australia for use in such countries or for manufacturing and/or finishing for re-export and import into another country for use or further integration into equipment or systems. Most movement of raw materials, semi-finished or finished products involves imports and exports. As a result, compliance with multiple trade sanctions, embargoes and import/export laws and regulations pose a constant challenge and risk to us since a portion of our business is conducted outside of the United States through our subsidiaries. Our failure to comply with these laws and regulations could materially affect our business, results of operations and financial condition.

Compliance with environmental laws and regulations may adversely affect our business and results of operations.

Environmental laws and regulations in the United States and foreign countries affect the equipment, systems and services we design, market and sell, as well as the facilities where we manufacture and produce our equipment and systems in the United States and China, and opportunities our customers pursue that create demand for our products. For example, we may be affected by such laws as the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, the Clean Air Act and the Occupational Safety and Health Act of 1970. Further, our customers may be subject to a range of laws and regulations governing hydraulic fracturing, offshore drilling, and greenhouse gas emissions.

We are required to invest financial and managerial resources to comply with environmental laws and regulations and believe that we will continue to be required to do so in the future. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, or the issuance of orders enjoining operations. These laws and regulations, as well as the adoption of other new laws and regulations affecting exploration and production of crude oil and natural gas by our customers, could adversely affect our business and operating results by increasing our costs, limiting the demand for our products and services or restricting our operations. Increased regulation or a move away from the use of fossil fuels caused by additional regulation could also reduce demand for our products and services.

Existing or future laws and regulations related to greenhouse gases and climate change could have a negative impact on our business and may result in additional compliance obligations with respect to the release, capture, and use of greenhouse gases that could have a material adverse effect on our business, results of operations, prospects, and financial condition.

Changes in environmental requirements related to greenhouse gas emissions and climate change may negatively impact demand for our products and services. For example, oil and natural gas E&P may decline as a result of environmental requirements, including land use policies responsive to environmental concerns. Federal, state, and local agencies have been evaluating climate-related legislation and other regulatory initiatives that would restrict emissions of greenhouse gases in areas in which we conduct business. Because our business depends on the level of activity in the oil and natural gas industry, existing or future laws and regulations related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, could have a negative impact on our business if such laws or regulations reduce demand for oil and natural gas. Likewise, such restrictions may result in additional compliance obligations with respect to the release, capture, sequestration, and use of greenhouse gases that could have a material adverse effect on our business, results of operations, prospects, and financial condition. Finally, increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that could have significant physical effects, such as increased frequency and severity of storms, droughts, floods and other climatic events; if such effects were to occur, they could have an adverse impact on our operations.

The outcome of final actions under Section 301 of the Trade Act of 1974 may adversely affect our business.

On March 22, 2018 the President of the United States announced his decisions on the actions that the U.S. government will take based on the findings of an investigation under Section 301, which included a proposed 25% tariff on approximately \$50 billion worth of imports from China. The United States has since taken subsequent actions to impose additional tariffs on imports from China, which currently include a 25% tariff on approximately \$250 billion worth of Chinese imports and a 15% tariff on approximately \$120 billion worth of Chinese imports. In December 2019, the Office of the United States Trade Representative announced that the United States has reached a Phase One trade deal with China, under which the U.S. suspended indefinitely the imposition of an additional 15% tariff on certain Chinese products not covered in an earlier Section 301 action, and cut the 15% tariff on \$120 billion worth of Chinese goods to 7.5%. The United States will be maintaining the 25% tariff on approximately \$250 billion of Chinese imports. Substantially all of the products that we import through our Chinese supply chain are subject to the 25% tariff. In the three months ended December 31, 2019, we estimate that approximately 50% of our inventory value received was sourced through our Chinese supply chain. To the extent these actions result in a decrease in demand for our products, our business may be adversely impacted. Given the uncertainty regarding the scope and duration of these trade actions by the U.S. or other countries, the impact of these trade actions on our operations or results remains uncertain.

If we are unable to fully protect our intellectual property rights or trade secrets, we may suffer a loss in revenue or any competitive advantage or market share we hold, or we may incur costs in litigation defending intellectual property rights.

While we have some patents and others pending, we do not have patents relating to many of our key processes and technology. If we are not able to maintain the confidentiality of our trade secrets, or if our competitors are able to replicate our technology or services, our competitive advantage would be diminished. We also cannot provide any assurance that any patents we may obtain in the future would provide us with any significant commercial benefit or would allow us to prevent our competitors from employing comparable technologies or processes.

We may initiate litigation from time to time to protect and enforce our intellectual property rights. In any such litigation, a defendant may assert that our intellectual property rights are invalid or unenforceable. Third parties from time to time may also initiate litigation against us by asserting that our businesses infringe, impair, misappropriate, dilute or otherwise violate another party's intellectual property rights. We may not prevail in any such litigation, and our intellectual property rights may be found invalid or unenforceable or our products and services may be found to infringe, impair, misappropriate, dilute or otherwise violate the intellectual property rights of others. The results or costs of any such litigation may have an adverse effect on our business, results of operations and financial condition. Any litigation concerning intellectual property could be protracted and costly, is inherently unpredictable and could have an adverse effect on our business, regardless of its outcome.

A failure of our information technology infrastructure and cyberattacks could adversely impact us.

We depend on our information technology ("IT") systems for the efficient operation of our business. Accordingly, we rely upon the capacity, reliability and security of our IT hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. Despite our implementation of security measures, our systems are vulnerable to damage from computer viruses, natural disasters, incursions by intruders or hackers, failures in hardware or software, power fluctuations, cyber terrorists and other similar disruptions. Additionally, we rely on third parties to support the operation of our IT hardware and software infrastructure, and in certain instances, utilize web-based applications. The failure of our IT systems or those of our vendors to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous adverse consequences, including reduced effectiveness and efficiency of operations, inappropriate disclosure of confidential and proprietary information, reputational harm, increased overhead costs and loss of important information, which could have a material adverse effect on our business and results of operations. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Adverse weather conditions could impact demand for our services or materially impact our costs.

Our business could be harmed by adverse weather conditions. For example, unusually warm winters could negatively affect the demand for our products and services by decreasing the demand for natural gas or unusually cold winters could adversely affect our ability to perform our services due to delays in the delivery of products that we need to provide our services. Our operations in arid regions can be affected by droughts and limited access to water used in hydraulic fracturing operations. Severe weather can also directly impede our own operations. Repercussions of adverse weather conditions may include:

- curtailment of services;
- weather-related damage to infrastructure, transportation, facilities and equipment, resulting in delays in operations;
- inability to deliver equipment, personnel and products to job sites in accordance with contract schedules; and
- loss of productivity.

A terrorist attack or armed conflict could harm our business.

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

Risks Related to Our Class A Common Stock

We are a holding company whose only material asset is our equity interest in Cactus LLC, and accordingly, we are dependent upon distributions from Cactus LLC to pay taxes, make payments under the TRA and cover our corporate and other overhead expenses and pay dividends to holders of our class A common stock.

We are a holding company and have no material assets other than our equity interest in Cactus LLC. We have no independent means of generating revenue. To the extent Cactus LLC has available cash and subject to the terms of any current or future credit agreements or debt instruments, we intend to cause Cactus LLC to make (i) pro rata distributions to its unitholders, including us, in an amount at least sufficient to allow us to pay our taxes and to make payments under the TRA and (ii) non-pro rata payments to us to reimburse us for our corporate and other overhead expenses. To the extent that we need funds and Cactus LLC or its subsidiaries are restricted from making such distributions or payments under applicable law or regulation or under the terms of any future financing arrangements, or are otherwise unable to provide such funds, our financial condition and liquidity could be materially adversely affected. In addition, our ability to pay dividends to holders of our Class A common stock depends on receipt of distributions from Cactus LLC.

Moreover, because we have no independent means of generating revenue, our ability to make payments under the TRA is dependent on the ability of Cactus LLC to make distributions to us in an amount sufficient to cover our obligations under the TRA. This ability, in turn, may depend on the ability of Cactus LLC's subsidiaries to make distributions to it. The ability of Cactus LLC, its subsidiaries and other entities in which it directly or indirectly holds an equity interest to make such distributions will be subject to, among other things, (i) the applicable provisions of Delaware law (or other applicable U.S. and foreign jurisdictions) that may limit the amount of funds available for distribution and (ii) restrictions in relevant debt instruments issued by Cactus LLC or its subsidiaries and other entities in which it directly or indirectly holds an equity interest. To the extent that we are unable to make payments under the TRA for any reason, such payments will be deferred and will accrue interest until paid.

We are subject to the requirements of Section 404 of the Sarbanes-Oxley Act. If we fail to comply with the requirements of Section 404 or if we or our auditors identify and report material weaknesses in internal control over financial reporting, our investors may lose confidence in our reported information and our stock price may be negatively affected.

Section 404 requires that we document and test our internal control over financial reporting and issue our management's assessment of our internal control over financial reporting. This section also requires that our independent registered public accounting firm issue an attestation report on such internal control. If we fail to comply with the requirements of Section 404 of the Sarbanes-Oxley Act or if we or our auditors identify and report material weaknesses in our internal control over financial reporting, the accuracy and timeliness of the filing of our annual and quarterly reports may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our Class A common stock. In addition, a material weakness in the effectiveness of our internal control over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, results of operations and financial condition.

Cadent and Cactus WH Enterprises LLC have the ability to direct the voting of a significant percentage of the voting power of our common stock, and their interests may conflict with those of our other shareholders.

Holders of Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise required by applicable law or our amended and restated certificate of incorporation. Cadent and Cactus WH Enterprises LLC ("Cactus WH Enterprises"), a Delaware limited liability company owned by Scott Bender, Joel Bender, Steven Bender and certain of our other officers and employees, own approximately 11% and 24% of our voting power, respectively, as of December 31, 2019.

As a result, Cadent and Cactus WH Enterprises effectively control matters requiring stockholder approval, including the election of directors, changes to our organizational documents and significant corporate transactions. This concentration of ownership will limit your ability to affect the way we are managed or the direction of our business. The interests of Cadent and Cactus WH Enterprises with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings and other corporate opportunities and attempts to acquire us, may conflict with the interests of our other stockholders. In addition, the Chairman of our board of directors is currently a member of Cadent Energy Partners LLC. This director's duties as a partner of Cadent Energy Partners LLC may conflict with his duties as our director, and the resolution of these conflicts may not always be in our or your best interest. Furthermore, in connection with our IPO, we entered into a stockholders' agreement with Cadent and Cactus WH Enterprises. Among other things, the stockholders' agreement provides each of Cadent and Cactus WH Enterprises with the right to designate a certain number of nominees to our board of directors so long as they and their respective affiliates collectively beneficially own at least 5% of the outstanding shares of our common stock. The existence of significant stockholders and the stockholders' agreement may have the effect of deterring hostile takeovers, delaying or preventing changes in control or changes in management or limiting the ability of our other stockholders to approve transactions that they may deem to be in our best interests. Cadent and Cactus WH Enterprises' concentration of stock ownership may also adversely affect the trading price of our Class A common stock to the extent investors perceive a disadvantage in owning stock of a company with significant stockholders. See "Item 13. Certain Relationships and Related Party Transactions, and Director Independence—Stockholders' Agreement."

Certain of our directors have significant duties with, and spend significant time serving, entities that may compete with us in seeking acquisitions and business opportunities and, accordingly, may have conflicts of interest in allocating time or pursuing business opportunities.

Certain of our directors, who are responsible for managing the direction of our operations and acquisition activities, hold positions of responsibility with other entities (including Cadent and its affiliated entities) whose businesses are similar to our business. The existing positions held by these directors may give rise to fiduciary or other duties that are in conflict with the duties they owe to us. These directors may become aware of business opportunities that may be appropriate for presentation to us as well as to the other entities with which they are or may become affiliated. Due to these existing and potential future affiliations, they may present potential business opportunities to other entities prior to presenting them to us, which could cause additional conflicts of interest. They may also decide that certain opportunities are more appropriate for

other entities with which they are affiliated, and as a result, they may elect not to present those opportunities to us. These conflicts may not be resolved in our favor.

Cadent Energy Partners and its affiliates are not limited in their ability to compete with us, and the corporate opportunity provisions in our amended and restated certificate of incorporation could enable Cadent Energy Partners to benefit from corporate opportunities that might otherwise be available to us.

Our governing documents provide that Cadent Energy Partners and its affiliates (including portfolio investments of Cadent Energy Partners and its affiliates) are not restricted from owning assets or engaging in businesses that compete directly or indirectly with us. In particular, subject to the limitations of applicable law, our amended and restated certificate of incorporation, among other things:

- permits Cadent Energy Partners and its affiliates, including any of our directors affiliated with Cadent Energy Partners, to conduct business that competes with us and to make investments in any kind of business, asset or property in which we may make investments; and
- provides that if Cadent Energy Partners or its affiliates, including any of our directors affiliated with Cadent Energy Partners, becomes aware of a potential business opportunity, transaction or other matter, they will have no duty to communicate or offer that opportunity to us (unless such opportunity is expressly offered to such director in his capacity as one of our directors).

Cadent Energy Partners and its affiliates, or our non-employee directors, may become aware, from time to time, of certain business opportunities (such as, among other things, acquisition opportunities) and may direct such opportunities to other businesses in which they have invested, in which case we may not become aware of or otherwise have the ability to pursue such opportunity. Further, such businesses may choose to compete with us for these opportunities, possibly causing these opportunities to not be available to us or causing them to be more expensive for us to pursue. In addition, Cadent Energy Partners and its affiliates, or our non-employee directors, may dispose of assets owned by them in the future, without any obligation to offer us the opportunity to purchase any of those assets. As a result, our renouncing our interest and expectancy in any business opportunity that may be from time to time presented to Cadent Energy Partners and its affiliates, or our non-employee directors, could adversely impact our business or prospects if attractive business opportunities are procured by such parties for their own benefit rather than for ours.

Our amended and restated certificate of incorporation and amended and restated bylaws, as well as Delaware law, contain provisions that could discourage acquisition bids or merger proposals, which may adversely affect the market price of our Class A common stock.

Our amended and restated certificate of incorporation authorizes our board of directors to issue preferred stock without shareholder approval. If our board of directors elects to issue preferred stock, it could be more difficult for a third party to acquire us. In addition, some provisions of our amended and restated certificate of incorporation and amended and restated bylaws could make it more difficult for a third party to acquire control of us, even if the change of control would be beneficial to our shareholders, including:

- limitations on the removal of directors;
- limitations on the ability of our shareholders to call special meetings;
- establishing advance notice provisions for shareholder proposals and nominations for elections to the board of directors to be acted upon at meetings of shareholders;
- providing that the board of directors is expressly authorized to adopt, or to alter or repeal our bylaws; and
- establishing advance notice and certain information requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by shareholders at shareholder meetings.

In addition, certain change of control events have the effect of accelerating the payment due under the TRA, which could be substantial and accordingly serve as a disincentive to a potential acquirer of our company.

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

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

Future sales of our Class A common stock in the public market, or the perception that such sales may occur, could reduce our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute your ownership in us.

Subject to certain limitations and exceptions, the CW Unit Holders may cause Cactus LLC to redeem their CW Units for shares of Class A common stock (on a one-for-one basis, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions) and then sell those shares of Class A common stock. Additionally, we may issue additional shares of Class A common stock or convertible securities in subsequent public offerings. We have 47,159,099 outstanding shares of Class A common stock and 27,957,699 outstanding shares of Class B common stock as of December 31, 2019. The CW Unit Holders own all 27,957,699 shares of Class B common stock, representing approximately 37.2% of our total outstanding common stock. As required pursuant to the terms of the registration rights agreement that we entered into at the time of our IPO, we have filed a registration statement on Form S-3 under the Securities Act of 1933, as amended, to permit the public resale of shares of Class A common stock owned by Cadent, Cactus WH Enterprises and Lee Boquet. See “Item 13. Certain Relationships and Related Party Transactions, and Director Independence—Stockholders’ Agreement” for more information.

We cannot predict the size of future issuances of our Class A common stock or securities convertible into Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock will have on the market price of our Class A common stock. Sales of substantial amounts of our Class A common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices of our Class A common stock.

Holders of our Class A common stock may not receive dividends on their Class A common stock.

We declared our first dividend to Class A stockholders in the fourth quarter of 2019. Holders of our Class A common stock are entitled to receive only such dividends as our board of directors may declare out of funds legally available for such payments. We are incorporated in Delaware and are governed by the Delaware General Corporation Law (“DGCL”). The DGCL allows a corporation to pay dividends only out of a surplus, as determined under Delaware law or, if there is no surplus, out of net profits for the fiscal year in which the dividend was declared and for the preceding fiscal year. Under the DGCL, however, we cannot pay dividends out of net profits if, after we pay the dividend, our capital would be less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets. We are not required to pay a dividend, and any determination to pay dividends and other distributions in cash, stock or property by us in the future (including determinations as to the amount of any such dividend or distribution) will be at the discretion of our board of directors and will be dependent on then-existing conditions, including business conditions, our financial condition, results of operations, liquidity, capital requirements, contractual restrictions, including restrictive covenants contained in debt agreements, and other factors.

Under certain circumstances, redemptions of CW Units by CW Unit Holders will result in dilution to the holders of our Class A common stock.

Redemptions of CW Units by CW Unit Holders in accordance with the terms of the Cactus Wellhead LLC Agreement will result in a corresponding increase in our membership interest in Cactus LLC, increase in the number of shares of Class A common stock outstanding and decrease in the number of shares of Class B common stock outstanding. In the event that CW Units are exchanged at a time when Cactus LLC has made cash distributions to CW Unit Holders, including Cactus Inc., and Cactus Inc. has accumulated such distributions and neither reinvests them in Cactus LLC in exchange for additional CW Units nor distributes them as dividends to the holders of Cactus Inc.'s Class A common stock, the holders of our Class A common stock would experience dilution with respect to such accumulated distributions.

Cactus Inc. will be required to make payments under the TRA for certain tax benefits that we may claim, and the amounts of such payments could be significant.

In connection with our IPO, we entered into the TRA with the TRA Holders. This agreement generally provides for the payment by Cactus Inc. to each TRA Holder of 85% of the net cash savings, if any, in U.S. federal, state and local income tax and franchise tax that Cactus Inc. actually realizes or is deemed to realize in certain circumstances as a result of certain increases in tax basis and certain benefits attributable to imputed interest. Cactus Inc. will retain the benefit of the remaining 15% of these net cash savings.

The term of the TRA will continue until all tax benefits that are subject to the TRA have been utilized or expired, unless we exercise our right to terminate the TRA (or the TRA is terminated due to other circumstances, including our breach of a material obligation thereunder or certain mergers or other changes of control), and we make the termination payment specified in the TRA. In addition, payments we make under the TRA will be increased by any interest accrued from the due date (without extensions) of the corresponding tax return. Payments under the TRA commenced in 2019, and in the event that the TRA is not terminated, the payments under the TRA are anticipated to continue for approximately 20 years after the date of the last redemption of CW Units.

The payment obligations under the TRA are our obligations and not obligations of Cactus LLC, and we expect that the payments we will be required to make under the TRA will be substantial. Estimating the amount and timing of payments that may become due under the TRA Agreement is by its nature imprecise. For purposes of the TRA, cash savings in tax generally are calculated by comparing our actual tax liability (determined by using the actual applicable U.S. federal income tax rate and an assumed combined state and local income tax rate) to the amount we would have been required to pay had we not been able to utilize any of the tax benefits subject to the TRA. The amounts payable, as well as the timing of any payments under the TRA, are dependent upon significant future events and assumptions, including the timing of the redemption of CW Units, the price of our Class A common stock at the time of each redemption, the extent to which such redemptions are taxable transactions, the amount of the redeeming unit holder's tax basis in its CW Units at the time of the relevant redemption, the depreciation and amortization periods that apply to the increase in tax basis, the amount and timing of taxable income we generate in the future and the U.S. federal income tax rates then applicable, and the portion of our payments under the TRA that constitute imputed interest or give rise to depreciable or amortizable tax basis. The payments under the TRA are not conditioned upon a holder of rights under the TRA having a continued ownership interest in us. For additional information regarding the TRA, see "Item 13. Certain Relationships and Related Party Transactions, and Director Independence—Tax Receivable Agreement."

In certain cases, payments under the TRA may be accelerated and/or significantly exceed the actual benefits, if any, we realize in respect of the tax attributes subject to the TRA.

If we elect to terminate the TRA early or it is terminated early due to Cactus Inc.'s failure to honor a material obligation thereunder or due to certain mergers or other changes of control, our obligations under the TRA would accelerate and we would be required to make an immediate payment equal to the present value of the anticipated future payments to be made by us under the TRA (determined by applying a discount rate of one-year LIBOR plus 150 basis points) and such payment is expected to be substantial. The calculation of anticipated future payments will be based upon certain assumptions and deemed events set forth in the TRA, including (i) the assumption that we have sufficient taxable income to fully utilize the tax benefits covered by the TRA and (ii) the assumption that any CW Units (other than those held by Cactus Inc.) outstanding on the termination date are deemed to be redeemed on the termination date. Any early termination payment may

be made significantly in advance of the actual realization, if any, of the future tax benefits to which the termination payment relates.

As a result of either an early termination or a change of control, we could be required to make payments under the TRA that exceed our actual cash tax savings under the TRA. In these situations, our obligations under the TRA could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, or other forms of business combinations or changes of control. If the TRA were terminated as of December 31, 2019, the estimated termination payments, based on the assumptions discussed above, would have been approximately \$331.3 million (calculated using a discount rate equal to one-year LIBOR plus 150 basis points, applied against an undiscounted liability of approximately \$434.7 million). The foregoing number is merely an estimate and the actual payment could differ materially. There can be no assurance that we will be able to finance our obligations under the TRA.

Payments under the TRA are based on the tax reporting positions that we will determine. The TRA Holders will not reimburse us for any payments previously made under the TRA if any tax benefits that have given rise to payments under the TRA are subsequently disallowed, except that excess payments made to any TRA Holder will be netted against payments that would otherwise be made to such TRA Holder, if any, after our determination of such excess. As a result, in some circumstances, we could make payments that are greater than our actual cash tax savings, if any, and may not be able to recoup those payments, which could adversely affect our liquidity.

If Cactus LLC were to become a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes, we and Cactus LLC might be subject to potentially significant tax inefficiencies, and we would not be able to recover payments previously made by us under the TRA even if the corresponding tax benefits were subsequently determined to have been unavailable due to such status.

We intend to operate such that Cactus LLC does not become a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. A “publicly traded partnership” is a partnership the interests of which are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. Under certain circumstances, redemptions of CW Units pursuant to the Redemption Right (or our Call Right) or other transfers of CW Units could cause Cactus LLC to be treated as a publicly traded partnership. Applicable U.S. Treasury regulations provide for certain safe harbors from treatment as a publicly traded partnership, and we intend to operate such that one or more such safe harbors shall apply. For example, we intend to limit the number of unitholders of Cactus LLC, and the Cactus Wellhead LLC Agreement, which was entered into in connection with the closing of our IPO, provides for limitations on the ability of CW Unit Holders to transfer their CW Units and provides us, as managing member of Cactus LLC, with the right to impose restrictions (in addition to those already in place) on the ability of unitholders of Cactus LLC to redeem their CW Units pursuant to the Redemption Right to the extent we believe it is necessary to ensure that Cactus LLC will continue to be treated as a partnership for U.S. federal income tax purposes.

If Cactus LLC were to become a publicly traded partnership, significant tax inefficiencies might result for us and for Cactus LLC, including as a result of our inability to file a consolidated U.S. federal income tax return with Cactus LLC. In addition, we would no longer have the benefit of certain increases in tax basis covered under the TRA, and we would not be able to recover any payments previously made by us under the TRA, even if the corresponding tax benefits (including any claimed increase in the tax basis of Cactus LLC’s assets) were subsequently determined to have been unavailable.

Discontinuation, reform or replacement of LIBOR and other benchmark rates, or uncertainty related to the potential for any of the foregoing, may adversely affect our business.

The U.K. Financial Conduct Authority announced in 2017 that it intends to phase out LIBOR by the end of 2021. In addition, other regulators have suggested reforming or replacing other benchmark rates. The discontinuation, reform or replacement of LIBOR or any other benchmark rates may have an unpredictable impact on contractual mechanics in the credit markets or cause disruption to the broader financial markets. Uncertainty as to the nature of such potential discontinuation, reform or replacement may negatively impact interest expense related to borrowings under our credit facility and interest on deferred payments due under the TRA. We may in the future pursue amendments to our credit facility and the TRA to provide for a transition mechanism or other reference rate in anticipation of LIBOR’s discontinuation, but we may not be able to reach agreement on any such amendments. Further, our credit facility limits the amount of indebtedness we and

our subsidiaries may incur. As a result, additional financing to replace our LIBOR-based debt may be unavailable, more expensive or restricted by the terms of our outstanding indebtedness.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth information with respect to our principal facilities as of December 31, 2019. We do not believe any of the omitted properties, consisting primarily of sales offices and service centers, are individually or collectively material to our operations or business. We believe that our facilities are adequate for our current operations.

Location	Type	Own/ Lease
<i>United States</i>		
Bossier City, LA ⁽¹⁾	Manufacturing Facility and Service Center	Lease
Bossier City, LA ⁽¹⁾	Assembly Facility and Warehouse / Land	Own
Donora, PA	Service Center	Lease
DuBois, PA	Service Center	Lease
Hobbs, NM	Service Center / Land	Own
Houston, TX	Administrative Headquarters	Lease
New Waverly, TX	Service Center / Land	Own
Odessa, TX	Service Center	Lease
Odessa, TX	Land	Own
Oklahoma City, OK	Service Center	Lease
Pleasanton, TX	Service Center	Lease
Williston, ND	Service Center	Lease
<i>China and Australia:</i>		
Queensland, Australia	Service Centers and Offices / Land	Lease
Suzhou, China	Production Facility and Offices	Lease

(1) Consists of various facilities adjacent to each other constituting our manufacturing facility, assembly facility, warehouse and service center.

Item 3. Legal Proceedings

Due to the nature of our business, we are, from time to time, involved in routine litigation or subject to disputes or claims related to our business activities, including workers' compensation claims and employment related disputes. In the opinion of our management, there is no pending litigation, dispute or claim against us that, if decided adversely, will have a material adverse effect on our results of operations, financial condition or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

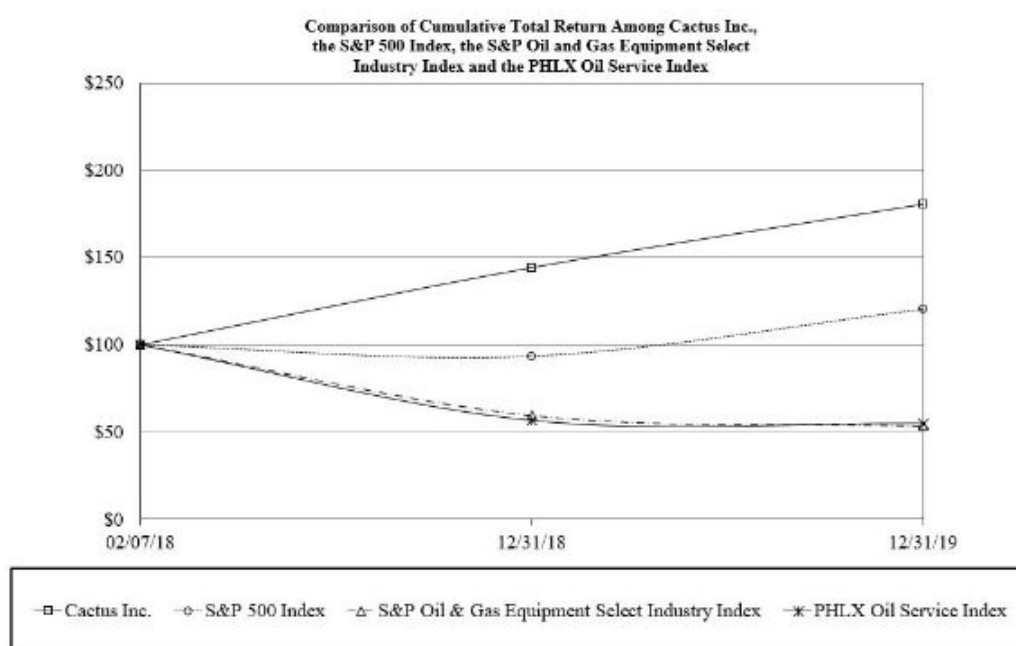
The principal market for our Class A common stock is the New York Stock Exchange (“NYSE”), where it is traded under the symbol “WHD.” As of December 31, 2019, there was one holder of record of our Class A common stock. This number excludes owners for whom Class A common stock may be held in “street name.”

Dividends

On October 29, 2019, our board of directors authorized the introduction of a regular quarterly cash dividend of \$0.09 per share of Class A common stock. We currently intend to continue paying the quarterly dividend while retaining the balance of future earnings, if any, to finance the growth of our business. However, our future dividend policy is within the discretion of our board of directors and will depend upon then-existing conditions, including our results of operations, financial condition, capital requirements, investment opportunities, statutory and contractual restrictions on our ability to pay dividends and other factors our board of directors may deem relevant.

Performance Graph

The graph below compares the cumulative total shareholder return on our common stock to the S&P 500 Index, the S&P Oil & Gas Equipment & Services Index and the PHLX Oil Service Index from the date our common stock began trading through December 31, 2019. The total shareholder return assumes \$100 invested on February 7, 2018 in Cactus Inc., the S&P 500 Index, the S&P Oil & Gas Equipment & Services Index and the PHLX Oil Service Index. It also assumes reinvestment of all dividends. The following graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Cactus Inc. specifically incorporates it by reference into such filing.



Issuer Purchases of Equity Securities

The following sets forth information with respect to our repurchase of Class A common stock during the three months ended December 31, 2019 (in whole shares).

Period	Total number of shares purchased ⁽¹⁾	Average price paid per share ⁽²⁾
October 1-31, 2019	740	\$ 28.16
November 1-30, 2019	—	—
December 1-31, 2019	—	—
Total	740	\$ 28.16

- (1) Consists of shares of Class A common stock repurchased from employees to satisfy tax withholding obligations related to restricted stock units that vested during the period.
- (2) Average price paid for Class A common stock purchased from employees to satisfy tax withholding obligations related to restricted stock units that vested during the period.

Item 6. Selected Financial Data

The following tables show selected historical consolidated financial data, for the periods and as of the dates indicated, of Cactus Inc. and its consolidated subsidiaries. Our historical results are not necessarily indicative of future results. The following selected financial and operating data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes, each of which is included in this Annual Report.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(in thousands, except per share data)				
Consolidated Statements of Income Data:					
Total revenues	\$628,414	\$544,135	\$341,191	\$ 155,048	\$221,395
Total costs and expenses	445,264	366,434	252,328	144,433	179,190
Income from operations	183,150	177,701	88,863	10,615	42,205
Interest income (expense), net	879	(3,595)	(20,767)	(20,233)	(21,837)
Other income (expense), net	4,294	(4,305)	—	2,251	1,640
Income (loss) before income taxes	188,323	169,801	68,096	(7,367)	22,008
Income tax expense ⁽¹⁾	32,020	19,520	1,549	809	784
Net income (loss)	\$156,303	\$150,281	\$ 66,547	\$ (8,176)	\$ 21,224
Less: pre-IPO net income attributable to Cactus LLC	—	13,648	66,547	(8,176)	21,224
Less: net income attributable to non-controlling interest	70,691	84,950	—	—	—
Net income attributable to Cactus Inc.	\$ 85,612	\$ 51,683	\$ —	\$ —	\$ —
Earnings per Class A share - basic ⁽²⁾	\$ 1.90	\$ 1.60	\$ —	\$ —	\$ —
Earnings per Class A share - diluted ⁽²⁾	\$ 1.88	\$ 1.58	\$ —	\$ —	\$ —
Weighted average Class A shares outstanding - basic ⁽²⁾	44,983	32,329	—	—	—
Weighted average Class A shares outstanding - diluted ⁽²⁾	75,353	32,695	—	—	—
Consolidated Balance Sheets Data (at period end):					
Cash and cash equivalents	\$202,603	\$ 70,841	\$ 7,574	\$ 8,688	\$ 12,526
Total assets ⁽³⁾	834,964	584,744	266,456	165,328	177,559
Long-term debt, net ⁽⁴⁾	—	—	241,437	242,254	250,555
Liability related to tax receivable agreement, net of current portion	201,902	138,015	—	—	—
Finance lease obligations, net of current portion	3,910	8,741	7,946	2,065	—
Operating lease liabilities, net of current portion ⁽³⁾	20,283	—	—	—	—
Stockholders'/Members' equity (deficit) ⁽²⁾	516,395	362,328	(36,217)	(103,321)	(93,167)
Cash dividends declared per common share ⁽⁵⁾	\$ 0.09	\$ —	\$ —	\$ —	\$ —

(1) Cactus Inc. is a corporation and is subject to U.S. federal as well as state income tax for its share of ownership in Cactus LLC. Our predecessor and operating subsidiary, Cactus LLC, is not subject to U.S. federal income tax at an entity level. As a result, the consolidated net income (loss) in our historical financial statements does not reflect the tax expense we would have incurred if we were subject to U.S. federal income tax at an entity level during such periods. Cactus LLC is subject to entity-level taxes for certain states within the United States. Additionally, our operations in both Australia and China are subject to local country income taxes.

(2) Cactus Inc. completed an initial public offering of Class A common stock on February 12, 2018. See “Item 1. Business—Organization Structure” above.

(3) Effective January 1, 2019, we adopted Accounting Standards Update (“ASU”) 2016-02, Leases, using the modified retrospective method of adoption. Prior year amounts reflected in the table above have not been restated.

- (4) In conjunction with our IPO, we used a portion of the net proceeds to repay all of the borrowings outstanding under Cactus LLC's term loan facility.
- (5) On October 29, 2019, Cactus Inc.'s board of directors authorized the introduction of a regular quarterly cash dividend of \$0.09 per share of Class A common stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except as otherwise indicated or required by the context, all references in this Annual Report to the "Company," "Cactus," "we," "us" and "our" refer to (i) Cactus LLC and its consolidated subsidiaries prior to the completion of our initial public offering on February 12, 2018 and (ii) Cactus Inc. and its consolidated subsidiaries (including Cactus LLC) following the completion of our initial public offering. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and related notes. The following discussion contains "forward-looking statements" that reflect our plans, estimates, beliefs and expected performance. Our actual results may differ materially from those anticipated as discussed in these forward-looking statements as a result of a variety of risks and uncertainties, including those described in "Cautionary Statement Regarding Forward-Looking Statements" and "Item 1A. Risk Factors" included elsewhere in this Annual Report, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. We assume no obligation to update any of these forward-looking statements except as otherwise required by law.

This section includes comparisons of certain 2019 financial information to the same information for 2018. Year-to-year comparisons of the 2018 financial information to the same information for 2017 are contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Result of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission on March 15, 2019, which comparative information and the information therein under the caption "Factors Affecting the Comparability of our Financial Condition and Results of Operations" are incorporated by reference herein.

Market Factors and Trends

See "Item 1. Business" for information on our products and business. Demand for our products and services depends primarily upon the general level of activity in the oil and gas industry, including the number of drilling rigs in operation, the number of oil and gas wells being drilled, the depth and drilling conditions of these wells, the number of well completions, the level of well remediation activity, the volume of production and the corresponding capital spending by oil and natural gas companies. Oil and gas activity is in turn heavily influenced by, among other factors, oil and gas prices locally and worldwide, which have historically been volatile.

Oil supply markets tightened in 2017 and through the third quarter of 2018, driving 2018 average West Texas Intermediate ("WTI") crude oil prices higher. However, during the fourth quarter of 2018, crude oil prices declined following concerns over slowing worldwide demand and the granting of waivers to several purchasers of Iranian oil. In response, many of the larger publicly traded E&P companies announced plans to reduce their capital budgets year-over-year for 2019. During 2019, the U.S. onshore rig count trended down as a significant number of E&P operators reduced spending levels during the latter part of 2019.

The 2019 weekly average U.S. onshore rig count as reported by Baker Hughes was 918 rigs compared to 2018's average of 1,011 rigs. The 2019 average rig count was a 9% decrease relative to 2018, while up from the 2017 weekly average of 853 rigs. If the rig count remains at levels below the 2019 average, there may be reduced demand for our products and services. Given the recent volatility in crude oil prices and pressure on our customers from the investment community to limit capital spending, it is generally expected that drilling activity will be down year-over-year in 2020. As of February 21, 2020, the U.S. onshore rig count was 768.

The key market factors impacting our product sales are the number of wells drilled and placed on production, as each well requires an individual wellhead assembly and, at some time after completion, the installation of an associated production tree. We measure our product sales activity levels against our competitors by the number of rigs that we are supporting on a monthly basis as it is correlated to wells drilled. Each active drilling rig produces different levels of revenue

based on the customer's drilling plan, which includes factors such as the number of wells drilled per pad, the time taken to drill each well, the number and size of casing strings, the working pressure, material selection and the complexity of the wellhead system chosen by the customer and the rate at which production trees are eventually deployed. All of these factors may be influenced by the oil and gas region in which our customer is operating. While these factors may lead to differing revenues per rig, we are able to broadly forecast our product needs and anticipated revenue levels based on general trends in a given region and with a specific customer. Increases in horizontal wells drilled as a percentage of total wells drilled, the shift towards pad drilling, and an increase in the number of wells drilled per rig are all favorable trends that we believe enhance the demand for our products relative to the active rig count.

Our rental revenues are primarily dependent on the number of wells completed (i.e., hydraulically fractured), the number of wells on a well pad and the number of fracture stages per well. Well completion activity generally follows the level of drilling activity. In 2019, a reduction in the number of drilled but uncompleted wells ("DUCs") has led to stronger completion activity relative to drilling activity from U.S. E&P companies. Changes to the number of DUCs could provide additional opportunities or headwinds for our rental business relative to general drilling activity.

Service and other revenues are closely correlated to revenues from product sales and rentals, as items sold or rented almost always have an associated service component. Therefore, the market factors and trends of product sales and rental revenues similarly impact the associated levels of service and other revenues generated.

Our business experiences some seasonality during the fourth quarter due to holidays and customers managing their budgets as the year closes out. This can lead to lower activity in our three revenue categories as well as lower margins, particularly in field services due to lower labor utilization.

Recent Developments

Our factory in Suzhou, China was closed for 10 days in January and February of 2020 as a result of travel restrictions and other measures taken by the Chinese government in response to the outbreak of the coronavirus. Our Suzhou facility reopened on February 10, 2020, however it is operating at a reduced capacity. This is expected to be temporary. Given the dynamic nature of these circumstances, the extent of the business disruption resulting from the coronavirus outbreak and the financial impact thereof cannot be reasonably estimated at this time. There are still too many variables and uncertainties regarding the coronavirus outbreak to fully assess the potential impact on our business, including the ultimate geographic spread of the virus, the duration and severity of the outbreak and the extent of travel restrictions and business closures imposed in China or other affected countries. We believe that our existing inventory levels and other operations will be able to meet customer commitments and demand for the near future, and we do not believe that the coronavirus is likely to have a material adverse impact on our results of operations for the first quarter of 2020. However, a prolonged shutdown or reduction in capacity of our Chinese operations or other facilities in China that are engaged in our supply chain would likely have a negative effect on our results of operations, and that negative effect may be material. We do not believe that the measures taken by the Chinese government in response to the outbreak of the coronavirus will have a disproportionately adverse impact on us relative to our competitors.

Consolidated Results of Operations

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table presents summary consolidated operating results for the periods indicated:

	Year Ended December 31,		\$ Change	% Change
	2019	2018		
	(in thousands)			
Revenues				
Product revenue	\$ 357,087	\$ 290,496	\$ 66,591	22.9 %
Rental revenue	141,816	133,418	8,398	6.3
Field service and other revenue	129,511	120,221	9,290	7.7
Total revenues	628,414	544,135	84,279	15.5
Costs and expenses				
Cost of product revenue	220,615	174,675	45,940	26.3
Cost of rental revenue	69,829	55,015	14,814	26.9
Cost of field service and other revenue	103,163	96,215	6,948	7.2
Selling, general and administrative expenses	51,657	40,529	11,128	27.5
Total costs and expenses	445,264	366,434	78,830	21.5
Income from operations	183,150	177,701	5,449	3.1
Interest income (expense), net	879	(3,595)	4,474	nm
Other income (expense), net	4,294	(4,305)	8,599	nm
Income before income taxes	188,323	169,801	18,522	10.9
Income tax expense	32,020	19,520	12,500	64.0
Net income	\$ 156,303	\$ 150,281	\$ 6,022	4.0
Less: Pre-IPO net income attributable to Cactus LLC	—	13,648	(13,648)	(100.0)
Less: net income attributable to non-controlling interest	70,691	84,950	(14,259)	(16.8)
Net income attributable to Cactus Inc.	\$ 85,612	\$ 51,683	\$ 33,929	65.6 %

nm = not meaningful

Revenues

Product revenue for the year ended December 31, 2019 was \$357.1 million, an increase of \$66.6 million, or 23%, from \$290.5 million for the year ended December 31, 2018. The increase was primarily attributable to increased sales of wellhead and production related equipment due to our increased market share and greater efficiencies from customers.

Rental revenue for the year ended December 31, 2019 was \$141.8 million, an increase of \$8.4 million, or 6%, from \$133.4 million for the year ended December 31, 2018. The increase was primarily attributable to increased investment in our rental fleet, including new rental offerings, that enabled us to take advantage of completion activity from customers.

Field service and other revenue for the year ended December 31, 2019 was \$129.5 million, an increase of \$9.3 million, or 8%, from \$120.2 million for the year ended December 31, 2018. The increase was primarily attributable to the higher demand for these services following the increase in our product and rental revenue, as field service is closely correlated with these activities.

Costs and expenses

Cost of product revenue for the year ended December 31, 2019 was \$220.6 million, an increase of \$45.9 million, or 26%, from \$174.7 million for the year ended December 31, 2018. The increase was largely attributable to an increase in product sales volume driven by higher demand for our products and tariff costs.

Cost of rental revenue for the year ended December 31, 2019 was \$69.8 million, an increase of \$14.8 million, or 27%, from \$55.0 million for the year ended December 31, 2018. The increase was largely attributable to higher depreciation expense on a larger rental fleet and an increase in costs associated with the deployment of assets into the field including increased repair costs associated with a larger and more active rental fleet.

Cost of field service and other revenue for the year ended December 31, 2019 was \$103.2 million, an increase of \$6.9 million, or 7%, from \$96.2 million for the year ended December 31, 2018. The increase was largely attributable to higher payroll costs due to additional field personnel and higher volume driven operating costs such as vehicle and equipment costs.

Selling, general and administrative expense for the year ended December 31, 2019 was \$51.7 million, an increase of \$11.1 million, or 27%, from \$40.5 million for the year ended December 31, 2018. The increase was largely attributable to higher payroll and incentive compensation costs associated with our overall growth as well as higher stock-based compensation expense related to equity awards and professional fees and other costs associated with being a public company including the loss of emerging growth company (“EGC”) status.

Interest income (expense), net. Interest income, net for the year ended December 31, 2019 was \$0.9 million, compared to interest expense, net of \$3.6 million for the year ended December 31, 2018. The change is primarily due to the repayment of our previous term loan in mid-February 2018 in conjunction with our IPO in addition to higher interest income due to a significant increase in the Company’s cash balance in 2019.

Other income (expense), net. Other income, net for the year ended December 31, 2019 of \$4.3 million consists of \$1.0 million in offering expenses associated with the secondary offering of our Class A common stock in March 2019 by certain selling stockholders, offset by a \$5.3 million non-cash gain on the revaluation of the liability related to the TRA. This compares to a \$4.3 million loss on early extinguishment of debt for the year ended December 31, 2018, recorded in conjunction with the repayment of our previous term loan with a portion of the net proceeds from our IPO.

Income tax expense. Income tax expense for the year ended December 31, 2019 was \$32.0 million (17.0% effective tax rate) compared to \$19.5 million (11.5% effective tax rate) for 2018. The change was primarily attributable to an increase in Cactus Inc.’s ownership of Cactus LLC and a write down of our deferred tax asset due to a change in our forecasted state tax rate.

Liquidity and Capital Resources

At December 31, 2019 we had \$202.6 million of cash and cash equivalents. Our primary sources of liquidity and capital resources are cash on hand, cash flows generated by operating activities and, if necessary, borrowings under our ABL Credit Facility. Depending upon market conditions and other factors, we may also have the ability to issue additional equity and debt if needed. We had no borrowings outstanding under our ABL Credit Facility and had \$75.0 million of available borrowing capacity. We were in compliance with the covenants of the ABL Credit Facility as of December 31, 2019.

Our ability to satisfy our liquidity requirements, including cash distributions to CW Unit Holders to fund their respective income tax liabilities relating to their share of the income of Cactus LLC and to fund liabilities related to the TRA, that we entered into with TRA Holders, depends on our future operating performance, which is affected by prevailing economic conditions, market conditions in the E&P industry, availability and cost of raw materials, and financial, business and other factors, many of which are beyond our control.

We currently estimate our net capital expenditures for the year ending December 31, 2020 will range from \$30 million to \$40 million, excluding acquisitions, mostly related to rental fleet investments. We continuously evaluate our capital expenditures, and the amount we ultimately spend will depend on a number of factors, including, among other things, demand for rental assets, available capacity in existing locations, prevailing economic conditions, market conditions in the E&P industry, customers’ forecasts, volatility and company initiatives.

We believe that our existing cash on hand, cash generated from operations and available borrowings under our ABL Credit Facility will be sufficient for at least the next 12 months to meet working capital requirements, anticipated capital expenditures, expected TRA liability payments, anticipated tax liabilities and dividends to holders of our Class A common

stock. In addition, we believe we will be able to fund pro rata cash distributions to holders of CW units (other than Cactus Inc.) resulting from the requirement to make TRA liability payments, tax liabilities and dividends from Cactus Inc.

Cash Flows

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table summarizes our cash flows for the periods indicated:

	Year Ended December 31,	
	2019	2018
	(in thousands)	
Net cash provided by operating activities	\$ 209,632	\$ 167,180
Net cash used in investing activities	(55,948)	(68,154)
Net cash used in financing activities	(21,669)	(35,004)

Net cash provided by operating activities was \$209.6 million and \$167.2 million for the years ended December 31, 2019 and 2018, respectively. The primary reasons for the change were a \$6.0 million increase in net income, a \$12.3 million increase in non-cash items and a \$24.2 million decrease in net working capital use, inclusive of a \$9.3 million TRA payment.

Net cash used in investing activities was \$55.9 million and \$68.2 million for the years ended December 31, 2019 and 2018, respectively. The decrease was primarily due to lower capital expenditures associated with the investment in our rental fleet during the year ended December 31, 2019, in addition to higher proceeds from certain asset sales.

Net cash used in financing activities was \$21.7 million and \$35.0 million for the years ended December 31, 2019 and 2018, respectively. Net cash used in financing for the year ended December 31, 2019 includes \$8.4 million in pro rata distributions to Cactus LLC members, finance lease payments of \$7.5 million, dividend payments to holders of Class A common stock of \$4.2 million and \$1.5 million related to the repurchase of shares to satisfy tax withholding obligations of restricted stock units that vested during the period. We did not receive any of the proceeds from our March 2019 Secondary Offering. Net cash used in financing activities for 2018 includes \$31.8 million in Cactus LLC member distributions, of which \$26.0 million of these distributions were made prior to the IPO, to provide funds to pay members' federal and state liabilities associated with taxable income recognized by them as a result of their ownership in Cactus LLC. Also during 2018, we received \$828.2 million of net proceeds from our IPO, the Option and the Follow-on Offering offset by (i) a \$248.5 million repayment of the borrowings outstanding under the term loan portion of our prior credit agreement and (ii) \$575.7 million in redemptions of CW Units from certain direct and indirect owners of Cactus LLC in connection with our IPO, the Option and the Follow-on Offering. We also made finance lease payments of \$6.3 million during 2018.

Tax Receivable Agreement

The TRA that Cactus Inc. entered into with the TRA Holders in connection with our IPO generally provides for the payment by Cactus Inc. to the TRA Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax or franchise tax that Cactus Inc. actually realizes or is deemed to realize in certain circumstances. Cactus Inc. will retain the benefit of the remaining 15% of these net cash savings. To the extent Cactus LLC has available cash, we intend to cause Cactus LLC to make pro rata distributions to its unitholders, including us, in an amount at least sufficient to allow us to pay our taxes and to make payments under the TRA.

Except in cases where we elect to terminate the TRA early, the TRA is terminated early due to certain mergers, asset sales, or other forms of business combinations or changes of control or we have available cash but fail to make payments when due under circumstances where we do not have the right to elect to defer the payment, we may generally elect to defer payments due under the TRA if we do not have available cash to satisfy our payment obligations under the TRA. Any such deferred payments under the TRA generally will accrue interest. In certain cases, payments under the TRA may be accelerated and/or significantly exceed the actual benefits, if any, we realize in respect of the tax attributes subject to the TRA. In these situations, our obligations under the TRA could have a substantial negative impact on our liquidity.

Assuming no material changes in the relevant tax law, we expect that if the TRA were terminated as of December 31, 2019, the estimated termination payments, based on the assumptions discussed in Note 9 of the Notes to the Consolidated Financial Statements, would be approximately \$331.3 million, calculated using a discount rate equal to one-year LIBOR plus 150 basis points, applied against an undiscounted liability of \$434.7 million. A 10% increase in the price of our Class A common stock at December 31, 2019 would have increased the discounted liability by \$17.2 million to \$348.5 million (an undiscounted increase of \$23.2 million to \$457.9 million), and likewise, a 10% decrease in the price of our Class A common stock at December 31, 2019 would have decreased the discounted liability by \$17.3 million to \$314.0 million (an undiscounted decrease of \$23.3 million to \$411.4 million).

Dividend Policy

On October 29, 2019, our board of directors authorized the introduction of a regular quarterly cash dividend of \$0.09 per share of Class A common stock. We currently intend to continue paying the quarterly dividend while retaining the balance of future earnings, if any, to finance the growth of our business. However, our future dividend policy is within the discretion of our board of directors and will depend upon then-existing conditions, including our results of operations, financial condition, capital requirements, investment opportunities, statutory and contractual restrictions on our ability to pay dividends and other factors our board of directors may deem relevant.

Contractual Obligations

A summary of our contractual obligations as of December 31, 2019 is provided in the following table. We had no bank debt outstanding as of December 31, 2019.

	Payments Due by Period For the Year Ending December 31,						Total
	2020	2021	2022	2023	2024	Thereafter	
	(in thousands)						
Operating leases	\$ 7,691	\$ 6,291	\$ 3,967	\$ 3,072	\$ 2,453	\$ 7,163	\$ 30,637
Finance leases	7,434	3,438	768	4	—	—	11,644
Liability related to TRA ⁽¹⁾	14,630	11,959	12,183	12,439	12,700	152,621	216,532
Total	\$ 29,755	\$ 21,688	\$ 16,918	\$ 15,515	\$ 15,153	\$ 159,784	\$ 258,813

(1) Represents obligations by Cactus Inc. to make payments under the TRA. The amounts and timing of payments are subject to change.

Critical Accounting Policies and Estimates

In preparing our financial statements in accordance with GAAP, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision from available data or is not otherwise capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine, and we must exercise significant judgment. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements. We identify certain accounting policies as critical based on, among other things, their impact on the portrayal of our financial condition and results of operations and the degree of difficulty, subjectivity and complexity in their deployment. Note 2 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies used in the preparation of the accompanying consolidated financial statements. The following is a brief discussion of our most critical accounting policies.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using standard cost (which approximates average cost) and weighted average methods. Costs include an application of related direct labor and overhead cost. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We evaluate the components of inventory on a regular basis for excess and

obsolescence. Reserves are made based on a range of factors, including age, usage and technological or market changes that may impact demand for those products. The amount of reserve recorded is subjective and is susceptible to change from period to period.

Long-Lived Assets

Key estimates related to long-lived assets include useful lives and recoverability of carrying values. Such estimates could be modified, as impairment could arise as a result of changes in supply and demand fundamentals, technological developments, new competitors with cost advantages and the cyclical nature of the oil and gas industry. We evaluate long-lived assets for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets assessed for impairment are grouped at the lowest level for which identifiable cash flows are available, and a provision made where the cash flow is less than the carrying value of the asset. The estimation of future cash flows and fair value is highly subjective and inherently imprecise. Estimates can change materially from period to period based on many factors. Accordingly, if conditions change in the future, we may record impairment losses, which could be material to any particular reporting period.

Income Taxes

Deferred taxes are recorded using the liability method, whereby tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

We assess the likelihood that our deferred tax assets will be recovered through adjustments to future taxable income. To the extent we believe recovery is not likely, we establish a valuation allowance to reduce the asset to a value we believe will be recoverable based on our expectation of future taxable income. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and results of recent operations. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates management is using to manage the underlying business. If the projected future taxable income changes materially, we may be required to reassess the amount of valuation allowance recorded against our deferred tax assets.

Tax Receivable Agreement

The TRA generally provides for payment by Cactus Inc. to the TRA Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax or franchise tax that Cactus Inc. actually realizes or is deemed to realize in certain circumstances. Cactus Inc. will retain the benefit of the remaining 15% of these net cash savings.

Redemptions of CW Units result in adjustments to the tax basis of the tangible and intangible assets of Cactus LLC. These adjustments will be allocated to Cactus Inc. Such adjustments to the tax basis of the tangible and intangible assets of Cactus LLC would not have been available to Cactus Inc. absent its acquisition or deemed acquisition of CW Units. In addition, the repayment of borrowings outstanding under the Cactus LLC term loan facility resulted in adjustments to the tax basis of the tangible and intangible assets of Cactus LLC, a portion of which was allocated to Cactus Inc. These basis adjustments are expected to increase (for tax purposes) Cactus Inc.'s depreciation and amortization deductions and may also decrease Cactus Inc.'s gains (or increase its losses) on future dispositions of certain assets to the extent tax basis is allocated to those assets. Such increased deductions and losses and reduced gains may reduce the amount of tax that Cactus Inc. would otherwise be required to pay in the future.

Estimating the amount and timing of the tax benefit is by its nature imprecise and the assumptions used in the estimates can change. The tax benefit is dependent upon future events and assumptions, the amount of the redeeming unit holders' tax basis in its CW Units at the time of the relevant redemption, the depreciation and amortization periods that apply to the increase in tax basis, the amount and timing of taxable income we generate in the future and the U.S. federal, state and local income tax rate then applicable, and the portion of Cactus Inc.'s payments under the TRA that constitute imputed interest or give rise to depreciable or amortizable tax basis. The most critical estimate included in calculating the TRA liability to record is the combined U.S. federal income tax rate and an assumed combined state and local income tax rate, to

determine the future benefit we will realize. A 100 basis point decrease/increase in the blended tax rate used would decrease/increase the TRA liability recorded at December 31, 2019 by approximately \$12.0 million.

Recent Accounting Pronouncements

See Note 2 in the Notes to the Consolidated Financial Statements for discussion of recent accounting pronouncements.

Inflation

While inflationary cost increases can affect our income from operations' margin, we believe that inflation generally has not had, and in the near future is not expected to have, a material adverse effect on our results of operations. Although the impact of inflation has been insignificant in recent years, it is still a factor in the United States economy and we tend to experience inflationary pressure on wages and raw materials.

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, we are exposed to market risk from changes in foreign currency exchange rates and changes in interest rates.

Foreign Currency Exchange Rate Risk

We have subsidiaries with operations in China and Australia who conduct business in their local currencies (functional currencies) and are therefore subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the U.S. dollar. Additionally, certain intercompany balances between our U.S. and foreign subsidiaries are denominated in U.S. dollars. Since this is not the functional currency of our subsidiaries in China and Australia, the changes in these balances are translated in our Consolidated Statements of Income. As a result, we are exposed to foreign exchange risk as it relates to these balances.

Interest Rate Risk

Our ABL Credit Facility is variable rate debt. At December 31, 2019, although there were no borrowings outstanding, the applicable margin on Eurodollar borrowings was 1.5% plus an adjusted base rate of one or three month LIBOR.

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Item 8. Financial Statements and Supplementary Data

The following Consolidated Financial Statements are filed as part of this Annual Report:

Cactus, Inc. and Subsidiaries

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (or "COSO") in *Internal Control-Integrated Framework* (2013 framework). Based on this assessment, management has concluded that, as of December 31, 2019, our internal control over financial reporting was effective.

Our independent registered public accounting firm, PricewaterhouseCoopers, LLP, has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2019, which appears herein.

/s/ Scott Bender

President, Chief Executive Officer and Director

/s/ Stephen Tadlock

Vice President, Chief Financial Officer and Treasurer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Cactus, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Cactus, Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

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company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matters

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

Liability related to the Tax Receivable Agreement

As described in Notes 2 and 9 to the consolidated financial statements, the Company has a liability under the Tax Receivable Agreement ("TRA") of \$216.5 million as of December 31, 2019. In connection with its initial public offering, the Company entered into the TRA with certain direct and indirect owners of Cactus Wellhead, LLC (the "TRA Holders"). The TRA generally provides for payment by the Company to the TRA Holders 85% of the net cash tax savings, if any, in United States federal, state and local income tax and franchise tax that the Company actually realizes or is deemed to realize in certain circumstances as a result of (i) certain increases in tax basis that occur as a result of the Company's acquisition (or deemed acquisition for U.S. federal income tax purposes) of all or a portion of such TRA Holder's ownership interest in Cactus Wellhead, LLC, (ii) certain increases in tax basis resulting from the repayment of borrowings outstanding under Cactus Wellhead, LLC's term loan facility, and (iii) imputed interest deemed to be paid by the Company as a result of, and additional tax basis arising from, any payments the Company makes under the TRA. Management calculates the TRA liability by determining the tax basis subject to the TRA ("tax basis") and applying a blended tax rate to the basis differences and calculating the iterative impact. The blended tax rate consists of the U.S. federal income tax rate and an assumed combined state and local income tax rate driven by the apportionment factors applicable to each state. The principal considerations for our determination that performing procedures relating to the liability related to the TRA is a critical audit matter are there was significant complexity in i) management's calculation of the tax basis, and (ii) developing the applicable state apportionment factors utilized in determining the appropriate blended tax rate. This in turn led to a high degree of auditor subjectivity and effort in performing procedures and evaluating the appropriateness of the calculation of the tax basis and the blended tax rate. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained from these procedures. As disclosed by management, a material weakness existed during the year related to this matter.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the calculation and recognition of the TRA liability, including controls over the completeness and accuracy of the underlying data used in the tax basis and blended tax rate calculations. These procedures also included, among others, testing the information used in the calculation of the TRA liability, and the involvement of professionals with specialized skills and knowledge to assist in (i) developing an independent calculation of the tax basis, (ii) comparing the independent calculation to management's calculations to evaluate the reasonableness of the tax basis, (iii) evaluating the apportionment factors and the resulting blended tax rate, and (iv) assessing management's application of the tax laws. Evaluating management's determination of the apportionment factors involved considering the current and expected activity levels of the Company and whether the apportionment factors were consistent with evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
February 28, 2020

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

CACTUS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(in thousands, except per share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 202,603	\$ 70,841
Accounts receivable, net of allowance of \$837 and \$576, respectively	87,865	92,269
Inventories	113,371	99,837
Prepaid expenses and other current assets	11,044	11,558
Total current assets	414,883	274,505
Property and equipment, net	161,748	142,054
Operating lease right-of-use assets, net	26,561	—
Goodwill	7,824	7,824
Deferred tax asset, net	222,545	159,053
Other noncurrent assets	1,403	1,308
Total assets	\$ 834,964	\$ 584,744
Liabilities and Equity		
Current liabilities		
Accounts payable	\$ 40,957	\$ 42,047
Accrued expenses and other current liabilities	22,067	15,650
Current portion of liability related to tax receivable agreement	14,630	9,574
Finance lease obligations, current portion	6,735	7,353
Operating lease liabilities, current portion	6,737	—
Total current liabilities	91,126	74,624
Deferred tax liability, net	1,348	1,036
Liability related to tax receivable agreement, net of current portion	201,902	138,015
Finance lease obligations, net of current portion	3,910	8,741
Operating lease liabilities, net of current portion	20,283	—
Total liabilities	318,569	222,416
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value, 10,000 shares authorized, none issued and outstanding	—	—
Class A common stock, \$0.01 par value, 300,000 shares authorized, 47,159 and 37,654 shares issued and outstanding	472	377
Class B common stock, \$0.01 par value, 215,000 shares authorized, 27,958 and 37,236 shares issued and outstanding	—	—
Additional paid-in capital	194,456	126,418
Retained earnings	132,990	51,683
Accumulated other comprehensive loss	(452)	(820)
Total stockholders' equity attributable to Cactus Inc.	327,466	177,658
Non-controlling interest	188,929	184,670
Total stockholders' equity	516,395	362,328
Total liabilities and equity	\$ 834,964	\$ 584,744

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

CACTUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2019	2018	2017
	(in thousands, except per share data)		
Revenues			
Product revenue	\$ 357,087	\$ 290,496	\$ 189,091
Rental revenue	141,816	133,418	77,469
Field service and other revenue	129,511	120,221	74,631
Total revenues	628,414	544,135	341,191
Costs and expenses			
Cost of product revenue	220,615	174,675	124,030
Cost of rental revenue	69,829	55,015	40,519
Cost of field service and other revenue	103,163	96,215	60,602
Selling, general and administrative expenses	51,657	40,529	27,177
Total costs and expenses	445,264	366,434	252,328
Income from operations	183,150	177,701	88,863
Interest income (expense), net	879	(3,595)	(20,767)
Other income (expense), net	4,294	(4,305)	—
Income before income taxes	188,323	169,801	68,096
Income tax expense	32,020	19,520	1,549
Net income	\$ 156,303	\$ 150,281	\$ 66,547
Less: pre-IPO net income attributable to Cactus LLC	—	13,648	66,547
Less: net income attributable to non-controlling interest	70,691	84,950	—
Net income attributable to Cactus Inc.	\$ 85,612	\$ 51,683	\$ —
Earnings per Class A share - basic	\$ 1.90	\$ 1.60	\$ —
Earnings per Class A share - diluted	\$ 1.88	\$ 1.58	\$ —
Weighted average Class A shares outstanding - basic	44,983	32,329	—
Weighted average Class A shares outstanding - diluted	75,353	32,695	—

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

CACTUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Net income	\$ 156,303	\$ 150,281	\$ 66,547
Foreign currency translation adjustments	368	(902)	557
Comprehensive income	156,671	149,379	67,104
Less: pre-IPO comprehensive income attributable to Cactus LLC	—	13,928	67,104
Less: comprehensive income attributable to non-controlling interest	70,581	84,212	—
Comprehensive income attributable to Cactus Inc.	<u>\$ 86,090</u>	<u>\$ 51,239</u>	<u>\$ —</u>

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

CACTUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Members' Equity (Deficit)	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total Equity (Deficit)
	Shares	Amount	Shares	Amount						
Balance at December 31, 2016	\$ (102,846)	—	\$ —	—	\$ —	\$ —	\$ —	\$ (475)	\$ —	\$ (103,321)
Other comprehensive income	—	—	—	—	—	—	—	557	—	557
Net income	66,547	—	—	—	—	—	—	—	—	66,547
Balance at December 31, 2017	\$ (36,299)	—	\$ —	—	\$ —	\$ —	\$ —	\$ 82	\$ —	\$ (36,217)
Member distributions prior to IPO	(26,000)	—	—	—	—	—	—	—	—	(26,000)
Net income prior to IPO	13,648	—	—	—	—	—	—	—	—	13,648
Effect of IPO	48,651	26,450	265	48,440	—	71,196	—	—	130,861	250,973
Member distributions after IPO	—	—	—	—	—	—	—	—	(5,848)	(5,848)
Effect of Follow-on Offering and CW Unit redemptions	—	11,204	112	(11,204)	—	24,472	—	—	(25,293)	(709)
Additional paid-in capital related to tax receivable agreement	—	—	—	—	—	26,046	—	—	—	26,046
Other comprehensive (loss)	—	—	—	—	—	—	—	(902)	—	(902)
Stock-based compensation	—	—	—	—	—	4,704	—	—	—	4,704
Net income after IPO	—	—	—	—	—	—	51,683	—	84,950	136,633
Balance at December 31, 2018	\$ —	37,654	\$ 377	37,236	\$ —	\$ 126,418	\$ 51,683	\$ (820)	\$ 184,670	\$ 362,328
Adjustment to prior periods	—	—	—	—	—	10,424	—	409	(11,339)	(506)
Member distributions	—	—	—	—	—	—	—	—	(8,392)	(8,392)
Effect of CW Unit redemptions	—	9,278	93	(9,278)	—	48,635	—	(59)	(48,669)	—
Adjustment to deferred tax asset from CW Unit redemptions	—	—	—	—	—	(9,751)	—	—	—	(9,751)
Additional paid-in capital related to tax receivable agreement	—	—	—	—	—	15,250	—	—	—	15,250
Equity award vestings	—	227	2	—	—	(791)	—	—	(760)	(1,549)
Other comprehensive income	—	—	—	—	—	—	—	18	4	22
Stock-based compensation	—	—	—	—	—	4,271	—	—	2,724	6,995
Cash dividends declared (\$0.09 per share)	—	—	—	—	—	—	(4,305)	—	—	(4,305)
Net income	—	—	—	—	—	—	85,612	—	70,691	156,303
Balance at December 31, 2019	\$ —	47,159	\$ 472	27,958	\$ —	\$ 194,456	\$ 132,990	\$ (452)	\$ 188,929	\$ 516,395

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

CACTUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Cash flows from operating activities			
Net income	\$ 156,303	\$ 150,281	\$ 66,547
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	38,854	30,153	23,271
Debt discount and deferred financing cost amortization	168	275	1,752
Stock-based compensation	6,995	4,704	—
Provision for bad debts	355	—	(100)
Inventory obsolescence	2,552	1,451	1,259
Loss on disposal of assets	236	886	534
Deferred income taxes	25,403	15,201	220
Loss on debt extinguishment	—	4,305	—
Gain from revaluation of liability related to tax receivable agreement	(5,336)	—	—
Changes in operating assets and liabilities:			
Accounts receivable	4,204	(8,105)	(50,094)
Inventories	(17,592)	(38,227)	(28,279)
Prepaid expenses and other assets	438	(6,509)	(4,012)
Accounts payable	(607)	7,651	19,505
Accrued expenses and other liabilities	6,994	5,114	4,104
Payments pursuant to tax receivable agreement	(9,335)	—	—
Net cash provided by operating activities	209,632	167,180	34,707
Cash flows from investing activities			
Capital expenditures and other	(59,703)	(70,053)	(32,082)
Proceeds from sale of assets	3,755	1,899	1,404
Net cash used in investing activities	(55,948)	(68,154)	(30,678)
Cash flows from financing activities			
Principal payments on long-term debt	—	(248,529)	(2,569)
Payment of deferred financing costs	—	(840)	—
Payments on finance leases	(7,484)	(6,274)	(2,744)
Net proceeds from equity offerings	—	828,168	—
Dividends paid to Class A common stock shareholders	(4,244)	—	—
Distributions to members	(8,392)	(31,848)	—
Redemptions of CW Units	—	(575,681)	—
Repurchases of shares	(1,549)	—	—
Net cash used in financing activities	(21,669)	(35,004)	(5,313)
Effect of exchange rate changes on cash and cash equivalents	(253)	(755)	170
Net increase (decrease) in cash and cash equivalents	131,762	63,267	(1,114)
Cash and cash equivalents			
Beginning of period	70,841	7,574	8,688
End of period	\$ 202,603	\$ 70,841	\$ 7,574

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

CACTUS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data, or as otherwise indicated)

1. Organization and Nature of Operations

Cactus, Inc. (“Cactus Inc.”) and its consolidated subsidiaries (“the Company”), including Cactus Wellhead, LLC (“Cactus LLC”), are primarily engaged in the design, manufacture and sale of wellhead and pressure control equipment. In addition, we maintain a fleet of frac valves and ancillary equipment for short-term rental, as well as offer repair and refurbishment services and the provision of service crews to assist in the installation and operations of pressure control systems. We operate through U.S. service centers located in Texas, Pennsylvania, Oklahoma, North Dakota, New Mexico, Louisiana, Colorado and Wyoming, and in Eastern Australia, with our corporate headquarters located in Houston, Texas. We also have manufacturing and production facilities in Bossier City, Louisiana and Suzhou, China.

Cactus Inc. was incorporated on February 17, 2017 as a Delaware corporation for the purpose of completing an initial public offering of equity and related transactions, which was completed on February 12, 2018 (our “IPO”). Cactus Inc. is a holding company whose only material asset is an equity interest consisting of units representing limited liability company interests in Cactus LLC (“CW Units”). Cactus Inc. became the sole managing member of Cactus LLC upon completion of our IPO. Cactus LLC is a Delaware limited liability company and was formed on July 11, 2011. Except as otherwise indicated or required by the context, all references to “Cactus,” “we,” “us” and “our” refer to Cactus Inc. and its consolidated subsidiaries (including Cactus LLC) following the completion of our IPO and Cactus LLC and its consolidated subsidiaries prior to the completion of our IPO.

As the sole managing member of Cactus LLC, Cactus Inc. operates and controls all of the business and affairs of Cactus LLC and conducts its business through Cactus LLC and its subsidiaries. As a result, Cactus Inc. consolidates the financial results of Cactus LLC and its subsidiaries and reports non-controlling interest related to the portion of CW Units not owned by Cactus Inc., which reduces net income attributable to holders of Cactus Inc.’s Class A common stock, par value \$0.01 per share (“Class A common stock”). For information regarding our IPO, see our Annual Report on Form 10-K for the year ended December 31, 2018.

As of December 31, 2019, Cactus Inc. owned 62.8% of Cactus LLC as compared to 50.3% as of December 31, 2018. As of December 31, 2019, Cactus Inc. had outstanding 47.2 million shares of Class A common stock (representing 62.8% of the total voting power) and 28.0 million shares of Class B common stock (representing 37.2% of the total voting power).

2. Summary of Significant Accounting Policies and Other Items

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These consolidated financial statements include the accounts of Cactus Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Cactus Inc. is the sole managing member of Cactus LLC and consolidates the financial results of Cactus LLC and its subsidiaries and reports a non-controlling interest related to the portion of CW Units not owned by Cactus Inc., which reduces net income attributable to holders of Cactus Inc.’s Class A common stock.

Use of Estimates

In preparing our consolidated financial statements in conformity with GAAP, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision from available data or is not otherwise capable of being readily calculated based on accepted methodologies. In some cases, these estimates are particularly difficult to determine, and we

must exercise significant judgment. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our consolidated financial statements.

Segment Information

We operate in a single operating segment, which reflects how we manage our business and the fact that all of our products and services are dependent upon the oil and natural gas industry. Substantially all of our products and services are sold in the U.S., which consists largely of oil and natural gas exploration and production companies. We operate in the United States, Australia and China. Our operations in Australia and China represented less than 10% of our consolidated operations for all periods presented in these consolidated financial statements.

Concentrations of Credit Risk

Our assets that are potentially subject to concentrations of credit risk are cash and cash equivalents and accounts receivable. We manage the credit risk associated with these financial instruments by transacting only with what management believes are financially secure counterparties, requiring credit approvals and credit limits and monitoring counterparties' financial condition. Our receivables are spread over a number of customers, a majority of which are operators and suppliers to the oil and natural gas industry. Our maximum exposure to credit loss in the event of non-performance by the customer is limited to the receivable balance. We perform ongoing credit evaluations and monitoring as to the financial condition of our customers with respect to trade receivables. Generally, no collateral is required as a condition of sale. We also control our exposure associated with trade receivables by discontinuing sales and service to non-paying customers. We had one customer representing 10% of total revenues for the year ended December 31, 2019 and one customer representing 11% of total revenues in each of the years ended December 31, 2018 and 2017.

Significant Vendors

We purchase a significant portion of supplies, equipment and machined components from a single vendor. During 2019, 2018 and 2017, purchases from this vendor totaled \$36.5 million, \$46.7 million and \$33.4 million, respectively. These figures represent approximately 16%, 21% and 22% for the respective periods, of total third party vendor purchases of raw materials, finished products, equipment, machining and other services. Amounts due to the vendor included in accounts payable, in the consolidated balance sheets, as of December 31, 2019 and 2018 totaled \$4.3 million and \$5.0 million, respectively.

Tax Receivable Agreement (TRA)

In connection with our IPO, we entered into the TRA with certain direct and indirect owners of Cactus LLC (the "TRA Holders"). The TRA generally provides for payment by Cactus Inc. to the TRA Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax or franchise tax that Cactus Inc. actually realizes or is deemed to realize in certain circumstances. Cactus Inc. will retain the benefit of the remaining 15% of these net cash savings.

We account for amounts payable under the TRA in accordance with Accounting Standards Codification ("ASC") Topic 450, Contingencies. As such, subsequent changes to the measurement of the TRA liability are recognized in the statements of income as a component of other income (expense), net. For the year ended December 31, 2019, we recognized a \$5.3 million gain on the change in the TRA liability. See Note 9 for further details on the TRA liability.

Revenue Recognition

The majority of our revenues are derived from short-term contracts for fixed consideration. Product sales generally do not include right of return or other significant post-delivery obligations. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Revenues are recognized when we satisfy a performance obligation by transferring control of the promised goods or providing services to our customers at a point in time, in an amount specified in the contract with our customer and that reflects the consideration we expect to be entitled to in exchange for those goods or services. The majority of our contracts with customers contain a single performance obligation to provide agreed upon products or services. For contracts with multiple performance obligations, we allocate revenue to each performance obligation based on its relative standalone selling price. We do not

assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. We do not incur any material costs of obtaining contracts.

We do not adjust the amount of consideration per the contract for the effects of a significant financing component when we expect, at contract inception, that the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less, which is in substantially all cases. Payment terms and conditions vary, although terms generally include a requirement of payment within 30 to 45 days. Revenues are recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. We treat shipping and handling associated with outbound freight as a fulfillment cost instead of as a separate performance obligation. We recognize the cost for the associated shipping and handling when incurred as an expense in cost of sales.

Our revenues are derived from three sources: products, rentals, and field service and other:

Product revenue. Product revenues are primarily derived from the sale of wellhead systems and production trees. Revenue is recognized when the products have shipped and the customer obtains control of the products.

Rental revenue. Rental revenues are primarily derived from the rental of equipment, tools and products used for well control during the drilling and completion phases to customers. Our rental agreements are directly with our customers and provide for a rate based on the period of time the equipment is used or made available to the customer. In addition, customers are charged for repair costs either through an agreed upon rate or as incurred. Revenue is recognized ratably over the rental period, which tends to be short-term in nature with most equipment on site for less than 90 days.

Field service and other revenue. We provide field services to our customers based on contractually agreed rates. Other revenues are derived from providing repair and reconditioning services to customers who have installed wellheads and production trees on their wellsite. Revenues are recognized as the services are performed or rendered.

Foreign Currency Translation

The financial position and results of operations of our foreign subsidiaries are measured using the local currency as the functional currency. Revenues and expenses of the subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange on the balance sheet dates. The resulting translation gain and loss adjustments have been recorded directly as a separate component of other comprehensive income in the consolidated statements of comprehensive income and stockholders' equity.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in our consolidated statements of income as incurred.

Stock-based Compensation

We measure the cost of equity-based awards based on the grant date fair value and we allocate the compensation expense over the corresponding service period, which is usually the vesting period, using the straight-line method. The grant date fair value is determined by the average price of the trading high and trading low of our Class A common stock on the effective date of the grant.

Income Taxes

Deferred taxes are recorded using the asset and liability method, whereby tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We regularly evaluate the valuation allowances established for deferred tax assets for which future realization is uncertain. In assessing the realizability of deferred tax assets, we consider both positive and negative evidence, including scheduled reversals of deferred tax assets and liabilities, projected future taxable income, tax planning strategies and results of recent operations. If, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized, a valuation allowance is recorded.

Cactus Inc. is a corporation and is subject to U.S. federal as well as state income tax related to its ownership percentage in Cactus LLC. Cactus LLC is a limited liability company treated as a partnership for U.S. federal income tax purposes and files a U.S. Return of Partnership Income, which includes both our U.S. and foreign operations. Consequently, the members of Cactus LLC are taxed individually on their share of earnings for U.S. federal and state income tax purposes. However, Cactus LLC is subject to the Texas Margins Tax. Additionally, our operations in both Australia and China are subject to local country income taxes. See Note 5 “Income Taxes” for additional information regarding income taxes.

Cash and Cash Equivalents

Cash in excess of current operating requirements is invested in short-term interest-bearing investments with maturities of three months or less at the date of purchase and is stated at cost, which approximates fair value. Throughout the year we maintained cash balances that were not covered by federal deposit insurance. We have not experienced any losses in such accounts.

Accounts Receivable

We extend credit to customers in the normal course of business. We do not accrue interest on delinquent accounts receivable. Accounts receivable includes amounts billed and currently due from customers and unbilled amounts for products delivered and services performed for which billings had not yet been submitted to the customers. Total unbilled revenue included in accounts receivable as of December 31, 2019 and 2018 was \$23.8 million and \$26.8 million, respectively. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. In our determination of the allowance for doubtful accounts, we assess those amounts where there are concerns over collection and record an allowance for that amount. Estimating this amount requires us to analyze the financial condition of our customers, our historical experience and any specific concerns. Earnings are charged with a provision for doubtful accounts based on this review of the collectability of accounts. Accounts deemed uncollectible are applied against the allowance for doubtful accounts. Accounts receivable is net of allowance for doubtful accounts of \$0.8 million and \$0.6 million as of December 31, 2019 and 2018, respectively. The following is a rollforward of our allowance for doubtful accounts:

	Balance at Beginning of Period	Expense (recovery)	Write off	Other	Balance at End of Period
Year Ended December 31, 2019	\$ 576	\$ 355	\$ (94)	\$ —	\$ 837
Year Ended December 31, 2018	740	—	(164)	—	576
Year Ended December 31, 2017	851	(100)	(3)	(8)	740

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using standard cost (which approximates average cost) and weighted average methods. Costs include an application of related direct labor and overhead cost. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Reserves are made for excess and obsolete items based on a range of factors, including age, usage and technological or market changes that may impact demand for those products. The inventory obsolescence reserve was \$9.8 million and \$7.3 million as of December 31, 2019 and 2018, respectively. The following is a rollforward of our inventory obsolescence reserve:

	Balance at Beginning of Period	Expense	Write off	Other	Balance at End of Period
Year Ended December 31, 2019	\$ 7,310	\$ 2,552	\$ (90)	\$ —	\$ 9,772
Year Ended December 31, 2018	5,885	1,451	—	(26)	7,310
Year Ended December 31, 2017	4,770	1,259	(103)	(41)	5,885

Property and Equipment

Property and equipment are stated at cost. We manufacture or construct most of our own rental assets and during the manufacture of these assets, they are reflected as construction in progress until complete. We depreciate the cost of property and equipment using the straight-line method over the estimated useful lives and depreciate our rental assets to their salvage value. Leasehold improvements are amortized over the shorter of the remaining lease term or economic life of the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss are reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized. Estimated useful lives are as follows:

Land	N/A
Buildings	10 - 30 years
Machinery and equipment	2 - 12 years
Vehicles under finance lease	3 years
Rental equipment	2 - 8 years
Furniture and fixtures	5 years
Computers and software	4 years

Property and equipment as of December 31, 2019 and 2018 consists of the following:

	December 31,	
	2019	2018
Land	\$ 3,203	\$ 3,614
Buildings and improvements	21,655	20,803
Machinery and equipment	55,494	47,606
Vehicles under finance lease	24,275	25,165
Rental equipment	161,156	124,002
Furniture and fixtures	1,684	1,623
Computers and software	3,317	3,094
Gross property and equipment	270,784	225,907
Less: Accumulated depreciation	(123,397)	(96,412)
Net property and equipment	147,387	129,495
Construction in progress	14,361	12,559
Total property and equipment, net	\$ 161,748	\$ 142,054

Depreciation and amortization was \$38.9 million, \$30.2 million and \$23.3 million for 2019, 2018 and 2017, respectively. Depreciation and amortization expense is included in the consolidated statements of income as follows:

	Year Ended December 31,		
	2019	2018	2017
Cost of product revenue	\$ 3,304	\$ 3,262	\$ 3,169
Cost of rental revenue	24,881	17,997	14,912
Cost of field service and other revenue	9,986	8,456	4,786
Selling, general and administrative expenses	683	438	404
Total depreciation and amortization	\$ 38,854	\$ 30,153	\$ 23,271

Impairment of Long-Lived Assets

We review the recoverability of long-lived assets, such as property and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. We concluded there were no indicators evident or other circumstances present that these assets were not recoverable and accordingly, no impairment charges of long-lived assets were recognized for 2019, 2018 and 2017.

Goodwill

Goodwill represents the excess of acquisition consideration paid over the fair value of net assets acquired. All of the goodwill recorded on our consolidated balance sheets resulted from the acquisition of a manufacturing facility in Bossier City, Louisiana in 2011. The facility supports our full range of products, rentals and services. Goodwill is not amortized, but is reviewed for impairment on an annual basis (or more frequently if impairment indicators exist). We have established December 31 as the date of our annual test for impairment of goodwill. We perform a qualitative assessment of the fair value of our reporting unit before calculating the fair value of the reporting unit in step one of the two-step goodwill impairment model. If, through the qualitative assessment, we determine that it is more likely than not that the reporting unit's fair value is greater than its carrying value, the remaining impairment steps would be unnecessary.

If there are indicators that goodwill has been impaired and thus the two-step goodwill impairment model is necessary, step one is to determine the fair value of the reporting unit and compare it to the reporting unit's carrying value. Fair value is determined based on the present value of estimated cash flows using available information regarding expected cash flows of each reporting unit, discount rates and the expected long-term cash flow growth rates. If the fair value of the reporting unit exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded. We concluded that there was no impairment of goodwill in 2019, 2018 or 2017 based on our annual impairment analysis.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of December 31, 2019 and 2018 are as follows:

	December 31,	
	2019	2018
Payroll, incentive compensation, payroll taxes and benefits	\$ 10,708	\$ 7,842
Accrued international freight and tariffs	3,794	1,418
Income based tax payable	2,481	2,061
Accrued professional fees and other	1,790	1,512
Deferred revenue	1,371	1,110
Taxes other than income	767	1,414
Accrued workers' compensation insurance	600	—
Product warranties	556	293
Total	<u>\$ 22,067</u>	<u>\$ 15,650</u>

Self-Insurance Accrued Expenses

We maintain a partially self-insured health benefit plan which provides medical and prescription drug benefits to certain of our employees electing coverage under the plan. Our exposure is limited by individual and aggregate stop loss limits via third-party insurance carriers. Our self-insurance expense is accrued based upon the aggregate of the expected liability for reported claims and the estimated liability for claims incurred but not reported, based on historical claims experience provided by our third-party insurance advisors, adjusted as necessary based upon management's reasoned judgment. Actual employee medical claims expense may differ from estimated loss provisions based on historical experience. The liabilities for these claims are included as a component of payroll, incentive compensation, payroll taxes and benefits in the table above and were \$1.6 million and \$0.5 million as of December 31, 2019 and 2018, respectively.

Product Warranties

We generally warrant our manufactured products 12 months from the date placed in service. The estimated liability for product warranties is based on historical and current claims experience.

Fair Value Measurements

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates fair value based on the short-term nature of these accounts. We had no long-term debt outstanding as of December 31, 2019 or 2018.

Employee Benefit Plan

Our employees within the United States are eligible to participate in a 401(k) plan sponsored by us. These employees are eligible to participate on the first day of the month following 30 days of employment and if they are at least eighteen years of age. All eligible employees may contribute a percentage of their compensation subject to a maximum imposed by the Internal Revenue Code. During 2019, 2018 and 2017, we matched 100% of the first 3% of gross pay contributed by each employee and 50% of the next 4% of gross pay contributed by each employee. We may also make additional non-elective employer contributions at our discretion under the plan. Similar benefit plans exist for employees of our foreign subsidiaries. During 2019, 2018 and 2017, employer matching contributions totaled \$3.1 million, \$3.7 million and \$2.2 million, respectively. For the year ended December 31, 2019, we made a non-elective contribution of \$0.1 million under the Plan. No such contributions were made in 2018 or 2017.

Recent Accounting Pronouncements

Standards Adopted

Effective January 1, 2019, we adopted Financial Accounting Standards Board (“FASB”) ASU No. 2016-02, Leases (Topic 842) by utilizing the modified retrospective approach. There was no cumulative effect adjustment required to the opening balance of retained earnings as we utilized the package of practical expedients permitted under the transition guidance within the standard. The expedient package allowed us to not reassess whether existing contracts contained a lease, to not reassess the lease classification of existing leases, and to not consider the initial direct cost for existing leases. In addition to the package of practical expedients, we also utilized expedients and elections allowing for the exclusion of leases with terms of less than twelve months across all asset classes, use of the portfolio approach and the election to not separate non-lease components from lease components. Adoption of this standard resulted in the recognition of operating lease right-of-use (“ROU”) assets of \$25.3 million, reversal of previously recorded deferred rent of \$0.5 million and corresponding operating short-term and long-term lease liabilities of \$6.2 million and \$19.6 million, respectively, on the consolidated balance sheet. Our accounting for finance leases remained substantially unchanged under the new guidance. Additionally, as a lessor, recognition of lease revenue associated with short-term equipment rentals remained consistent with previous guidance. Adoption of the standard did not have a material impact on our consolidated statements of income and consolidated statements of comprehensive income or consolidated statements of cash flows. See Note 8 for further details regarding leases.

Standards Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350), which simplifies the accounting for goodwill impairment by eliminating Step 2 of the current goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the new standard, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We do not expect the adoption of this pronouncement will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 changes the measurement of credit losses on financial assets measured at amortized cost, including but not limited to trade receivables. The new guidance replaces the

current methodology for recognizing credit losses when it is probable that a loss has been incurred with an expected loss model that requires consideration of a broader range of information to estimate expected credit losses over the lifetime of an asset. Application of this new guidance may result in an earlier recognition of credit losses as the allowance for credit losses is measured and recorded upon the initial recognition of the financial asset. The allowance for credit losses under the new guidance represents the portion of the asset's amortized cost basis that we do not expect to collect over the asset's contractual life, considering past events, current conditions and reasonable and supportable forecasts of future economic conditions. We finalized our methodology for estimating expected credit losses, including the assumptions used in order to pool receivables with similar risk characteristics and adopted the new standard effective January 1, 2020. Adoption of the standard did not impact our consolidated financial statements.

3. Inventories

Inventories consist of the following:

	December 31,	
	2019	2018
Raw materials	\$ 1,538	\$ 1,925
Work-in-progress	4,619	3,582
Finished goods	107,214	94,330
	<u>\$ 113,371</u>	<u>\$ 99,837</u>

4. Debt

We had no debt outstanding as of December 31, 2019 and 2018.

On August 21, 2018, Cactus LLC entered into a five-year senior secured asset-based revolving credit facility with a syndicate of lenders and JPMorgan Chase Bank, N.A., as administrative agent for such lenders and as an issuing bank and swingline lender (the "ABL Credit Facility"). The ABL Credit Facility provides for \$75.0 million in revolving commitments, up to \$15.0 million of which is available for the issuance of letters of credit. The ABL Credit Facility matures on August 21, 2023. The maximum amount that Cactus LLC may borrow under the ABL Credit Facility is subject to a borrowing base, which is based on a percentage of eligible accounts receivable and eligible inventory, subject to reserves and other adjustments.

Borrowings under the ABL Credit Facility bear interest at Cactus LLC's option at either (i) the Alternate Base Rate (as defined therein) ("ABR"), or (ii) the Adjusted LIBO Rate (as defined therein) ("Eurodollar"), plus, in each case, an applicable margin. Letters of credit issued under the ABL Credit Facility accrue fees at a rate equal to the applicable margin for Eurodollar borrowings. The applicable margin ranges from 0.50% to 1.00% per annum for ABR borrowings and 1.50% to 2.00% per annum for Eurodollar borrowings and, in each case, is based on the average quarterly availability under the ABL Credit Facility for the immediately preceding fiscal quarter. The unused portion of the ABL Credit Facility is subject to a commitment fee that varies from 0.250% to 0.375% per annum, according to the average quarterly availability under the ABL Credit Facility for the immediately preceding fiscal quarter.

The ABL Credit Facility contains various covenants and restrictive provisions that limit Cactus LLC's and each of its subsidiaries' ability to, among other things, incur additional indebtedness and create liens, make investments or loans, enter into asset sales, make certain restricted payments and distributions, and engage in transactions with affiliates.

The ABL Credit Facility also requires Cactus LLC to maintain a fixed charge coverage ratio of 1.0 to 1.0 based on the ratio of EBITDA (as defined therein) minus Unfinanced Capital Expenditures (as defined therein) to Fixed Charges (as defined therein) during certain periods, including when availability under the ABL Credit Facility is under certain levels. If Cactus LLC fails to perform its obligations under the ABL Credit Facility, (i) the commitments under the ABL Credit Facility could be terminated, (ii) any outstanding borrowings under the ABL Credit Facility may be declared immediately due and payable and (iii) the lenders may commence foreclosure or other actions against the collateral.

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At December 31, 2019 and 2018, although there were no borrowings outstanding, the applicable margin on our Eurodollar borrowings was 1.5% plus an adjusted base rate of one or three month LIBOR. We were in compliance with all covenants under the ABL Credit Facility as of December 31, 2019.

The ABL Credit Facility replaced Cactus LLC's prior credit agreement, dated as of July 31, 2014, with Credit Suisse AG, as administrative agent, collateral agent and issuing bank, and the other lenders party thereto (the "Prior Credit Agreement"). The Prior Credit Agreement provided for a term loan tranche in an aggregate principal amount of \$275.0 million, the outstanding balance of which was repaid in full in February 2018 from the net proceeds of our IPO, and a revolving credit facility (the "Prior Revolving Credit Facility") of up to \$50.0 million with a \$10.0 million sublimit for letters of credit. The Prior Credit Agreement was terminated concurrently with the effectiveness of, and as a condition of entering into, the ABL Credit Facility. No loans or letters of credit under the Prior Credit Agreement were outstanding at the time of, or were repaid in connection with, such termination.

Loss on Debt Extinguishment

We recorded a \$4.3 million loss on early extinguishment of debt in conjunction with the repayment of the term loan portion of the Prior Credit Agreement with a portion of the net proceeds from our IPO. The loss consisted of the write-off of the unamortized balance of debt discount and deferred loan costs of \$2.1 million and \$2.2 million, respectively. The loss on debt extinguishment is included under other income (expense), net, in the consolidated statement of income for the year ended December 31, 2018.

Interest (Income) Expense, net

Interest (income) expense, net, including debt discount and deferred financing costs amortization, was comprised of the following:

	Year Ended December 31,		
	2019	2018	2017
Interest under bank facilities	\$ 315	\$ 2,669	\$ 18,627
Debt discount and deferred financing costs amortization	168	275	1,752
Finance lease interest	877	734	311
Other	164	45	82
Interest income	(2,403)	(128)	(5)
Interest (income) expense, net	<u>\$ (879)</u>	<u>\$ 3,595</u>	<u>\$ 20,767</u>

5. Income Taxes

Domestic and foreign components of income before income taxes were as follows:

	Year Ended December 31,		
	2019	2018	2017
Pre-IPO Domestic	\$ —	\$ 13,370	\$ 65,023
Post-IPO Domestic	173,039	146,620	—
Pre-IPO Foreign	—	512	3,073
Post-IPO Foreign	15,284	9,299	—
Income before income taxes	<u>\$ 188,323</u>	<u>\$ 169,801</u>	<u>\$ 68,096</u>

The provision for income taxes consisted of:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ 1,088	\$ —	\$ —
State	1,408	1,172	594
Foreign	4,121	3,147	735
Total current income taxes	6,617	4,319	1,329
Deferred:			
Federal	14,853	12,589	—
State	10,681	1,992	—
Foreign	(131)	620	220
Total deferred income taxes	25,403	15,201	220
Total provision for income taxes	\$ 32,020	\$ 19,520	\$ 1,549

The effective income tax rate was different from the statutory U.S. federal income tax rate due to the following:

	Year Ended December 31,		
	2019	2018	2017
Income taxes at 21% (35% for 2017) statutory tax rate	\$ 39,548	\$ 35,658	\$ 23,834
Net difference resulting from:			
Profit of Cactus LLC pre-IPO not subject to U.S. federal tax	—	(2,808)	(22,758)
Profit of non-controlling interest not subject to U.S. federal tax	(15,477)	(18,570)	—
Foreign income taxes (net of foreign tax credit)	364	828	(302)
State income taxes (excluding rate change)	4,887	2,746	594
Impact of change in forecasted state income tax rate	5,774	—	—
Foreign withholding taxes	988	1,056	220
Change in valuation allowance	(3,888)	733	(39)
Other	(176)	(123)	—
Total provision for income taxes	\$ 32,020	\$ 19,520	\$ 1,549

Our effective tax rate was 17.0%, 11.5% and 2.3% for the years ended December 31, 2019, 2018 and 2017, respectively. For the year ended December 31, 2019, the primary reason for the change to our effective tax rate relates to an increase in Cactus Inc.'s ownership of Cactus LLC and a write down of our deferred tax asset due to a change in our forecasted state tax rate. Prior to our IPO, our accounting predecessor was a limited liability company treated as a partnership for U.S. federal income tax purposes, and therefore not subject to U.S. federal income taxes. Our operations are subject to state taxes within the United States and our operations in China and Australia are subject to local country income taxes.

The components of deferred tax assets and liabilities are as follows:

	December 31,	
	2019	2018
Investment in Cactus LLC	\$ 234,629	\$ 181,390
Net operating loss carryforwards	—	619
Imputed interest	10,323	7,445
Tax credits	1,479	1,988
Other	155	144
Deferred tax assets	246,586	191,586
Valuation allowance	(24,041)	(32,533)
Deferred tax asset, net	\$ 222,545	\$ 159,053
Foreign withholding taxes	\$ 1,054	\$ 1,036
Other	294	—
Deferred tax liability, net	\$ 1,348	\$ 1,036

We recorded a deferred tax asset for the differences between our tax and book basis in the investment in Cactus LLC and imputed interest on the TRA. We also recorded deferred tax assets for foreign tax credits associated with our portion of Cactus LLC's accrued foreign taxes.

We did not have any foreign net operating losses for 2019. Foreign net operating losses were \$1.4 million and \$1.6 million for 2018 and 2017, respectively.

Based upon our cumulative earnings history and forecasted future sources of taxable income, we believe that we will be able to realize the majority of our U.S. deferred tax assets in the future. We do not expect to realize the portion of our deferred tax asset for our investment in Cactus LLC that may only be realizable through the sale or liquidation of the investment and our ability to generate sufficient capital gains. As of December 31, 2019, we have a valuation allowance of \$22.7 million against this deferred tax asset. For the year ended December 31, 2019, as a result of the March 2019 Secondary Offering and redemptions of CW Units, we released \$5.4 million of our valuation allowance and recorded a tax benefit of \$5.4 million related to the realizable portion of the deferred tax asset.

As of December 31, 2019, our liability related to the TRA was \$216.5 million, representing 85% of the calculated net cash savings in the United States federal, state and local or franchise tax that we anticipate realizing in future years from certain increases in tax basis and certain tax benefits attributed to imputed interest as a result of our acquisition of CW Units. We have determined it is more-likely-than-not that we will be able to utilize all of our tax basis subject to the TRA; therefore, we have recorded a liability related to the TRA for the tax savings we may realize from certain increases in tax basis and certain tax benefits attributable to imputed interest as a result of our acquisition (or deemed acquisition for United States federal income tax purposes) of CW Units. If we determine the utilization of this tax basis is not more-likely-than-not in the future, our estimate of amounts to be paid under the TRA would be reduced. In this scenario, the reduction of the liability under the TRA would result in a benefit to our pre-tax consolidated results of operations.

As of December 31, 2019 and 2018, we had no uncertain tax positions.

None of our federal or state income tax returns are currently under examination by state taxing authorities.

6. Stock-Based Compensation

We have a long-term incentive plan ("LTIP") to incentivize individuals providing services to us or our affiliates. The LTIP provides for the grant, from time to time, at the discretion of our compensation committee of our board of directors, of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, dividend equivalents, other stock-based awards, cash awards, substitute awards and performance awards. Any individual who is an officer or employee or an officer or employee of any of our affiliates, and any other person who provides services to us or our affiliates, including members of our board of directors, will be eligible to receive awards under the LTIP at the discretion of our board of directors. As of December 31, 2019, 2.0 million stock awards were available for grant.

Restricted Stock Units

Restricted stock units ("RSUs") granted pursuant to the LTIP are expected to be settled in shares of our Class A common stock if they vest. RSU's generally vest over a three-year period; however, RSUs granted to our non-employee directors generally vest on the first anniversary of the grant.

A summary of restricted stock unit awards for the year ended December 31, 2019 is as follows (units in thousands):

	No. of RSUs	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2018	782	\$ 19.84
Granted	221	\$ 37.04
Vested	(274)	\$ 19.50
Forfeited	(39)	\$ 22.48
Nonvested as of December 31, 2019	690	\$ 25.34

During the year ended December 31, 2019 and 2018, we recorded \$7.0 million and \$4.7 million, respectively, of stock-based compensation expense. We did not recognize any stock-based compensation expense during 2017. Stock-based compensation expense is primarily recorded in selling, general and administrative expenses. There was approximately \$11.1 million of unrecognized compensation expense relating to the unvested RSUs as of December 31, 2019. The unrecognized compensation expense will be recognized over the weighted average remaining vesting period of 2.0 years.

7. Revenue

We disaggregate revenue from contracts with customers into three revenue categories: (i) product revenues, (ii) rental revenues and (iii) field service and other revenues. We have predominately domestic operations, with a small amount of sales being generated in Australia. For the year ended December 31, 2019, we derived 57% of our total revenues from the sale of our products, 22% of our total revenues from rental and 21% of our total revenues from field service and other. This compares to 53% of our total revenues from the sale of our products, 25% of our total revenues from rental and 22% of our total revenues from field service and other for the year ended December 31, 2018. In 2017, we derived 55% of our total revenues from the sale of our products, 23% from rental and 22% from field service and other. The following table presents our revenues disaggregated by category:

	Year Ended December 31,		
	2019	2018	2017
Product revenue	\$ 357,087	\$ 290,496	\$ 189,091
Rental revenue	141,816	133,418	77,469
Field service and other revenue	129,511	120,221	74,631
Total revenue	\$ 628,414	\$ 544,135	\$ 341,191

At December 31, 2019, we had a deferred revenue balance of \$1.4 million compared to the December 31, 2018 balance of \$1.1 million included in accrued expenses and other current liabilities in the consolidated balance sheets. Deferred revenue represents our obligation to transfer products or perform services to a customer for which we have received cash or billed in advance. The revenue that has been deferred will be recognized upon product delivery or as services are performed. As of December 31, 2019, we did not have any contracts with an original length of greater than a year from which revenue is expected to be recognized in the future related to performance obligations that are unsatisfied.

8. Leases

As a lessee, we lease real estate, apartments, forklifts, vehicles and trucks, and other equipment under non-cancellable agreements. We determine if these contracts are or contain a lease at inception and review the facts and circumstances of the arrangement to classify the leased asset as operating or finance. To assess whether a contract is or contains a lease, we consider whether (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) whether we obtain substantially all the economic benefits from the use of that underlying asset and direct how and for what purpose the asset is used during the term of the contract.

The portion of active leases within our portfolio classified as operating leases are included in operating lease right-of-use assets and current and long-term operating lease liabilities on our consolidated balance sheet. The finance lease right-of-use assets portion of the active lease agreements are included in property and equipment and current and long-term finance lease obligations on our consolidated balance sheets. The ROU assets represent our right to use the underlying asset for the

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lease term and lease liabilities represent our obligation to make minimum lease payments arising from the lease for the duration of the lease term.

Certain of our leases include one or more options to renew, with renewal terms that can extend the lease term from one to 10 years or greater. The exercise of lease renewal options is typically at our discretion. The measurement of the lease term includes options to extend or renew the lease when it is reasonably certain that we will exercise that option. We do not have leases that include options to purchase leased property or that provide for the automatic transfer of ownership of leased property to us, residual value guarantees, or the incurrence by us of other restrictions or covenants.

To determine the present value of future minimum lease payments, we use the implicit rate when readily determinable; however, many of our leases do not provide an implicit rate, therefore to determine the present value of minimum lease payments we use our incremental borrowing rate based on the information available at commencement date of the lease. Our finance lease agreements typically include an interest rate that is used to determine the present value of future lease payments.

Minimum lease payments are expensed on a straight-line basis over the term of the lease, including reasonably certain renewal options. In addition, some leases may require additional contingent or variable lease payments based on factors specific to the individual agreement. Variable lease payments for which we are typically responsible include payment of real estate taxes and maintenance expenses. These payments are expensed as incurred and recorded as variable lease costs.

The following are the components of operating and finance lease costs:

	Year Ended December 31, 2019
Finance lease cost:	
Amortization of right-of-use assets	\$ 7,601
Interest expense	877
Operating lease cost	8,329
Short-term lease cost	847
Variable lease cost	528
Sublease income	(455)
Total lease cost	<u>\$ 17,727</u>

The following is supplemental cash flow information for our operating and finance leases:

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ 877
Operating cash flows from operating leases	6,828
Financing cash flows from finance leases	7,484
Total	<u>\$ 15,189</u>
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$ 8,054
Finance leases	3,008
Total	<u>\$ 11,062</u>

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The following is the aggregate future lease payments for operating and finance leases as of December 31, 2019:

	Operating	Finance
2020	\$ 7,691	\$ 7,434
2021	6,291	3,438
2022	3,967	768
2023	3,072	4
2024	2,453	—
Thereafter	7,163	—
Total undiscounted lease payments	30,637	11,644
Less: effects of discounting	(3,617)	(999)
Present value of lease payments	\$ 27,020	\$ 10,645

The following represents the average lease terms and discount rates for our operating and finance lease portfolio as of December 31, 2019:

	December 31, 2019
Weighted average remaining lease term:	
Finance leases	1.51 years
Operating leases	5.82 years
Weighted average discount rate	
Finance leases	12.18 %
Operating leases	3.76 %

As a lessor, we rent a fleet of frac valves and ancillary equipment for short-term rental periods, typically one to two months. Our lessor portfolio consists mainly of operating leases for equipment utilized during the drilling, completion and production phases of our customers' wells. At this time, most lessor agreements contain less than three-month terms with no renewal options that are reasonably certain to exercise, or early termination options based on established terms specific to the individual agreement. See Note 7 for disaggregation of revenue.

Disclosures related to periods prior to adoption of new lease standard

Operating and Capital Leases:

We lease certain facilities, vehicles, equipment, office and manufacturing space under noncancelable operating leases which expire at various dates. We are also party to a significant number of month-to-month leases that can be canceled at any time. Total rent expense under operating leases was \$7.7 million in 2018 and \$7.1 million in 2017. Accumulated depreciation for capital leases totaled \$8.6 million at December 31, 2018.

Minimum lease payments, including executory costs and interest, under capital and operating leases with non-cancelable terms as of December 31, 2018 were as follows:

	Operating	Capital
2019	\$ 6,638	\$ 8,740
2020	4,618	6,790
2021	3,487	2,533
2022	2,195	41
2023	1,426	—
Thereafter	3,339	—
	\$ 21,703	\$ 18,104

9. Tax Receivable Agreement

The TRA generally provides for the payment by Cactus Inc. to the TRA Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax and franchise tax that Cactus Inc. actually realizes or is deemed to realize in certain circumstances as a result of (i) certain increases in tax basis that occur as a result of Cactus Inc.'s acquisition (or deemed acquisition for U.S. federal income tax purposes) of all or a portion of such TRA Holder's CW Units in connection with our IPO or any subsequent offering, or pursuant to any other exercise of the Redemption Right or the Call Right, (ii) certain increases in tax basis resulting from the repayment of borrowings outstanding under Cactus LLC's term loan facility in connection with our IPO and (iii) imputed interest deemed to be paid by Cactus Inc. as a result of, and additional tax basis arising from, any payments Cactus Inc. makes under the TRA. We will retain the remaining 15% of the cash savings.

The TRA liability is calculated by determining the tax basis subject to TRA ("tax basis") and applying a blended tax rate to the basis differences and calculating the iterative impact. The blended tax rate consists of the U.S. federal income tax rate and an assumed combined state and local income tax rate driven by the apportionment factors applicable to each state. As of December 31, 2019, the total liability from the TRA was \$216.5 million with \$14.6 million reflected in current liabilities based on the expected timing of our next payment. The payments under the TRA will not be conditional on a holder of rights under the TRA having a continued ownership interest in either Cactus LLC or Cactus Inc.

The term of the TRA commenced upon completion of our IPO and will continue until all tax benefits that are subject to the TRA have been utilized or expired, unless we exercise our right to terminate the TRA. If we elect to terminate the TRA early (or it is terminated early due to certain mergers, asset sales, other forms of business combinations or other changes of control), our obligations under the TRA would accelerate and we would be required to make an immediate payment equal to the present value of the anticipated future payments to be made by us under the TRA and such payment is expected to be substantial. The calculation of anticipated future payments will be based upon certain assumptions and deemed events set forth in the TRA, including the assumptions that (i) we have sufficient taxable income to fully utilize the tax benefits covered by the TRA and (ii) any CW Units (other than those held by Cactus Inc.) outstanding on the termination date are deemed to be redeemed on the termination date. Any early termination payment may be made significantly in advance of the actual realization, if any, of the future tax benefits to which the termination payment relates.

We may elect to defer payments due under the TRA if we do not have available cash to satisfy our payment obligations under the TRA. Any such deferred payments under the TRA generally will accrue interest from the due date for such payment until the payment date.

10. Equity

Redemptions of CW Units

Pursuant to the First Amended and Restated Limited Liability Company Operating Agreement of Cactus LLC (the "Cactus LLC Agreement"), each holder of CW Units ("CW Unit Holder") has, subject to certain limitations, the right (the "Redemption Right") to cause Cactus LLC to acquire all or at least a minimum portion of its CW Units for, at Cactus LLC's election, (x) shares of our Class A common stock at a redemption ratio of one share of Class A common stock for each CW Unit redeemed, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions, or (y) an equivalent amount of cash. Alternatively, upon the exercise of the Redemption Right, Cactus Inc. (instead of Cactus LLC) will have the right (the "Call Right") to acquire each tendered CW Unit directly from the exchanging CW Unit Holder for, at its election, (x) one share of Class A common stock, subject to conversion rate adjustments for stock splits, stock dividends and reclassifications and other similar transactions, or (y) an equivalent amount of cash. In connection with any redemption of CW Units pursuant to the Redemption Right or our Call Right, the corresponding number of shares

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of Class B common stock, par value \$0.01 per share (“Class B common stock”), will be canceled. The following is a rollforward of ownership of legacy CW Units by legacy CW Unit Holders.

	CW Units (in thousands)
CW Units held by legacy CW Unit Holders as of February 7, 2018	60,558
IPO	(12,118)
July 2018 Follow-on Offering	(11,197)
Other CW Unit redemptions	(7)
CW Units held by legacy CW Unit Holders as of December 31, 2018	37,236
March 2019 Secondary Offering	(8,474)
Other CW Unit redemptions	(804)
CW Units held by legacy CW Unit Holders as of December 31, 2019	27,958

On March 19, 2019, Cactus Inc. entered into an underwriting agreement by and among Cactus Inc., Cactus LLC, certain selling stockholders of Cactus (the “Selling Stockholders”) and the underwriters named therein, providing for the offer and sale of Class A common stock by the Selling Stockholders (the “March 2019 Secondary Offering”). As described in the prospectus supplement dated March 19, 2019 and filed with the Securities and Exchange Commission on March 20, 2019, in connection with the March 2019 Secondary Offering, certain Selling Stockholders owning CW Units exercised their Redemption Right with respect to 8.5 million CW Units, together with a corresponding number of shares of Class B common stock, as provided in the Cactus LLC Agreement. The March 2019 Secondary Offering closed on March 21, 2019, at which time, in exercise of its Call Right, Cactus Inc. acquired the redeemed CW Units and a corresponding number of shares of Class B common stock (which shares of Class B common stock were then canceled) and issued 8.5 million shares of Class A common stock to the underwriters at the direction of the redeeming Selling Stockholders, as provided in the Cactus LLC Agreement. In addition, certain other Selling Stockholders sold 26 thousand shares of Class A common stock in the March 2019 Secondary Offering, which shares were owned by them directly prior to the closing of this offering. Cactus did not receive any of the proceeds from the sale of common stock in the March 2019 Secondary Offering. Cactus incurred \$1.0 million in offering expenses which were recorded in other income (expense), net, in the consolidated statement of income during the first quarter of 2019.

In addition to the redemptions associated with the March 2019 Secondary Offering, certain legacy CW Unit Holders redeemed 0.8 million CW Units (together with a corresponding number of shares of Class B common stock) pursuant to the Redemption Right, for the year ended December 31, 2019. Cactus acquired the redeemed CW Units and a corresponding number of shares of Class B common stock (which shares of Class B common stock were then canceled) and issued 0.8 million shares of Class A common stock to the redeeming CW Unit Holders. Any exercise by Cactus LLC or Cactus Inc. of the right to acquire redeemed CW Units for cash must be approved by the board of directors of Cactus Inc. To date, neither Cactus Inc. nor Cactus LLC have elected to acquire CW Units for cash in connection with exchanges by CW Unit Holders. It is the policy of Cactus Inc. that any exercise by Cactus Inc. or Cactus LLC of the right to acquire redeemed CW Units for cash must be approved by a majority of those members of the board of directors of Cactus Inc. who have no interest in such transaction.

Pursuant to the tax receivable agreement (the “TRA”) described in Note 9, the CW Units redeemed in the March 2019 Secondary Offering and other CW Unit redemptions for the year ended December 31, 2019, created additional TRA liability. Also, as a result, Cactus Inc. increased its ownership in Cactus LLC and accordingly, increased its equity by \$48.7 million from the non-controlling interest.

During 2019, we corrected for misstatements of equity between Cactus Inc. and non-controlling interest related to our July 2018 Follow-on Offering by reducing non-controlling interest and increasing additional paid-in capital and accumulated other comprehensive income. This related to immaterial errors associated with the ownership percentage change used in the underlying calculation giving effect to the offering. Additionally, we finalized the majority of the Company’s tax returns and identified immaterial adjustments.

Dividends

On October 29, 2019, our board of directors authorized the introduction of a regular quarterly cash dividend of \$0.09 per share of Class A common stock of which \$4.2 million was paid on December 19, 2019. We currently intend to continue paying the quarterly dividend while retaining the balance of future earnings, if any, to finance the growth of our business. However, our future dividend policy is within the discretion of our board of directors and will depend upon then-existing conditions, including our results of operations, financial condition, capital requirements, investment opportunities, statutory and contractual restrictions on our ability to pay dividends and other factors our board of directors may deem relevant.

Limitation of Members' Liability

Under the terms of the Cactus Wellhead LLC Agreement, the members of Cactus LLC are not obligated for debt, liabilities, contracts or other obligations of Cactus LLC. Profits and losses are allocated to members as defined in the Cactus Wellhead LLC Agreement.

11. Related Party Transactions

When needed, we rent a plane under dry-lease from a company owned by a member of Cactus LLC. These transactions are under short-term rental arrangements and the agreement governing these transactions does not qualify as a lease under ASC 842. We pay a base hourly rent of \$1,750 per flight hour of use of the aircraft, payable monthly, for the hours of aircraft operation during the prior calendar month. We are also responsible for employing pilots and certain fuel true up fees. During 2019, 2018 and 2017, expense recognized in connection with these rentals totaled \$0.3 million, \$0.4 million and \$0.3 million, respectively. As of December 31, 2019 and 2018, we owed less than \$0.1 million to the related party which are included in accounts payable in the consolidated balance sheets.

The TRA agreement is with certain direct and indirect holders of CW Units, including certain of our officers, directors and employees. These TRA Holders have the right in the future to receive 85% of the net cash savings, if any, in U.S. federal, state and local income tax and franchise tax that Cactus Inc. actually realizes or is deemed to realize in certain circumstances. The total liability from the TRA as of December 31, 2019 was \$216.5 million. We pay professional fees to assist with maintenance of the TRA which are reimbursable from the TRA Holders. As of December 31, 2019, we had a \$0.3 million balance due from the TRA Holders for fees paid in 2019. The balance is included in accounts receivable, net in the consolidated balance sheet. No such balance existed as of December 31, 2018.

Distributions made by Cactus LLC are generally required to be made pro rata among all its members. For the year ended December 31, 2019, Cactus LLC distributed \$14.2 million to Cactus Inc. to fund the 2019 TRA liability payments and estimated tax payments and made pro rata distributions to its other members totaling \$8.4 million over the same period. For the year ended December 31, 2018, Cactus LLC made \$3.8 million in distributions to Cactus Inc. to cover its estimated tax payments and also made an aggregate \$5.8 million in pro-rata distributions to its other members over the same period.

Prior to our IPO, we were party to a management services agreement with two Cactus LLC members, whereby Cactus paid an annual management fee totaling approximately \$0.3 million, payable in four installments, each to be paid quarterly in advance, prorated for any partial year. In conjunction with our IPO, the management services agreement terminated pursuant to its terms. Management fee expense totaled \$0.1 million and \$0.3 million for 2018 and 2017, respectively. There were no outstanding balances due as of December 31, 2019 and 2018 under the management services agreement.

Prior to our IPO, on January 25, 2018, Cactus LLC paid a cash distribution of \$26.0 million to holders of CW Units at that time. This distribution was funded by borrowing under a revolving credit facility. The purpose of the distribution was to provide funds to these owners to pay their federal and state tax liabilities associated with taxable income recognized by them for periods prior to the completion of our IPO as a result of their ownership interests in Cactus LLC. The borrowings under this revolving credit facility were repaid during the first quarter of 2018.

12. Commitments and Contingencies

We are involved in various disputes arising in the ordinary course of business. Management does not believe the outcome of these disputes will have a material adverse effect on our consolidated financial position or consolidated results of operations.

13. Earnings Per Share

Basic earnings per share of Class A common stock is calculated by dividing the net income attributable to Cactus Inc. during the period by the weighted average number of shares of Class A common stock outstanding during the same period. Diluted earnings per share of Class A common stock is calculated by dividing the net income attributable to Cactus Inc. during that period by the weighted average number of common shares outstanding assuming all potentially dilutive shares were issued.

We use the “if-converted” method to determine the potential dilutive effect of outstanding CW Units (and corresponding shares of outstanding Class B common stock), and the treasury stock method to determine the potential dilutive effect of unvested restricted stock units assuming that the proceeds will be used to purchase shares of Class A common stock.

The following table summarizes the basic and diluted earnings per share calculations:

	Year Ended December 31,	
	2019	2018
Numerator:		
Net income attributable to Cactus Inc.—basic	\$ 85,612	\$ 51,683
Net income attributable to non-controlling interest ⁽¹⁾	56,012	—
Net income attributable to Cactus Inc.—diluted ⁽¹⁾	\$ 141,624	\$ 51,683
Denominator:		
Weighted average Class A shares outstanding—basic	44,983	32,329
Effect of dilutive shares ⁽²⁾	30,370	366
Weighted average Class A shares outstanding—diluted ⁽²⁾	75,353	32,695
Earnings per Class A share—basic	\$ 1.90	\$ 1.60
Earnings per Class A share—diluted ^{(1) (2)}	\$ 1.88	\$ 1.58

(1) Under the if-converted method for the twelve months ended December 31, 2019, the numerator is adjusted in the calculation of diluted earnings per share to include \$73.7 million of additional pre-tax income attributable to non-controlling interest adjusted for a corporate effective tax rate of 24%.

(2) Diluted earnings per share for the year ended December 31, 2018 excludes 37.2 million shares of Class B common stock as the effect would be anti-dilutive.

14. Supplemental Cash Flow Information

Non-cash investing and financing activities were as follows:

	Year Ended December 31,		
	2019	2018	2017
Property and equipment acquired under finance leases	\$ 3,008	\$ 9,966	\$ 12,941
Property and equipment in payables	1,052	1,312	1,553

Cash paid for interest and income taxes was as follows:

	Year Ended December 31,		
	2019	2018	2017
Cash paid for interest	\$ 1,187	\$ 3,583	\$ 18,826
Cash paid for income taxes, net	5,301	7,613	1,535

In conjunction with our IPO, we issued and contributed shares of Class B common stock to owners of CW Units equal to the number of outstanding CW Units held by the owners thereof. The Class B common stock has no economic interest and does not share in cash dividends or liquidation rights.

During the year ended December 31, 2019, we issued 9.3 million shares of Class A common stock pursuant to redemptions of CW Units by holders thereof.

15. Quarterly Financial Information (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2019 and 2018 are presented in the following tables. In the following tables, the sum of basic and diluted earnings per share for the four quarters may differ from the annual amounts due to the required method of computing weighted average number of shares in the respective periods. Additionally, due to the effect of rounding, the sum of the individual quarterly earnings per share amounts may not equal the calculated year-to-date earnings per share amount.

	2019 Quarters				
	First	Second	Third	Fourth	Total
Total revenues	\$ 158,875	\$ 168,493	\$ 160,808	\$ 140,238	\$ 628,414
Income from operations	48,492	51,450	47,123	36,085	183,150
Net income	48,446	40,750	35,833	31,274	156,303
Less: net income attributable to non-controlling interest	21,639	19,342	16,494	13,216	70,691
Net income attributable to Cactus Inc.	26,807	21,408	19,339	18,058	85,612
Earnings per Class A share—basic	\$ 0.69	\$ 0.46	\$ 0.41	\$ 0.38	\$ 1.90
Earnings per Class A share—diluted	\$ 0.59	\$ 0.45	\$ 0.41	\$ 0.38	\$ 1.88
Dividends declared per common share	\$ —	\$ —	\$ —	\$ 0.09	\$ 0.09

	2018 Quarters				
	First	Second	Third	Fourth	Total
Total revenues	\$ 115,110	\$ 138,543	\$ 150,658	\$ 139,824	\$ 544,135
Income from operations	35,217	46,487	52,133	43,864	177,701
Net income	26,408	41,542	43,648	38,683	150,281
Less: pre-IPO net income attributable to Cactus LLC	13,648	—	—	—	13,648
Less: net income attributable to non-controlling interest	9,007	29,208	24,976	21,759	84,950
Net income attributable to Cactus Inc.	3,753	12,334	18,672	16,924	51,683
Earnings per Class A share—basic	\$ 0.14	\$ 0.47	\$ 0.52	\$ 0.45	\$ 1.60
Earnings per Class A share—diluted	\$ 0.14	\$ 0.46	\$ 0.52	\$ 0.44	\$ 1.58

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have evaluated, under the supervision and with the participation of our principal executive officer and principal financial officer, 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 as amended) as of December 31, 2019. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of such date. 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 or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Remediation of Previously Reported Material Weakness

As discussed in “Part II – Item 9A, Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2018, we identified a material weakness in our internal control over financial reporting related to accounting of the liability and deferred tax asset associated with the tax receivable agreement (“TRA”). In response to the identified material weakness, we implemented certain processes and procedures to address and remediate this material weakness. We added the following processes and procedures:

- Replaced our outside service provider for tax compliance, support of tax accounting and reporting functions, and TRA accounting processes beginning in the first quarter of 2019 and hired a Tax Director in May 2019 who has extensive knowledge and experience in accounting for TRA liabilities;
- Redesigned, enhanced and implemented control activities related to the quarterly processes around accounting for the TRA beginning in the second quarter of 2019; and
- Redesigned, enhanced and implemented control activities related to reviews of the completeness and accuracy of inputs (including estimates) and assumptions used in calculations beginning in the third quarter of 2019

The control activities discussed above have operated for a sufficient period of time, and management has concluded, through testing, that these controls are effective. Therefore, management has concluded that the previously identified material weakness has been remediated as of December 31, 2019.

Changes in Internal Control over Financial Reporting

There have been no other changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III**Item 10. Directors, Executive Officers and Corporate Governance****Directors and Executive Officers**

The directors and executive officers of the Company are:

Name	Age	Title
Bruce Rothstein	67	Chairman of the Board of Directors
Scott Bender	66	President, Chief Executive Officer and Director
Joel Bender	60	Senior Vice President, Chief Operating Officer and Director
Michael McGovern	68	Director, Compensation Committee Chairman and Audit Committee member
John (Andy) O'Donnell	71	Director, Audit Committee member, Compensation Committee member and Nominating and Governance Committee member
Gary Rosenthal	70	Director, Nominating and Governance Committee Chairman and Compensation Committee member
Alan Semple	60	Director, Audit Committee Chairman and Nominating and Governance Committee member
Melissa Law	46	Director, Audit Committee member and Compensation Committee member
Steven Bender	37	Vice President of Operations
Stephen Tadlock	41	Vice President, Chief Financial Officer and Treasurer
David Isaac	59	General Counsel, Vice President of Administration and Secretary

Set forth below is biographical information about each of our directors and executive officers.

Directors

Bruce Rothstein—Chairman of the Board of Directors. Bruce Rothstein has been our Chairman of the Board since 2011. Mr. Rothstein has been a Member of Cadent Energy Partners LLC (“Cadent Energy Partners”), a natural resources private equity firm that invests in companies in the North American energy industry, since co-founding Cadent Energy Partners in 2003. From November 2005 until November 2017, Mr. Rothstein served on the board of directors of Array Holdings, Inc., formerly a portfolio company of Cadent Energy Partners. From May 2006 to August 2016, he served on the board of directors of Vedco Holdings, Inc., formerly a Cadent Energy Partners portfolio company. From December 2007 to April 2016, Mr. Rothstein served on the board of directors of Torqued-Up Energy Services, Inc., formerly a Cadent Energy Partners portfolio company. From December 2008 until February 2012, Mr. Rothstein served as a director of Ardent Holdings, LLC, a portfolio company of Cadent Energy Partners. Mr. Rothstein graduated from Cornell University in 1974 with a Bachelor of Arts in Mathematics and New York University’s Stern School of Business in 1985 with a Master of Business Administration. We believe that Mr. Rothstein’s extensive financial and energy investment experience brings valuable skills to our board of directors and qualifies him to serve on our board of directors.

Scott Bender—President, Chief Executive Officer and Director. Scott Bender has been our President and Chief Executive Officer and one of our directors since 2011, when he and Mr. Joel Bender founded Cactus LLC. Prior to founding Cactus LLC, Mr. Bender was President of Wood Group Pressure Control from 2000 to 2011. He began his career in 1977 as President of Cactus Wellhead Equipment, a subsidiary of Cactus Pipe that was eventually sold to Cooper Cameron Corporation in 1996. Mr. Bender graduated from Princeton University in 1975 with a Bachelor of Science in Engineering and the University of Texas at Austin in 1977 with a Master of Business Administration. We believe that Mr. Bender’s significant experience in the oil field services industry and his founding and leading of Cactus LLC bring important skills to our board of directors and qualifies him to serve on our board. Mr. Bender is the father of Steven Bender, our Vice President of Operations, and the brother of Joel Bender, our Senior Vice President and Chief Operating Officer and one of our directors.

Joel Bender—Senior Vice President, Chief Operating Officer and Director. Joel Bender has been our Senior Vice President and Chief Operating Officer and one of our directors since 2011, when he and Mr. Scott Bender founded Cactus LLC. Prior to founding Cactus LLC, Mr. Bender was Senior Vice President of Wood Group Pressure Control from 2000 to 2011. He began his career in 1984 as Vice President of Cactus Wellhead Equipment, a subsidiary of Cactus Pipe that

was eventually sold to Cooper Cameron Corporation in 1996. Mr. Bender graduated from Washington University in 1981 with a Bachelor of Science in Engineering and the University of Houston in 1985 with a Master of Business Administration. We believe that Mr. Bender's significant experience in the oil field services industry and his founding and leading of Cactus LLC bring important skills to our board of directors and qualifies him to serve on our board. Mr. Bender is the brother of Scott Bender, our President and Chief Executive Officer and one of our directors.

Michael McGovern—Director. Mr. McGovern has served as one of our directors since 2011. He currently serves as our Compensation Committee chairman. He served as Executive Advisor to Cadent Energy Partners from January 2008 to December 2014 and has served as Chairman and Chief Executive Officer of Sherwood Energy, LLC, a Cadent Energy Partners portfolio company, since March 2009. Mr. McGovern has also served as a director of GeoMet, Inc., an independent energy company, from September 2010 until December 2018. He also currently serves on the board of directors of Nuverra Environmental Solutions, Inc. since August 2017 and Ion Geophysical (NYSE: IO) since June 2019. Mr. McGovern served on the board of directors of Quicksilver Resources Inc. from March 2013 until August 2016 and of Probe Holdings, Inc. from February 2014 until July 2017. He has also served on the board of directors of Fibrant (f/k/a DSM Caprolactam) from May 2016 to June 2019. Mr. McGovern also served on the board of directors of Sonneborn, Inc. from 2012 to December 2016. Mr. McGovern graduated from the Centenary College of Louisiana in 1973 with a Bachelor of Science in Business. We believe Mr. McGovern's qualifications to serve on our board of directors include his 40 years of experience in the energy industry and his extensive executive leadership and management experience, including as Chief Executive Officer of several public companies.

John (Andy) O'Donnell—Director. Mr. O'Donnell has served as one of our directors since January 2015. Mr. O'Donnell served as an officer of Baker Hughes Incorporated from 1998 until his retirement in January 2014. In his most recent role he served as Vice President, Office of the CEO of Baker Hughes Incorporated. Prior to that he held multiple leadership positions within Baker Hughes Incorporated, including President of Western Hemisphere, President of BJ Services, President of Baker Petrolite and President of Baker Hughes Drilling Fluids. He was responsible for the process segment, which was divested in early 2004. Mr. O'Donnell also managed Project Renaissance, an enterprise-wide cost savings effort, completed in 2001. Prior to that he served as Vice President Manufacturing for Baker Oil Tools and Plant Manager for Hughes Tool Company. He joined Hughes Tool Company in 1975 starting his career as a systems analyst. Mr. O'Donnell served as an officer and aviator in the U.S. Marine Corps and holds a B.S. degree from the University of California, Davis. He is a member of the board of directors of CIRCOR International, Inc., where he serves on the Compensation Committee and the Nominating and Governance Committee. We believe Mr. O'Donnell's qualifications to serve on our board of directors include his years of experience in the energy industry and his extensive executive leadership and management experience, including as an officer of Baker Hughes Incorporated from 1998 until 2014.

Gary Rosenthal—Director. Mr. Rosenthal has served as one of our directors since January 2018. He currently serves as our Nominating and Governance Committee chairman. Mr. Rosenthal has been a partner in The Sterling Group, L.P., a private equity firm based in Houston, Texas, since January 2005. Since September 2019, Mr. Rosenthal has served as Chairman of the Board of Highline Aftermarket LLC with whom he has served as a director since April 2016. Additionally, he has served as Chairman of the Board of Polychem Investments LLC since March 2019 and from October 2013 until February 2018, he was Chairman of the Board of Safe Fleet Investments LLC. All three of these companies are Sterling Group portfolio companies. Mr. Rosenthal served, from 2001 until 2018, as a director and chairman of the Compensation Committee of Oil States International, Inc. Mr. Rosenthal served as Chairman of the Board of Hydrochem Holdings, Inc. from May 2003 until December 2004. From August 1998 to April 2001, he served as Chief Executive Officer of AXIA Incorporated, a diversified manufacturing company. From 1991 to 1994, Mr. Rosenthal served as Executive Chairman and then after its initial public offering, as Chairman and Chief Executive Officer of Wheatley—TXT Corp., a manufacturer of pumps and valves for the oil field. Mr. Rosenthal holds J.D. and A.B. degrees from Harvard University. We believe that Mr. Rosenthal's qualifications to serve on our board of directors include his extensive executive leadership experience and his experience in the energy sector.

Alan Semple—Director. Mr. Semple has served as one of our directors since April 2017. He currently serves as our Audit Committee chairman. Since December 2015, Mr. Semple has served as a member of the board of directors and the Audit Committee of Teekay Corporation, a leading provider of international crude oil and gas marine transportation services, and as the Audit Committee Chairman since March 2018. Since May 2019, Mr. Semple has served as a member of the Board of Directors and Chairman of the Audit Committee of Teekay GP, LLC, the general partner of Teekay LNG Partners, LP. He was formerly Director and Chief Financial Officer at John Wood Group PLC (Wood Group), a provider of engineering.

production support and maintenance management services to the oil and gas and power generation industries, a role he held from 2000 until his retirement in May 2015. Prior to this, he held a number of senior finance roles in Wood Group since 1996. Mr. Semple graduated from the University of Strathclyde (Glasgow, Scotland) in 1979 with a Bachelor of Arts degree in Business Administration and is a member of the Institute of Chartered Accountants of Scotland. We believe that Mr. Semple's 30 years of finance experience, primarily in the energy industry, makes him qualified to serve on our board of directors.

Melissa Law—Director. Ms. Law was appointed by the Board to fill the newly created Board seat in January 2020. Ms. Law is an accomplished executive leader with significant experience in the oilfield services industry and more recent experience in the food & beverage ingredient industry. Ms. Law currently serves as the President of Global Operations for Tate & Lyle since September 2017. As a member of the Executive Leadership team, Ms. Law is responsible for leading the EHS, Quality, and Sustainability Programs, the end to end supply chain and logistics function as well as the global manufacturing and engineering organizations. Prior to joining Tate and Lyle, Ms. Law held various roles of increasing responsibility at Baker Hughes Incorporated from 1997 to 2017. At Baker Hughes, Ms. Law had full profit and loss responsibility for Baker Hughes' Global Specialty Chemical Business from 2014-2017 as well as Baker Hughes' Australasia geo-market from 2013-2014. Prior to those roles, Ms. Law held various other senior leadership roles in technology, manufacturing and operations at Baker Hughes. Ms. Law is a graduate of the University of Houston from where she holds a Master of Science in Environmental Chemistry. We believe Ms. Law's qualifications to serve on the board include her 20 years of experience in the energy industry and her multi-industry executive leadership and management experiences.

Our Executive Officers

Steven Bender—Vice President of Operations. Steven Bender has been our Vice President of Operations since 2011. From 2005 to 2011, Mr. Bender served as Rental Business Manager of Wood Group Pressure Control. Mr. Bender graduated from Rice University in 2005 with a Bachelor of Arts in English and Hispanic Studies and the University of Texas at Austin in 2010 with a Master of Business Administration. Mr. Bender is the son of Scott Bender, our President and Chief Executive Officer and one of our directors.

Stephen Tadlock—Vice President, Chief Financial Officer and Treasurer. Mr. Tadlock has been our Vice President, Chief Financial Officer and Treasurer since March 2019. He was our Vice President and Chief Administrative Officer from March 2018 until March 2019 and joined our company in June 2017 as our Vice President of Corporate Services. Mr. Tadlock previously worked at Cadent Energy Partners LLC from 2007 to 2017, where he most recently served as a Partner from 2014 to 2017. While at Cadent Energy Partners LLC, Mr. Tadlock managed investments across all energy sectors and worked with Cactus LLC since its founding in 2011 as a board observer. Prior to joining Cadent Energy Partners LLC, Mr. Tadlock was a consultant to Cairn Capital, a London based asset management firm. Previously he was associate to the CEO of SoundView, a publicly traded investment bank in Old Greenwich, Connecticut. Mr. Tadlock began his career as an analyst at UBS Investment Bank in New York, New York. Mr. Tadlock served as a director and chairman of Polyflow Holdings, LLC until his resignation in 2018. Mr. Tadlock also served as a director of Composite Energy Services, LLC and Energy Services Holdings, LLC until his respective resignations in 2017. Mr. Tadlock graduated from Princeton University in 2001 with a Bachelor of Science in Engineering in Operations Research and from the Wharton School at the University of Pennsylvania in 2007 with a Master of Business in Administration.

David Isaac—General Counsel, Vice President of Administration and Secretary. David Isaac has been our General Counsel, Vice President of Administration and Secretary since 2018. Mr. Isaac previously worked at Rockwater Energy Solutions, Inc. from 2011 to 2017 where he most recently served as Senior Vice President of Human Resources and General Counsel. While at Rockwater, Mr. Isaac led the Human Resources, HSE, and Legal functions of the organization. Prior to joining Rockwater, Mr. Isaac was the Vice President of Human Resources and General Counsel of Inmar, Inc. a private business-process outsourcing and reverse logistics firm in Winston-Salem, North Carolina. Previously he served as Senior Vice President of Human Resources at Wachovia Bank, also in Winston-Salem, North Carolina. Before Wachovia, Mr. Isaac performed legal and human resources functions for Baker Hughes, Inc. and its subsidiaries in Houston, Texas. Mr. Isaac graduated from The College of William & Mary in 1983 with a Bachelor of Arts in Economics and from The Ohio State University in 1986 with a Juris Doctor.

Composition of Our Board of Directors

Our business and affairs are managed under the direction of our board of directors. Our board of directors consists of eight members, including our Chief Executive Officer. In connection with our IPO, we entered into a Stockholders' Agreement with Cadent and Cactus WH Enterprises, a Delaware limited liability company owned by Messrs. Scott Bender, Joel Bender and Steven Bender and certain of our other officers and employees. The Stockholders' Agreement provides each of Cadent and Cactus WH Enterprises with the right to designate a certain number of nominees to our board of directors so long as they and their respective affiliates collectively beneficially own at least 5%, respectively, of the outstanding shares of our common stock. See "Item 13. Certain Relationships and Related Transactions, and Director Independence—Stockholders' Agreement."

In evaluating director candidates, our board of directors will assess whether a candidate possesses the integrity, judgment, knowledge, experience, skills and expertise that are likely to enhance the board's ability to manage and direct our affairs and business, including, when applicable, to enhance the ability of committees of our board of directors to fulfill their duties.

Our directors are divided into three classes serving staggered three-year terms. Class I, Class II and Class III directors will serve until our annual meetings of stockholders in 2021, 2022 and 2020, respectively. Messrs. McGovern and O'Donnell have been assigned to Class I, Messrs. Semple and Joel Bender and Ms. Law have been assigned to Class II, and Mr. Rothstein, Scott Bender and Mr. Rosenthal have been assigned to Class III. At each of the Company's annual meeting of stockholders, directors will be elected to succeed the class of directors whose terms have expired.

Our board of directors has reviewed the independence of our directors using the independence standards of the New York Stock Exchange ("NYSE") and, based on this review, determined that Messrs. Semple, McGovern, O'Donnell and Rosenthal are independent within the meaning of the NYSE listing standards currently in effect and within the meaning of Section 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Committees of the Board of Directors

We have a standing Audit Committee, Compensation Committee and a Nominating and Governance Committee.

Audit Committee

Rules implemented by the NYSE and the SEC require us to have an Audit Committee comprised of at least three directors who meet the independence and experience standards established by the NYSE and the Exchange Act. Our Audit Committee is currently comprised of Messrs. Semple, McGovern and O'Donnell and Ms. Law, each of whom are independent under the rules of the SEC. SEC rules also require that a public company disclose whether or not its audit committee has an "audit committee financial expert" as a member. An "audit committee financial expert" is defined as a person who, based on his or her experience, possesses the attributes outlined in such rules. The board has determined that Mr. Semple satisfies the definition of an "audit committee financial expert." Mr. Semple serves as the chairman of the Audit Committee.

The Audit Committee oversees, reviews, acts on and reports on various auditing and accounting matters to the board, including: the selection of our independent accountants, the scope of our annual audits, fees to be paid to the independent accountants, the performance of our internal audit function and our independent accountants and our accounting practices. In addition, the Audit Committee assists our board of directors in fulfilling its oversight responsibilities regarding our compliance programs relating to legal and regulatory requirements. In connection with our IPO, we adopted an Audit Committee charter defining the committee's primary duties in a manner consistent with the rules of the SEC and applicable stock exchange or market standards. Our Audit Committee charter is available on our website at www.CactusWHD.com.

Compensation Committee

Our Compensation Committee is currently comprised of Messrs. McGovern, Rosenthal and O'Donnell and Ms. Law, all of whom meet the independence standards established by the NYSE. Mr. McGovern serves as the chairman of the Compensation Committee. The Compensation Committee establishes salaries, incentives and other forms of compensation

for officers and other employees. The Compensation Committee also administers our incentive compensation and benefit plans. We have adopted a Compensation Committee charter defining the committee's primary duties in a manner consistent with the rules of the SEC and applicable stock exchange or market standards. Our Compensation Committee charter is available on our website at www.CactusWHD.com.

Nominating and Governance Committee

Our Nominating and Governance Committee is currently comprised of Messrs. Rosenthal, Semple and O'Donnell, all of whom meet the independence standards established by the NYSE. Mr. Rosenthal serves as the chairman of the Nominating and Governance Committee. The Nominating and Governance Committee identifies, evaluates and recommends qualified nominees to serve on our board of directors, develops and oversees our internal corporate governance processes and maintains a management succession plan. We have adopted a Nominating and Governance Committee charter defining the committee's primary duties in a manner consistent with the rules of the SEC and applicable stock exchange or market standards. Our Nominating and Governance Committee charter is available on our website at www.CactusWHD.com.

Corporate Governance

Corporate Governance Guidelines

Our board of directors believes that sound governance practices and policies provide an important framework to assist it in fulfilling its duty to stockholders. The Company's "Corporate Governance Guidelines" cover the following principal subjects:

- the size of the board;
- qualifications and independence standards for the board;
- director responsibilities;
- board of director leadership;
- meetings of the board and of non-employee directors;
- committee functions and independence of committee members;
- compensation of the board;
- self-evaluation and succession planning;
- ethics and conflicts of interest (a copy of the current "Code of Business Conduct and Ethics" is posted on the Company's website at www.CactusWHD.com);
- stockholder communications with directors; and
- access to senior management and to independent advisors.

The Corporate Governance Guidelines are posted on the Company's website at www.CactusWHD.com. The Corporate Governance Guidelines will be reviewed periodically and as necessary by the board for its approval.

The NYSE has adopted rules that require listed companies to adopt governance guidelines covering certain matters. The Company believes that the Corporate Governance Guidelines comply with the NYSE rules.

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Anti-Hedging and Pledging Policies

Our directors and executive officers are prohibited from hedging their ownership of Company stock. Furthermore, our directors and executive officers are prohibited from pledging their Company stock.

Board Leadership

Our board of directors directs and oversees the management of the business and affairs of the Company in a manner consistent with the best interests of the Company. Our board's responsibility is one of oversight, and in performing its oversight role, our board serves as the ultimate decision-making body of the Company, except for those matters reserved to or shared with our stockholders.

In accordance with the Company's Corporate Governance Guidelines, our board of directors selects the Company's Chairman and the Company's CEO in any way it considers in the best interests of the Company and, accordingly, does not have a policy on whether the roles of Chairman and CEO should be separate or combined and, if separate, whether the Chairman should be selected from the independent directors. At the present time, the roles of Chairman and CEO are separate. Mr. Rothstein currently serves as the Chairman of the Board, and is not considered independent under NYSE rules.

Executive Sessions of Non-Employee Directors

Our board of directors holds regular executive sessions in which the non-employee directors meet without any members of management present. The purpose of these executive sessions is to promote open and candid discussion among the non-employee directors. The Chairman of the Board will serve as the lead director at executive sessions of the non-employee directors, unless the Chairman of the Board is a member of management, in which case the lead director at such meetings will be the chairman of the Audit Committee.

If the non-employee directors includes members who are not independent within the listing requirements of the NYSE, the independent members of the board will meet in executive session at least once per year. Our Corporate Governance Guidelines provide that the Chairman of the Board will serve as the lead director at executive sessions of the independent directors, unless the Chairman of the Board is not independent, in which case the lead director at such meetings will be an independent director selected by our board of directors. At present, the Chairman of the Board is not independent, and the board has selected Mr. O'Donnell to serve as the lead director at executive sessions of the independent directors.

Communications with the Board of Directors

Stockholders and any other interested parties may send communications to the board, any committee of the board, the Chairman of the Board or any other director in particular to: Cactus, Inc., 920 Memorial City Way, Suite 300 Houston, Texas 77024. Stockholders and any other interested parties should mark the envelope containing each communication as "Stockholder Communication with Directors" and clearly identify the intended recipient(s) of the communication. Our General Counsel will review each communication received from stockholders and other interested parties and will forward the communication, as expeditiously as reasonably practicable, to the addressees if: (1) the communication complies with the requirements of any applicable policy adopted by the board relating to the subject matter of the communication; and (2) the communication falls within the scope of matters generally considered by the board. To the extent the subject matter of a communication relates to matters that have been delegated by the board to a committee or to an executive officer of the Company, then our General Counsel may forward the communication to the executive officer or chairman of the committee to which the matter has been delegated. The acceptance and forwarding of communications to the members of the board or an executive officer does not imply or create any fiduciary duty of the board members or executive officer to the person submitting the communications.

Oversight of Risk Management

Risk assessment, management and oversight are an integral part of our governance and management processes. Our board of directors encourages management to promote a culture that incorporates risk management into our corporate strategy and day-to-day business operations. Management discusses strategic and operational risks at regular management meetings and conducts specific strategic planning and review sessions during the year that include a focused discussion and

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analysis of the risks facing us. Throughout the year, senior management reviews these risks with the board at regular board meetings as part of management presentations that focus on particular business functions, operations or strategies, and presents the steps taken by management to mitigate such risks.

Our board of directors does not have a standing risk management committee, but rather administers this oversight function directly through the board as a whole. Our board of directors is responsible for monitoring and assessing strategic risk exposure, and the Audit Committee assists the board in fulfilling its oversight responsibilities by overseeing our major financial risk exposures and the steps our management has taken to monitor and control these exposures.

Attendance at Annual Meetings

While we have no formal policy regarding director attendance at its annual meetings of stockholders, directors are encouraged to attend our annual meetings, if practicable. All of the directors attended our annual meeting held in 2019.

Board and Committee Meeting Attendance

During 2019, the entire Board held twelve meetings, the Audit Committee held six meetings, the Compensation Committee held four meetings and the Nominating and Governance Committee also held four meetings. Each of the directors attended 100% of the meetings of the board. Committee members also attended 100% of the meetings for the committees on which they serve except Mr. O'Donnell who attended 67% of the meetings of the Audit Committee having missed two special meetings that were convened within the same week of his absence.

Compensation Committee Interlocks and Insider Participation

During 2019, the Company's Compensation Committee consisted of Messrs. McGovern, Rosenthal and O'Donnell. There were no compensation committee interlock relationships for the year ended December 31, 2019. No member of our Compensation Committee during 2019 has engaged in any related party transaction in which our company was a participant.

Delinquent Section 16(a) Reports

Based solely on the review of Forms 3 and 4 received by the Company during the 2019 fiscal year, as required under Section 16(a)(2) of the Exchange Act, all of our directors and officers reported all their transactions as required on a Form 4, on a timely basis.

Code of Business Conduct and Ethics

Our board of directors has adopted a Code of Business Conduct and Ethics applicable to all of our officers, directors and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions and is available on our website at www.CactusWHD.com under "Corporate Governance" within the "Investors" section. We will provide a copy of this document to any person, without charge, upon request, by writing to us at Cactus, Inc., Investor Relations, 920 Memorial City Way, Suite 300, Houston, Texas 77024. We intend to satisfy the disclosure requirement under Item 406(b) of Regulation S-K regarding amendments to, or waivers from, provisions of our Code of Business Conduct and Ethics by posting such information on our website at the address and the location specified above.

Item 11. Executive Compensation

Introduction

This Compensation Discussion and Analysis (“CD&A”) provides information about the compensation objectives and policies for our principal executive officer, our principal financial officer and our three other most highly compensated executive officers (collectively our named executive officers or “NEOs”) during the last completed fiscal year and is intended to place in perspective the information contained in the executive compensation tables that follow this discussion. Throughout this discussion, the following individuals are referred to as our NEOs and are included in the Summary Compensation Table which follows:

Name	Position
Scott Bender	President, Chief Executive Officer and Director
Joel Bender	Senior Vice President, Chief Operating Officer and Director
Stephen Tadlock	Vice President, Chief Financial Officer and Treasurer(1)
Brian Small	Senior Finance Director and Former Chief Financial Officer(2)
Steven Bender	Vice President of Operations
David Isaac	General Counsel, Vice President of Administration and Secretary

- (1) On March 15, 2019, Mr. Tadlock became our Vice President, Chief Financial Officer and Treasurer, completing the management transition announced in November 2018. Prior to that time, Mr. Tadlock served as our Vice President and Chief Administrative Officer.
- (2) Mr. Small stepped down from the position of Chief Financial Officer on March 15, 2019 and transitioned to the role of Senior Finance Director.

Executive Compensation Philosophy and Objectives

The core principle of our executive compensation philosophy is to pay for performance that is aligned with our business strategy and drives growth in shareholder value over the short and long term. Accordingly, a significant portion of the compensation that we pay to our NEOs is in the form of variable, “at-risk” cash and equity incentives. The following compensation objectives are considered in setting the compensation components for our executive officers:

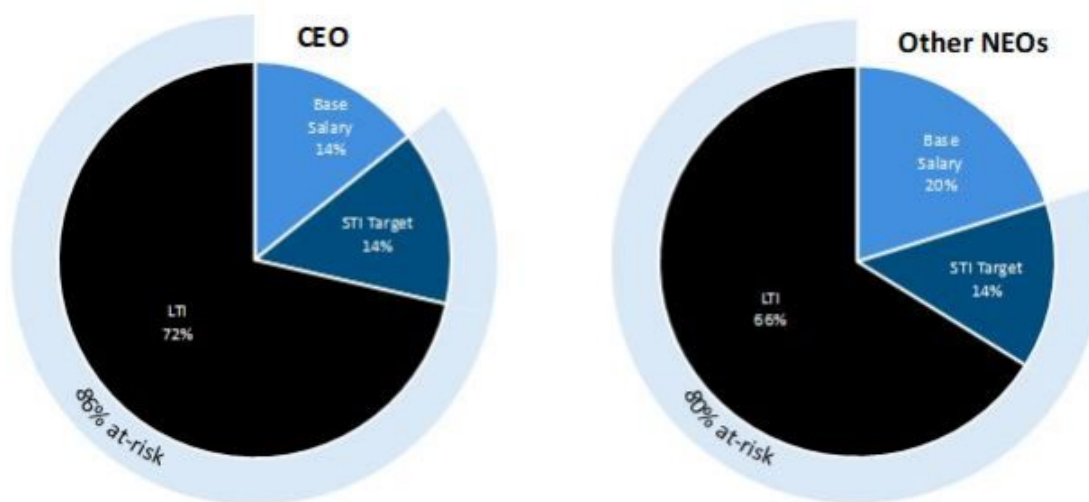
- **Attraction and retention:** providing compensation opportunities that reflect competitive market practices so that we can attract and retain key executives responsible not only for our continued growth and profitability, but also for ensuring proper corporate governance while carrying out the goals and plans of the Company;
- **Paying for performance:** linking a significant portion of compensation to variable, “at-risk” incentive compensation with realized values dependent upon financial, operational, and stock price performance to ensure that compensation earned by our NEOs reflects our performance; and
- **Shareholder alignment:** providing a balance of short-term and long-term incentive opportunities with a majority of NEO compensation in the form of equity in order to ensure alignment of interests between our NEOs and our shareholder, and to promote an ownership culture among our executive officers.

Our compensation philosophy is supported by the following principal pay elements:

Element	Key Characteristic	Grounding Principles		
		Attraction & Retention	Pay for Performance	Shareholder Alignment
Base Salary	- Annual fixed cash compensation - Critical factor in attracting and retaining qualified talent			
Short-term Incentives (STI)	- Annual variable cash award - Awards are tied to achievement of key financial and safety objectives			
Long-term Incentives (LTI)	- Provided in the form of time-vested equity - Promotes alignment with shareholders by tying a majority of NEO compensation to creation of long-term value and by encouraging NEOs to build meaningful equity ownership			

Target Pay Mix

As evidence of our emphasis on at-risk, incentive-based pay, the charts below show the mix of total direct compensation of our Chief Executive Officer and our other NEOs for 2019. These charts illustrate that a majority of NEO total direct compensation is at-risk (86% for our Chief Executive Officer and an average of 80% for our other NEOs).



Compensation Program Governance

We have worked extensively and deliberately to develop a thoughtful, fair, and effective compensation program for our NEOs that helps us to deliver long-term sustainable growth to our stockholders. The following chart highlights several features of our compensation practices that are intended to meet our objectives:

What We Do	What We Don't Do
Significant majority of pay at risk	X No excessive prerequisites
Balance of short- and long-term incentives	X No guaranteed bonuses
Clawback policy for all executive officers that applies to cash and equity incentives	X No excise tax gross-ups
Share ownership guidelines for NEOs and directors	X Prohibition on hedging, pledging, and short sales by insiders
Regularly evaluate risks of our compensation policy	X Prohibition on option repricing
Independent compensation consultant	
One-year minimum vesting requirement for LTIP grants	

2019 Say on Pay and Say on Frequency

At our 2019 Annual Meeting, a plurality of our stockholders expressed their preference for an advisory vote on executive compensation occurring every three years, and we have implemented their recommendation.

At our 2019 Annual Meeting, we also held our first advisory vote on compensation for our NEOs (“Say on Pay”). In that vote our stockholders expressed their support, with 94% of the shares of our Class A common stock and Class B common stock present or represented by proxy at the 2019 Annual Meeting voting in support our executive compensation policies and practices for our NEOs during 2018.

Our Compensation Committee values the opinions of our shareholders regarding NEO compensation. In reviewing our program, our Compensation Committee considered the results of last year’s advisory vote on executive compensation and the support expressed by stockholders in their overall assessment of our programs. Our Compensation Committee elected to apply similar principles in determining the types and amounts of compensation to be paid to our NEOs for 2019.

How We Make Compensation Decisions

Role of the Compensation Committee

The Compensation Committee has the responsibility for reviewing and approving the compensation policies, programs, and plans for our senior officers (including our NEOs) and our non-employee directors. The Compensation Committee’s responsibilities include administering our Management Incentive Plan (“MIP”), which provides for annual cash incentive opportunities, and our long-term incentive plan (the “LTIP”), which provides for the grant of equity-based awards. The Compensation Committee reviews the CD&A section of our annual proxy statement and produces the Compensation Committee Report with respect to our executive compensation disclosures for inclusion in the annual proxy statement. In addition, the Compensation Committee regularly reviews current best compensation and governance practices to ensure that our executive compensation program is consistent with recent developments and market practice. In overseeing the compensation of our directors and officers, our Compensation Committee considers various analyses and perspectives provided by its independent compensation consultant and by Company management. Subject in certain circumstances to Board approval, the Compensation Committee has the sole authority to make final decisions with respect to our executive compensation program, and the Compensation Committee is under no obligation to use the input of other parties. For more detailed information regarding the Compensation Committee, please refer to the Compensation Committee Charter, which may be accessed via our website at www.CactusWHD.com by selecting “Investors,” “Corporate Governance” and then “Governance Documents.”

Role of Independent Compensation Consultant

Pearl Meyer & Partners, LLC (“Pearl Meyer”) serves as independent compensation consultant for, and reports directly to, the Compensation Committee. Representatives of Pearl Meyer attend Compensation Committee meetings as requested and communicate with the Compensation Committee informally between meetings as necessary. Pearl Meyer assists and advises the Compensation Committee on all aspects of our executive compensation program. Services provided by the independent compensation consultant include:

- reviewing the compensation and stock performance peer groups and recommending changes, as necessary;
- reviewing executive compensation based on an analysis of market-based compensation data;
- analyzing the effectiveness of our executive compensation program and recommending changes, as necessary; and
- evaluating how well our executive compensation adheres to program objectives.

To facilitate the delivery of these services to the Compensation Committee, Pearl Meyer interfaces with our management, primarily with our General Counsel and VP of Administration. In 2019, Pearl Meyer did not provide any services to the Company other than those requested by the Compensation Committee in Pearl Meyer’s role as the Committee’s independent advisor.

Other than those services requested by the Compensation Committee, Pearl Meyer did not have any business or personal relationships with members of the Compensation Committee or executives of the Company, did not own any of the Company’s common stock and maintained policies and procedures designed to avoid such conflicts of interest. As such, the Compensation Committee determined the engagement of Pearl Meyer in 2019 did not create any conflicts of interest.

Role of Executive Officers in Compensation Decisions

With respect to the compensation of the NEOs other than our Chief Executive Officer, the Compensation Committee considers the recommendations of our Chief Executive Officer and each NEO’s individual performance. In light of our NEOs’ integral role in establishing and executing the Company’s overall operational and financial objectives, the Compensation Committee requests that our NEOs provide the initial recommendations on the appropriate goals for the qualitative and quantitative performance metrics used in our short-term cash incentive program. However, the Committee is under no obligation to follow those recommendations, and only Compensation Committee members are allowed to vote on decisions regarding NEO compensation.

The Compensation Committee may invite any NEO to attend Compensation Committee meetings to report on the Company’s progress with respect to the annual quantitative and qualitative performance metrics, but any such officer is excluded from any decisions or discussions regarding his individual compensation. In addition, the Board has granted limited authority to Scott Bender, our Chief Executive Officer, to make awards under the LTIP to certain individuals who are not executive officers.

Role of Competitive Benchmarking

In the exercise of its duties, the Compensation Committee periodically evaluates the Company’s executive compensation against that of comparable companies. The Compensation Committee does not set specific percentile goals against competitive data for purposes of determining executive compensation levels. In establishing individual compensation opportunities, the Committee considers this competitive data as well as a variety of other factors including individual performance, competencies, scope of responsibility, and internal equity.

The Compensation Committee considers the competitive market to consist of the oilfield services industry broadly as well as other similarly sized companies in related industries who could potentially compete with us for executive talent. The Committee periodically reviews data for a selected peer group approved by the Compensation Committee (the “peer group”) as well as for broader general industry companies of comparable size and business complexity (compensation survey

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data), as provided to the Committee by their independent advisor. For the 2019 compensation analysis, the Company used the following peer group companies:

2019 Compensation Peer Group	
Archrock, Inc.	NCS Multistage Holdings, Inc.
Core Laboratories, NV	Newpark Resources, Inc.
Dril-Quip, Inc.	Oil States International, Inc.
Forum Energy Technologies	Pioneer Energy Services Corp.
Frank's International, NV	RPC, Inc.
Helix Energy Solutions Group, Inc.	USA Compression Partners, LP

In selecting comparison companies, the Compensation Committee considered various factors including each company's participation in the energy services sector as well as market capitalization, annual revenues, business complexity, profitability, returns on equity and assets, the number of divisions/segments, countries in which they operate and total number of employees. The selected peer companies are reviewed from time to time to ensure their continued appropriateness for comparative purposes.

Elements of Compensation

Base Salary

Base salary is the guaranteed element of an executive's direct compensation and is intended to provide a foundation for a competitive overall compensation opportunity for the executive. The Compensation Committee reviews each executive's base salary annually. Executive officer base salaries are determined after an evaluation that considers the executive's prior experience and breadth of knowledge and which also considers compensation data from peer group companies and other similarly sized companies in businesses comparable to the Company's, the Company's and the executive's performance, and any significant changes in the executive's responsibilities. The Compensation Committee considers all these factors together plus overall industry conditions.

Salaries for our Chief Executive Officer and our Chief Operating Officer have remained unchanged since 2017. Effective February 17, 2019, after discussions regarding competitive market data with Pearl Meyer, the Board approved a salary of \$335,000 for Stephen Tadlock, who completed his transition to Chief Financial Officer on March 15, 2019.

NEO	2018 Base Salary	2019 Base Salary	Percent Increase During 2019
Scott Bender	\$ 300,000	\$ 300,000	0%
Joel Bender	300,000	300,000	0%
Stephen Tadlock	250,000	335,000	34%
Brian Small	(1)	250,000	—
Steven Bender	(1)	300,000	—
David Isaac	(1)	300,000	—

- (1) Cactus was an EGC from our IPO until the end of 2019, and as such, in our 2019 proxy statement, we only reported information regarding the compensation of our Chief Executive Officer and our two next most highly compensated executive officers. Accordingly, Brian Small, Steven Bender and David Isaac were not NEOs for any years prior to 2019.

Short Term Incentives

Our NEOs are eligible for an annual incentive bonus which is designed to focus executives on execution of our annual plan, which is linked to our long-term strategy. Execution against our annual corporate plan is important to drive long-term shareholder value by improving financial strength, managing costs and investing in projects that will deliver future value. We employ financial and safety performance metrics to further specific objectives of our strategy, such as EBITDA and total recordable incident rate.

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On February 15, 2019, after discussions with Pearl Meyer, the Board approved a performance-based bonus plan for 2019, the 2019 Management Incentive Plan (the “2019 MIP”), pursuant to which all eligible Company employees, including NEOs, would be eligible to receive a cash bonus upon the achievement of certain financial performance and safety metrics.

Under the 2019 MIP, executive officers, including NEOs, were eligible to receive base cash bonus payments equal to a certain specified percentage of their annual base salaries (“Target Bonus”) in the event that the Company met the specified performance targets. The approved 2019 Target Bonus for each of the Company’s NEOs is set forth in the table below as a percentage of such executive’s 2019 base salary:

NEO	2019 Target Bonus Opportunity (percent of Salary)
Scott Bender	100%
Joel Bender	100%
Stephen Tadlock	50%
Brian Small	40%
Steven Bender	75%
David Isaac	50%

Target Bonus Opportunity

For NEOs, the MIP has two performance parameters on which the bonus is calculated. The first parameter is Earnings Before Interest, Taxes, Depreciation and Amortization, excluding exceptional items, as defined by the Board (EBITDA), which is weighted as 90% of the bonus opportunity. Participants begin to earn a bonus payout when EBITDA performance reaches Threshold EBITDA which is set at 80% of Target EBITDA. Participants are eligible for a Stretch bonus opportunity if actual EBITDA exceeds Target EBITDA. The maximum Stretch bonus payment is achieved when EBITDA performance reaches 120% of Target EBITDA. The maximum Stretch payment is 40% of the full, non-stretch bonus payment. The calculation of the EBITDA portion of the bonus payout is linear between Threshold and Target and between Target and Stretch. The second parameter is Total Recordable Incident Rate (“TRIR”) which is defined as the number of employees per 100 full-time employees that have been involved in a recordable injury or illness in the pertinent period. TRIR is weighted as 10% of the bonus opportunity. Participants begin to earn a bonus payout when TRIR performance reaches Threshold TRIR of 1.85. A full bonus payout on the TRIR parameter is achieved when safety performance reaches Target TRIR of 1.50 or lower. The calculation of the TRIR portion of the bonus payout is linear between Threshold and Target. Depending upon Company performance, actual payouts under the 2019 MIP may be between 0% and 140% of the Target Bonus opportunity for each NEO.

	EBITDA (\$ in millions)	Payout
Threshold	\$ 169.60	0%
Target	212.00	100%
Stretch	254.40	140%

	TRIR	Payout
Threshold	1.85	0%
Target	1.50	100%

2019 Award Determination

Performance under the MIP is assessed relative to pre-established goals approved by the Committee near the beginning of the fiscal year. For 2019, the Compensation Committee approved performance objectives under the 2019 MIP after considering a combination of factors including alignment with the Company’s business strategy, 2019 budget, investor expectations, recommendations from management, and the Committee’s assessment of management’s ability to impact outcomes.

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In 2019, the actual EBITDA performance was \$229.0 million, which exceeded Target EBITDA. Based on this result, in addition to earning a full target bonus on the EBITDA component, executives also earned 40.1% of their 40% stretch opportunity an additional 16.2% of the full, non-stretch bonus calculation. The 2019 TRIR performance was 1.64 which is between Threshold and Target performance. Based on this performance NEOs were eligible for 59.2% payout on the TRIR parameter. In total, NEOs will receive a payout for the 2019 MIP of approximately 111.3% of Target. The table below summarizes the metrics and performance standards approved for the 2019 MIP, and management's level of achievement under the plan:

	Threshold	Target	Stretch	Actual	% of Target
	(in millions)				
EBITDA ⁽¹⁾	\$ 169.6	\$ 212.0	\$ 254.4	\$ 229.0	108 %

(1) Earnings before interest, taxes, depreciation and amortization excluding any exceptional items as defined by the board.

The EBITDA performance represented in the table above demonstrates full target achievement with respect to EBITDA. Furthermore, because EBITDA achievement was in excess of target, this results in the achievement of 40.1% of the 40% stretch component. This equates to a stretch payment of 16.2% of the full, non-stretch bonus calculation.

	Threshold	Target	Actual	% of Target
TRIR ⁽¹⁾	1.85	1.50	1.64	108 %

(1) Total Recordable Incident Rate (TRIR) is the number of employees per 100 full-time employees that have been involved in a recordable injury or illness in the pertinent period.

The following table shows the calculation of the non-stretch bonus payment:

Parameter	Percent of Target	Weighting	Percent Earned
EBITDA	100 %	90 %	90.0 %
TRIR	59.2 %	10 %	5.9 %
Total			95.9 %

The table below shows the aggregate bonus calculation including both the non-stretch bonus payment and the stretch bonus:

Non-Stretch Bonus Percent	95.9 %
Stretch Bonus Component (16.2% of Non-Stretch Bonus)	15.4 %
Total Bonus Percentage	111.3 %

Long-Term Incentives

In order to incentivize individuals providing services to us or our affiliates, in 2018 the Board adopted a long-term incentive plan (the "LTIP"). The LTIP provides for the grant, from time to time, at the discretion of the Board or a committee thereof, of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, dividend equivalents, other stock-based awards, cash awards, substitute awards and performance awards. The Board has delegated to the Compensation Committee the authority to administer the LTIP, including the power to determine the eligible individuals to whom awards will be granted, the number and type of awards to be granted and the terms and conditions of awards. In addition, the Board has granted limited authority to Scott Bender, our Chief Executive Officer, to make awards under the LTIP to certain individuals who are not executive officers.

The primary purpose of awards under our LTIP is to enforce direct alignment between the long-term interests of our NEOs and those of our shareholders through the use of multi-year vesting and realized value of equity incentives that is contingent upon our stock price performance. Awards of equity under the LTIP also promote long-term share ownership by our NEOs, a goal which is further supported by the adoption of share ownership guidelines in 2019.

2019 LTIP Awards.

On March 11, 2019, our NEOs received grants of restricted stock units (“RSUs”) under our LTIP in the following amounts:

NEO	Total RSUs Granted	Total Grant Date Value
Scott Bender	40,139	\$ 1,499,994
Joel Bender	40,139	1,499,994
Stephen Tadlock	40,218	1,502,947
Steven Bender	16,055	599,975
David Isaac	12,041	449,972

The restricted stock unit awards will vest in three equal annual installments beginning on the first anniversary of the grant date.

Retirement, Health and Welfare Benefits

The Company offers retirement, health and welfare benefits to substantially all of its U.S. employees including executive officers. Executive officers are eligible for these benefits on the same basis as other employees. Health and welfare benefits we offer to our employees include: medical, vision and dental coverage, life insurance, accidental death and dismemberment, short and long-term disability insurance, flexible spending accounts and employee assistance.

The Company offers a defined contribution 401(k) retirement plan to substantially all of its U.S. employees, including the NEOs. Participants may contribute from 1% to 85% of their base pay and cash incentive compensation (subject to U.S. Internal Revenue Service (“IRS”) limitations), and the Company makes matching contributions under this plan on the first 7% of the participant’s compensation (100% match of the first 3% employee contribution and 50% match on the next 4% employee contribution). Company matching contributions vest 20% per year on the first five anniversaries of the respective employee’s hire date.

Perquisites

We provide Scott Bender, Joel Bender, Stephen Tadlock, Steven Bender and Brian Small with bi-weekly vehicle allowances. Additionally, Scott Bender receives a gasoline reimbursement.

Other Compensation Practices and Policies*Compensation Risk*

Our compensation policies and practices are designed to provide rewards for short-term and long-term performance, both on an individual basis and at the entity level. In general, optimal financial and operational performance, particularly in a competitive business, requires some degree of risk-taking. Our compensation strategies are designed to encourage company growth and appropriate risk taking but not to encourage excessive risk taking. We also attempt to design the compensation program for our larger general employee population so that it does not inappropriately incentivize our employees to take unnecessary risks in their day to day activities. We recognize, however, that there are trade-offs and that it can be difficult in specific situations to maintain the appropriate balance. As such, we continue to evaluate our programs with a goal of preventing them from becoming materially imbalanced one way or the other.

Our compensation arrangements contain certain design elements that are intended to minimize the incentive for taking unwarranted risk to achieve short-term, unsustainable results. Those elements include a maximum amount that can be earned under our annual incentive cash compensation program.

We also provide compensation to our NEOs in the form of a reasonable base salary. We want our executives to be motivated to achieve Cactus’s short-term and long-term goals, without sacrificing our financial and corporate integrity in trying to achieve those goals. While an executive’s overall compensation should be strongly influenced by the achievement

of specific financial and operational targets, we also believe that a portion of an executive's compensation should be awarded in components that provide a degree of financial certainty.

In combination with our risk management practices, we do not believe that risks arising from our compensation policies and practices for our employees, including our NEOs, are reasonably likely to have a material adverse effect on us.

Clawback Policy

In June 2019, our Board adopted the Executive Compensation Clawback Policy (the "Clawback Policy"). In the event of a restatement of our financial statements (other than a restatement caused by a change in applicable accounting rules or interpretations), the result of which is that any performance-based compensation paid under an incentive compensation plan would have been a lower amount had it been calculated based on such restated results, the Compensation Committee may seek to recover for the benefit of the Company the after tax portion of the difference between the compensation actually paid to the executive and the corrected amount based on the restated financial results.

Stock Ownership Guidelines

As of December 13, 2019, the Committee has established stock ownership guidelines for our NEOs and non-employee directors. The approved guidelines are as follows:

Position	Required Level of Ownership
Chief Executive Officer	6 times base salary
Other NEOs	2 times base salary
Non-Employee Directors	3 times annual cash retainer for Board service

Stock ownership levels must be achieved by each NEO or non-employee director within five years of becoming subject to the guidelines, or within five years of any material change to the guideline level of ownership. As of February 28, 2020, all of our NEOs and non-employee directors have met or exceeded the ownership expectations under the guidelines other than Mr. Isaac and Ms. Law.

Employment, Severance, and Change-in-Control Agreements

Employment Agreements

In February 2018, in connection with our IPO, we amended and restated our employment agreements with Messrs. Scott and Joel Bender (as amended and restated, each, an "Employment Agreement"). Each Employment Agreement reflects the executive's base salary of \$300,000 and has an initial three-year term that will extend automatically for one-year periods thereafter unless advance written notice by either party is provided. Under the Employment Agreements, each of Messrs. Scott and Joel Bender are entitled to receive severance compensation if his employment is terminated under certain conditions, such as a termination by the executive officer for "good reason" or by us without "cause," each as defined in the agreements and further described below under "—Potential Payments upon Termination or Change of Control." In addition, the agreements provide for:

- specified minimum base salaries;
- participation in all of our employee benefit plans to the extent the executive is eligible thereunder;
- termination benefits, including, in specified circumstances, severance payments; and
- an annual bonus of up to 100% of annual base salary in the good faith discretion of the Board if the executive satisfies budgetary and performance goals, as determined annually by the Board.

On February 21, 2019, we amended the Employment Agreements to provide that Scott Bender and Joel Bender shall be eligible to receive an additional annual bonus of up to 40% of the regular annual bonus actually paid, determined in the good faith discretion of the Board if the executive satisfies additional budgetary and performance goals, as determined annually by the Board.

We have not entered into separate severance agreements with Messrs. Scott and Joel Bender and instead rely on the terms of each executive's Employment Agreement to dictate the terms of any severance arrangements. The Employment Agreements do not provide for accelerated or enhanced cash payments or health and welfare benefits upon a change in control but do provide for salary continuation payments and subsidized health and welfare benefits upon the termination of the executive's employment for "good reason" or without "cause." Mr. Tadlock will be eligible to receive severance payments should a merger or sale transaction result in Mr. Tadlock being terminated by the new entity. In addition, Mr. Isaac will be eligible to receive severance payments should he be subject to a Qualifying Termination prior to the third anniversary of his commencement date. Severance payments that could become payable to Messrs. Scott and Joel Bender, Mr. Tadlock and Mr. Isaac pursuant to these arrangements have been described in more detail below under "—Potential Payments upon Termination or Change of Control—Employment Agreements."

Non-Compete Agreements

In connection with our IPO, on February 12, 2018, Cactus LLC entered into amended and restated noncompetition agreements (each, a "Noncompetition Agreement") with each of Scott Bender and Joel Bender. Each of the Noncompetition Agreements provide that, for a period of one year following termination of his employment, Scott Bender and Joel Bender will not (i) compete against us in connection with our business, (ii) solicit or induce any of our employees to leave his or her employment with us or hire any of our employees or (iii) solicit or entice customers who were our customers within the one-year period immediately prior to his date of termination to cease doing business with us or to begin doing business with our competitors. Pursuant to his employment arrangement with the Company, Mr. Isaac is subject to the same restrictions.

Summary Compensation Table

The following table sets forth information regarding the compensation awarded to, earned by or paid to our NEOs during the year ended December 31, 2019.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Non Equity Incentive Plan Compensation (\$)⁽¹⁾	Stock Awards (\$)⁽²⁾	All Other Compensation (\$)⁽³⁾	Total (\$)
Scott Bender, <i>President, Chief Executive Officer and Director</i> ⁽⁴⁾	2019	300,000	—	334,835	1,499,994	29,102	2,163,931
	2018	300,000	—	300,000	1,000,008	31,135	1,631,143
	2017	260,096	—	300,000	—	24,726	584,822
Joel Bender, <i>Senior Vice President, Chief Operating Officer and Director</i> ⁽⁵⁾	2019	300,000	—	334,835	1,499,994	30,120	2,164,949
	2018	300,000	—	300,000	1,000,008	30,070	1,630,078
	2017	260,096	—	300,000	—	14,386	574,482
Stephen Tadlock, <i>Vice President, Chief Financial Officer and Treasurer</i> ⁽⁵⁾	2019	321,923	—	180,971	1,502,947	24,773	2,030,614
	2018	250,000	—	120,298	1,875,015	23,780	2,269,093
Brian Small, <i>Senior Finance Director and Former Chief Financial Officer</i> ⁽⁵⁾	2019	250,000	—	111,611	—	27,620	389,231
Steven Bender, <i>Vice President of Operations</i> ⁽⁵⁾	2019	296,154	—	248,489	599,975	25,789	1,170,407
David Isaac, <i>General Counsel, Vice President of Administration and Secretary</i> ⁽⁵⁾	2019	296,154	—	165,659	449,972	14,260	926,045

- (1) Amounts of “Non-Equity Incentive Plan Compensation” paid to each applicable NEO were made pursuant to the Company’s short-term incentive program. For a description of this plan please see “Compensation Discussion and Analysis—Elements of Compensation—Short-Term Incentives.”
- (2) The amounts reported in this column represent the aggregate grant date fair value of restricted stock unit awards granted to each NEO and computed in accordance with FASB ASC Topic 718. For a discussion of the valuation assumptions with respect to these awards, see Note 6 in the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (our “2019 Annual Report”). For additional information about restricted stock unit awards granted during 2018, see “Outstanding Equity Awards at 2019 Fiscal Year-End” below. For more information about our LTIP, see “Compensation Discussion and Analysis—Elements of Compensation—Long-Term Incentives.”
- (3) Amounts reflected within the “All Other Compensation” column are comprised of the following amounts:

Name	Year	Employer Contributions to 401(k) Plan	Vehicle Allowance	Gas Reimbursement	Total
		(\$)	(\$)	(\$)	(\$)
Scott Bender	2019	14,375	14,400	327	29,102
	2018	15,670	14,400	1,065	31,135
	2017	13,545	10,800	381	24,726
Joel Bender	2019	15,720	14,400	—	30,120
	2018	15,670	14,400	—	30,070
	2017	3,586	10,800	—	14,386
Stephen Tadlock	2019	10,373	14,400	—	24,773
	2018	9,380	14,400	—	23,780
Brian Small	2019	13,220	14,400	—	27,620
Steven Bender	2019	11,389	14,400	—	25,789
David Isaac	2019	14,260	—	—	14,260

- (4) Although Messrs. Scott and Joel Bender each serve on the Board, they are not compensated for their services as directors.
- (5) Mr. Tadlock was not a NEO for any years prior to 2018. Brian Small, Steven Bender and David Isaac were not NEOs for any years prior to 2019.

Grants of Plan Based Awards

The following table provides information about equity and non-equity awards granted to our NEOs in 2019, including the following: (1) the grant date; (2) the estimated possible payouts under the non-equity incentive plan, which is discussed in “Compensation Discussion and Analysis—Elements of Compensation—Short-term Incentives and -Long-term Incentives”, included herein; (3) the number of restricted stock awards pursuant to the Company’s LTIP; and (4) the fair value of each equity award.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽²⁾	Grant Date Fair Value of Stock Awards (\$) ⁽³⁾
		Threshold (\$)	Target (\$)	Maximum (\$)		
Scott Bender		0	300,000	420,000		
	3/11/2019	—	—	—	40,139	1,499,994
Joel Bender		0	300,000	420,000		
	3/11/2019	—	—	—	40,139	1,499,994
Stephen Tadlock		0	167,500	234,500		
	3/11/2019	—	—	—	40,218	1,502,947
Brian Small		0	100,000	140,000		
Steven Bender		0	225,000	315,000		
	3/11/2019	—	—	—	16,055	599,975
David Isaac		0	150,000	210,000		
	3/11/2019	—	—	—	12,041	449,972

- (1) Amounts in these columns represent the threshold, target, and maximum estimated payouts for 2019 MIP bonus awards. The actual value of bonuses paid to our NEOs for 2019 under this program can be found in the “Non-Equity Incentive Plan Compensation” column of the Summary Compensation Table above.
- (2) This column includes the number of restricted stock units granted to our NEOs during 2019. See “Compensation Discussion and Analysis—Elements of Compensation—Long-Term Incentives—2019 LTIP Awards” for more information regarding these restricted stock units.
- (3) The amounts shown in this column represent the grant date fair value of each equity award computed in accordance with FASB ASC Topic 718. Please see Note 6 to our consolidated financial statements for the fiscal year ended December 31, 2019 for additional detail regarding assumptions underlying the value of these equity awards.

Outstanding Equity Awards at 2019 Fiscal Year-End

The following table reflects information regarding outstanding restricted stock units held by our NEOs as of December 31, 2019.

Name	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units That Have Not Vested (\$) ⁽¹⁾
Scott Bender	2/7/2018	35,088 ⁽²⁾	1,204,220
	3/11/2019	40,139 ⁽³⁾	1,377,571
		75,227	2,581,791
Joel Bender	2/7/2018	35,088 ⁽²⁾	1,204,220
	3/11/2019	40,139 ⁽³⁾	1,377,571
		75,227	2,581,791
Stephen Tadlock	2/7/2018	65,790 ⁽²⁾	2,257,913
	3/11/2019	40,218 ⁽³⁾	1,380,282
		106,008	3,638,195
Brian Small	2/7/2018	2,632 ⁽²⁾	90,330
		2,632	90,330
Steven Bender	2/7/2018	21,052 ⁽²⁾	722,505
	3/11/2019	16,055 ⁽³⁾	551,007
David Isaac		37,107	1,273,512
	10/24/2018	6,077 ⁽⁴⁾	208,563
	3/11/2019	12,041 ⁽³⁾	413,247
		18,118	621,810

- (1) The market value of these units is based on the closing price of the Company's Class A common stock on December 31, 2019 (\$34.32), the last trading day of the fiscal year.
- (2) Reflects RSUs which vest over two years in equal annual installments on February 7, 2020 and February 7, 2021.
- (3) Reflects RSUs which vest over three years in equal annual installments on March 11, 2020, March 11, 2021 and March 11, 2022.
- (4) Reflects RSUs which vest over two years in equal annual installments on October 24, 2020 and October 24, 2021.

Stock Vested

The following table provides information for our NEOs on the number of shares of Class A common stock acquired upon the vesting of RSU awards and the value realized, in each case before payment of any applicable withholding tax or exercise prices.

Name	Stock Awards (1)	
	Number of Shares Acquired on Vesting (#)	Pre-tax Value Realized on Vesting (\$)
Scott Bender	17,544	575,268
Joel Bender	17,544	575,268
Stephen Tadlock	32,895	1,078,627
Brian Small	1,316	43,152
Steven Bender	10,527	345,180
David Isaac	3,039	85,578

- (1) Reflects shares received pursuant to RSU awards granted under the LTIP vesting in 2019. The value realized upon vesting of these awards represents the aggregate dollar amount realized by the NEO upon vesting computed by multiplying the number of shares of stock by the closing price of the underlying shares on the applicable vesting

date. For Scott Bender, Joel Bender, Stephen Tadlock, Brian Small and Steven Bender, the applicable vesting date was February 7, 2019, and the closing price of the Class A common stock on that date was \$32.79. For David Isaac, the applicable vesting date was October 24, 2019, and the closing price of the Class A common stock on that date was \$28.16.

Pension Benefits and Nonqualified Deferred Compensation

We have not maintained, and do not currently maintain, a defined benefit pension plan or a nonqualified deferred compensation plan providing for retirement benefits.

Potential Payments Upon Termination or Change of Control

Each of our NEOs may be entitled to certain severance and other benefits upon a termination of employment under their respective award agreements and employment agreements, as described in further detail below. The description of the relevant terms of such award agreements and employment agreements set forth below does not purport to be a complete description of all of the provisions of any such agreements and is qualified in its entirety by reference to the forms of award agreements and severance agreements previously filed.

Employment Agreements

Scott Bender and Joel Bender Employment Agreements

We have entered into employment agreements with Messrs. Scott and Joel Bender. The Employment Agreements do not provide for accelerated or enhanced cash payments or health and welfare benefits upon a change in control but do provide for salary continuation payments and subsidized health and welfare benefits upon the termination of the executive's employment for "good reason" or without "cause."

To receive benefits under the Employment Agreements, the executive officer will be required to execute a release of all claims against the Company.

Termination for Good Reason or Without Cause. If either Scott or Joel Bender terminates his employment for "good reason" or is terminated by us without "cause," he will be entitled to receive as severance, in addition to any amounts earned and unpaid through the date of termination, his then-current base salary and benefits (except car and expense reimbursement benefits) for the remaining term of the Employment Agreement if such term is greater than one year, or if such term is not greater than one year, one year from the date of termination, paid in lump sum within 60 days after the executive's separation from service.

Termination Due to Disability. If either Scott or Joel Bender's employment is terminated by either us or the executive due to disability, he will be entitled to receive as severance his then-current base salary and benefits through the remainder of the calendar month during which such termination is effective and for the lesser of (a) six consecutive months thereafter or (b) the date on which disability insurance benefits commence under any disability insurance coverage which may be provided by us, paid in lump sum within 30 days after the executive's termination due to disability.

Termination Due to Death. If either Scott or Joel Bender's employment is terminated due to death, his estate will be entitled to receive his then-current base salary and accrued benefits through the end of the calendar month in which his death occurs, paid in lump sum within 30 days after the executive's termination due to disability.

In each case, if the executive is entitled to severance payments, during such severance period we will pay such executive's portion of Consolidated Omnibus Budget Reconciliation Act ("COBRA") premium payments, and if COBRA is no longer available during such period, we will provide similar health insurance coverage for such executive during the severance period.

For purposes of Scott and Joel Bender's Employment Agreements:

- The term "cause" means the executive (i) is convicted of, or enters a *nolo contendere* or guilty plea with respect to, a crime involving fraud, theft, embezzlement or other act of material dishonesty or the Board's loss of

confidence in the executive because he is convicted of, or enters a *nolo contendere* or guilty plea with respect to, any felony or crime involving moral turpitude; (ii) commits any other material breach of any of the provisions of his employment agreement other than a breach which (being capable of being remedied) is remedied by him within 14 days of being called upon to do so in writing by us; or (iii) fails to perform his duties and responsibilities (other than a failure from disability) for a period of 30 consecutive days.

- The term “good reason” means any of the following: (i) we commit any material breach of the provisions of the executive’s Employment Agreement; (ii) we assign the executive to a position, responsibilities or duties of a materially lesser status or degree of responsibility than his position, responsibilities or duties as of the effective date of the Employment Agreement; (iii) the requirement by us that the executive be based anywhere other than Houston, Texas, provided that such a change in geographic location be deemed material; or (iv) any decrease of more than 10% in the executive’s base salary as of the effective date of the Employment Agreement. In any case, the executive must provide written notice of termination for good reason within 90 days of the initial existence of the condition at issue, and we will have the opportunity to cure such circumstances within a 30-day period of receipt of such notice.

Stephen Tadlock Offer Letter

Pursuant to the terms of his offer letter, Mr. Tadlock will be eligible to receive six months of severance should a merger or sale transaction result in Mr. Tadlock being terminated by the new entity.

David Isaac Severance Agreement

Pursuant to the terms of a severance agreement, Mr. Isaac is entitled to a severance payment in the event of a Qualifying Termination prior to September 24, 2021. If Mr. Isaac has a Qualifying Termination before September 24, 2020, he will be eligible for a severance payment equal to 2/3 of his then current annual base salary. If Mr. Isaac has a Qualifying Termination during the period from September 25, 2020 until September 24, 2021, he will be eligible to receive a severance payment equal to 1/3 of his then current annual base salary.

Restricted Stock Unit Awards

The Company’s restricted stock unit award agreements provide that restricted stock awards will become fully vested on (i) the date a Change of Control occurs, (ii) the termination of an employee’s employment due to his death or a Disability or (iii) upon the employee’s Normal Retirement. As used in the restricted stock unit award agreements, “Disability” means that the employee is unable to perform the essential functions of their duties for three consecutive months, or three months during any six-month period, as determined after an examination by a medical doctor selected by written agreement of the employee and the Company. As used in the restricted stock unit award agreements, “Normal Retirement” means an employee’s separation from service without Cause on or following the age of 65. For purposes of the restricted stock unit award agreements, “Cause” means the employee (i) is convicted of, or enters a *nolo contendere* or guilty plea with respect to a crime involving fraud, theft, embezzlement or other act of material dishonesty, the Board’s loss of confidence in the employee because he is convicted of or enters a *nolo contendere* or guilty plea with respect to any felony or crime involving moral turpitude; (ii) commits any other material breach of any of the provisions of their employment agreement with the Company (if applicable) or any material employment contract, policy or agreement the employee has entered into with the Company, other than a breach which (being capable of being remedied) is remedied by the employee within fourteen days of being called upon to do so in writing by the Company; or (iii) fails to perform their duties and responsibilities (other than a failure resulting from Disability).

Management Incentive Plan Awards

The Company’s Management Incentive Plan provides that participants whose employment ends before the bonus payments are made forfeit all rights to participate in the Management Incentive Plan and to receive any bonus relating to prior service, except for the following:

- Injury, disability or ill-health (as determined by the Compensation Committee);
- Change of control; or
- Death.

Quantification of Payments

Shown in the table below are potential payments upon the assumed (i) involuntary not for Cause termination of our NEOs other than during the 24-month period following a Change of Control, or (ii) involuntary not for Cause termination or termination by the NEO for “Good Reason,” in either case, during the 24-month period following a Change of Control of the Company, occurring as of December 31, 2019. In addition, the tables that follow show the potential payments upon the hypothetical (i) disability, retirement or death of our NEOs, and (ii) Change of Control of the Company, in each case, occurring as of December 31, 2019. The table includes estimate amounts because actual amounts to be paid can only be determined at the time of such executive’s separation from the Company or upon a Change of Control.

Executive Benefits and Payments Upon Separation	Potential Payments Upon Termination and Change of Control					
	Termination for Cause	Involuntary Not for Cause Termination without a Change of Control	Termination with a Change of Control	Disability or Normal Retirement	Death	Change of Control (No Termination)
Scott Bender Compensation:						
Cash Severance	\$ —	\$ 300,000	\$ 300,000	\$ 150,000	\$ 25,000	\$ —
Stock Awards ⁽¹⁾	—	2,581,791	2,581,791	2,581,791	2,581,791	2,581,791
Performance Cash Awards ⁽²⁾	—	—	300,000	300,000	300,000	300,000
Benefits & Perquisites:						
Health and Welfare Benefits ⁽³⁾	—	11,229	11,229	5,615	11,229	—
Total	\$ —	\$ 2,893,020	\$ 3,193,020	\$ 3,037,406	\$ 2,918,020	\$ 2,881,791
Joel Bender Compensation:						
Cash Severance	\$ —	\$ 300,000	\$ 300,000	\$ 150,000	\$ 25,000	\$ —
Stock Awards ⁽¹⁾	—	—	2,581,791	2,581,791	2,581,791	2,581,791
Performance Cash Awards ⁽²⁾	—	—	300,000	300,000	300,000	300,000
Benefits & Perquisites:						
Health and Welfare Benefits ⁽³⁾	—	11,104	11,104	5,552	11,104	—
Total	\$ —	\$ 311,104	\$ 3,192,895	\$ 3,037,343	\$ 2,917,895	\$ 2,881,791
Stephen Tadlock Compensation:						
Cash Severance	\$ —	\$ —	\$ 167,500	\$ —	\$ —	\$ —
Stock Awards ⁽¹⁾	—	—	3,638,195	3,638,195	3,638,195	3,638,195
Performance Cash Awards ⁽²⁾	—	—	167,500	167,500	167,500	167,500
Benefits & Perquisites:						
Health and Welfare Benefits ⁽³⁾	—	—	—	—	—	—
Total	\$ —	\$ —	\$ 3,973,195	\$ 3,805,695	\$ 3,805,695	\$ 3,805,695

Executive Benefits and Payments Upon Separation		Potential Payments Upon Termination and Change of Control					
		Termination for Cause	Involuntary Not for Cause Termination without a Change of Control	Termination with a Change of Control	Disability or Normal Retirement	Death	Change of Control (No Termination)
Brian Small	Compensation:						
	Cash Severance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	Stock Awards ⁽¹⁾	—	—	90,330	90,330	90,330	90,330
	Performance Cash Awards ⁽²⁾	—	—	100,000	100,000	100,000	100,000
	Benefits & Perquisites:						
	Health and Welfare Benefits ⁽³⁾	—	—	—	—	—	—
Total		\$ —	\$ —	\$ 190,330	\$ 190,330	\$ 190,330	\$ 190,330
Steven Bender	Compensation:						
	Cash Severance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	Stock Awards ⁽¹⁾	—	—	1,273,512	1,273,512	1,273,512	1,273,512
	Performance Cash Awards ⁽²⁾	—	—	225,000	225,000	225,000	225,000
	Benefits & Perquisites:						
	Health and Welfare Benefits ⁽³⁾	—	—	—	—	—	—
Total		\$ —	\$ —	\$ 1,498,512	\$ 1,498,512	\$ 1,498,512	\$ 1,498,512
David Isaac	Compensation:						
	Cash Severance	\$ —	\$ 200,000	\$ 200,000	\$ —	\$ —	\$ —
	Stock Awards ⁽¹⁾	—	—	621,810	621,810	621,810	621,810
	Performance Cash Awards ⁽²⁾	—	—	150,000	150,000	150,000	150,000
	Benefits & Perquisites:						
	Health and Welfare Benefits ⁽³⁾	—	—	—	—	—	—
Total		\$ —	\$ 200,000	\$ 971,810	\$ 771,810	\$ 771,810	\$ 771,810

- (1) Reflects the value of unvested restricted stock unit awards as of December 31, 2019 that would be accelerated as a result of the separation event based on the Company's stock price of \$34.32, which was the closing market price of the Company's Class A common stock as of December 31, 2019.
- (2) Reflects the value of unvested performance-based cash awards as of December 31, 2019. Performance-based cash awards have been reported assuming that the performance period ended on December 31, 2019 and that the performance level achievement was at target for the 2019 awards.
- (3) Reflects the estimated lump-sum present value of all future premiums which will be paid on behalf of the NEO under the Company's health and welfare benefit plans for the applicable continuation period specified in the Executive Agreements.
- (4) Due to Mr. Bender's eligibility for "Normal Retirement" treatment in the event of a separation from service without cause, this reflects the value of unvested restricted stock unit awards held by Mr. Bender as of December 31, 2019, that would be accelerated upon his "Normal Retirement."

2019 Chief Executive Officer Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the median annual total compensation of our employees (other than the Chief Executive Officer) and the annual total compensation of Scott Bender, our Chief Executive Officer.

For 2019, our last completed fiscal year:

- Scott Bender had total annual compensation of \$2,163,931 as reflected in the Summary Compensation Table included in this Proxy Statement.
 - Our median employee's annual total compensation was \$90,436.
 - As a result, we estimate that Scott Bender's 2019 annual total compensation was approximately 23.9 times that of our median employee.
- To identify the median employee, we took the following steps:
 - We determined that, as of December 1, 2019, our employee population consisted of 1,137 individuals. This population consisted of our full-time and part-time employees (including both active employees and employees on leave as of December 31, 2019);
 - We selected December 1, 2019 as our identification date for determining our median employee because it enabled us to make such identification in a reasonably efficient and economic manner.
 - We used a consistently applied compensation measure to identify our median employee by comparing the actual amount of salary or wages as reflected in our payroll records. Compensation was annualized for employees that were not employed by us for all of 2019.
 - For our employees located outside of the United States, we obtained similar payroll records and converted such information into U.S. dollars using the year-end currency exchange rate.
 - To determine the annual total compensation of our median employee and our Chief Executive Officer, we took the following steps:

After we identified our median employee, we combined all of the elements of such employee's compensation for the 2019 year in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, resulting in annual total compensation of \$90,436.17.

With respect to the annual total compensation of our Chief Executive Officer, we used the amount reported in the "Total" column of our 2019 Summary Compensation Table included in this Proxy Statement.

Director Compensation

Pursuant to our non-employee director compensation program, each non-employee director receives the following compensation for his or her service on the Board:

- a cash retainer of \$80,000 per year, payable quarterly in arrears;
- an additional cash retainer of \$20,000 per year, payable quarterly in arrears if such non-employee director serves as the chairperson of our Audit Committee and an additional cash retainer of \$10,000 per year for each other member of our Audit Committee;
- an additional cash retainer of \$10,000 per year, payable quarterly in arrears if such non-employee director serves as the chairperson of our Compensation Committee and an additional cash retainer of \$5,000 per year for each other member of our Compensation Committee;
- an additional cash retainer of \$10,000 per year, payable quarterly in arrears if such non-employee director serves as the chairperson of our Nominating and Governance Committee and an additional \$5,000 per year for each other member of our Nominating and Governance Committee; and
- annual equity-based compensation with an aggregate grant date value of \$100,000, described below.

In addition, a cash retainer of \$20,000 per year will be payable to a non-employee Chairman of the Board quarterly in arrears. Each director will be reimbursed for out-of-pocket expenses incurred in connection with attending board and committee meetings.

The non-employee directors received a restricted stock unit grant value of \$100,000 in connection with our IPO. All director restricted stock unit awards will generally be subject to a one-year vesting schedule. In connection with our IPO, Messrs. Rosenthal and Semple also each received restricted stock unit awards with grant date values of \$1,250,000 that will vest over three years.

Messrs. Scott and Joel Bender, as employees of the Company, do not receive compensation for their services as directors in addition to their employee compensation described above. The table below reflects the compensation provided during 2019 to each member of the Board who was not employed by the Company.

Name	Fees Earned or Paid in		Total (\$) ⁽³⁾
	Cash (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	
Bruce Rothstein ⁽³⁾	\$ 100,000	\$ 99,965	\$ 199,965
John (Andy) O'Donnell	100,000	99,965	199,965
Michael McGovern	100,000	99,965	199,965
Alan Semple	105,000	99,965	204,965
Gary L. Rosenthal	95,000	99,965	194,965
Melissa Law ⁽⁴⁾	—	—	—

(1) The amounts shown in this column reflect cash fees earned by each director during 2019. We will also reimburse all directors for reasonable expenses incurred in attending all board or committee meetings.

(2) Amounts reported in this column represent the grant date fair market value determined in accordance with FASB ASC Topic 718 of restricted stock units granted during 2019.

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- (3) Mr. Rothstein did not directly receive any compensation for his services as a director during 2019. Mr. Rothstein is a Managing Partner of Cadent Energy Partners LLC. Due to Mr. Rothstein's services as a managing partner at Cadent, all compensation and equity awards that he receives will be payable or transferred to Cadent.
- (4) Melissa Law was appointed to the board of directors on January 30, 2020 and therefore was not a director in 2019.

Consistent with the director compensation program described above, on March 11, 2019, the Compensation Committee made grants of 2,675 restricted stock units to each of our non-employee directors. These awards of restricted stock will vest in full on the first anniversary of the date of grant and are subject to forfeiture pursuant to the terms of the notice of grant and award agreement under which they were granted as well as the terms of the LTIP on that date.

As of December 31, 2019, the aggregate number of unvested restricted stock unit awards held by non-employee directors were as follows:

Name	Stock Awards (#)
Bruce Rothstein ⁽³⁾	2,675
John (Andy) O'Donnell	2,675
Michael McGovern	2,675
Alan Semple	46,535
Gary L. Rosenthal	46,535

Compensation Committee Interlocks and Insider Participation

During 2019, the Company's Compensation Committee consisted of Messrs. McGovern, O'Donnell and Rosenthal. There were no compensation committee interlock relationships for the year ended December 31, 2019. No member of our Compensation Committee during 2019 has engaged in any related party transaction in which our company was a participant.

Compensation Committee Report

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis required by Item 402 of Regulation S-K promulgated by the SEC with management of the Company, and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that such Compensation Discussion and Analysis be included in the Company's Proxy Statement for the 2020 annual meeting and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Compensation Committee of the Board of Directors

Michael McGovern, Chairman
John (Andy) O'Donnell, Member
Gary Rosenthal, Member
Melissa Law, Member

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of common stock as of February 11, 2020, by (i) each person who is known by the Company to own beneficially more than five percent of the outstanding shares of common stock, (ii) each NEO of the Company, (iii) each director and director nominee of the Company and (iv) all directors and executive officers as a group. All of such information is based on publicly available filings, unless otherwise known to us from other sources. Unless otherwise noted, the mailing address of each person or entity named below is 920 Memorial City Way, Suite 300 Houston, Texas 77024.

As of February 11, 2020, 47,339,329 shares of our Class A common stock and 27,957,699 shares of our Class B common stock were outstanding.

	Shares Beneficially Owned by Certain Beneficial Owners and Management ⁽²⁾					
	Class A		Class B		Combined Voting Power	
	Common Stock		Common Stock			
	Number	% of class	Number	% of class	Number	% of class
5% Stockholders						
Cadent Energy Partners II, L.P. ⁽³⁾	5,264	* %	8,347,466	29.9 %	8,352,730	11.1 %
Cactus WH Enterprises, LLC ⁽⁴⁾	—	— %	17,934,356	64.1 %	17,934,356	23.8 %
BlackRock, Inc. ⁽⁵⁾	3,311,308	7.0 %	—	— %	3,311,308	4.4 %
The Vanguard Group ⁽⁶⁾	4,303,181	9.1 %	—	— %	4,303,181	5.7 %
Directors and NEOs:						
Bruce Rothstein ⁽³⁾	—	— %	—	— %	—	— %
Scott Bender ⁽⁴⁾	26,816	* %	17,934,356	64.1 %	17,961,172	23.9 %
Joel Bender ⁽⁴⁾	26,234	* %	17,934,356	64.1 %	17,960,590	23.9 %
Stephen Tadlock	49,452	* %	—	— %	49,452	* %
David Isaac	2,299	* %	—	— %	2,299	* %
Steven Bender	15,614	* %	—	— %	15,614	* %
Brian Small	1,850	* %	—	— %	1,850	* %
John (Andy) O'Donnell	5,264	* %	52,508	* %	57,772	* %
Michael McGovern	5,264	* %	56,018	* %	61,282	* %
Alan Semple	39,994	* %	—	— %	39,994	* %
Gary Rosenthal	32,167	* %	—	— %	32,167	* %
Melissa Law	—	— %	—	— %	—	—
Directors and executive officers as a group (12 persons)	204,954	* %	18,042,882	64.5 %	18,247,836	24.2 %

- (1) Subject to the terms of the First Amended and Restated Limited Liability Company Operating Agreement of Cactus LLC (the "Cactus Wellhead LLC Agreement"), each holder of common units representing limited liability company interests in Cactus LLC (such units, "CW Units" and holders of CW Units, "CW Unit Holders"), subject to certain limitations, has the right (the "Redemption Right") to cause Cactus LLC to acquire all or at least a minimum portion of its CW Units for, at our election, (x) shares of our Class A Common Stock at a redemption ratio of one share of Class A Common Stock for each CW Unit redeemed, subject to

conversion rate adjustments for stock splits, stock dividends and reclassifications and other similar transactions, or (y) an equivalent amount of cash. Alternatively, upon the exercise of the Redemption Right, Cactus Inc. (instead of Cactus LLC) will have the right (the “Call Right”) to acquire each tendered CW Unit directly from the exchanging CW Unit Holder for, at its election, (x) one share of Class A Common Stock, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions, or (y) an equivalent amount of cash. In connection with any redemption of CW Units pursuant to the Redemption Right or our Call Right, the corresponding number of shares of Class B Common Stock will be canceled. See “Transactions with Related Persons—Cactus Wellhead LLC Agreement.” The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a “beneficial owner” of a security if that person has or shares voting power, which includes the power to vote or direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. Securities that can be so acquired are deemed to be outstanding for purposes of computing such person’s ownership percentage, but not for purposes of computing any other person’s percentage. Under these rules, more than one person may be deemed a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest. Except as otherwise indicated in these footnotes, each of the beneficial owners has, to our knowledge, sole voting and investment power with respect to the indicated shares of common stock, except to the extent this power may be shared with a spouse.

- (2) Represents percentage of voting power of our Class A Common Stock and Class B Common Stock voting together as a single class. The CW Unit Holders hold one share of Class B Common Stock for each CW Unit that they own. Each share of Class B Common Stock has no economic rights but entitles the holder thereof to one vote for each CW Unit held by such holder. Accordingly, the CW Unit Holders collectively have a number of votes in Cactus Inc. equal to the number of CW Units that they hold.
- (3) Cadent Energy Partners II, L.P., its general partner, Cadent Energy Partners II—GP, L.P., and Cadent Management Services, LLC (“Cadent Management”), its manager, are indirectly controlled by Cadent Energy Partners. Cadent Energy Partners controls all voting and dispositive power over the reported shares and therefore may be deemed to be the beneficial owner of such shares. Any decision taken by Cadent Management to vote, or to direct to vote, and to dispose, or to direct the disposition of, the securities held by Cadent has to be approved by its investment committee. There are four members of the investment committee, and unanimous approval of the members of the investment committee is required to approve an action. Under the so-called “rule of three,” if voting and dispositive decisions regarding an entity’s securities are made by three or more individuals, and a voting or dispositive decision requires the approval of a majority of those individuals, then none of the individuals is deemed a beneficial owner of the entity’s securities. This is the situation with regard to the investment committee of Cadent Management. Bruce Rothstein, the Chairman of our board of directors, is a Managing Director of Cadent Energy Partners. Certain of our directors and officers have passive interests in Cadent. In connection with our IPO, Cactus Inc. entered into a Stockholders’ Agreement with Cadent and Cactus WH Enterprises, which provides Cadent and Cactus WH Enterprises with the right to designate a certain number of nominees to our board of directors so long as they and their respective affiliates collectively beneficially own at least 5% of the outstanding shares of our common stock. Therefore, Cadent and Cactus WH Enterprises may each be deemed to beneficially own an aggregate 26,281,822 shares of our Class B common stock, representing an aggregate combined voting power of 34.9%. Cadent also owns 5,264 shares of Class A common stock that was issued to Mr. Rothstein in connection with the vesting of previously granted restricted stock units. Due to Mr. Rothstein’s position as a managing director at Cadent Energy Partners, all compensation and equity awards that he receives are directly payable or transferred to Cadent Management, a subsidiary of Cadent Energy Partners.
- (4) Scott Bender and Joel Bender control Cactus WH Enterprises and may be deemed to share voting and dispositive power over the reported shares and, therefore, will also be deemed to be the beneficial owners of such shares. In connection with our IPO, Cactus Inc. entered into a Stockholders’ Agreement with Cadent and

Cactus WH Enterprises, which provides Cadent and Cactus WH Enterprises with the right to designate a certain number of nominees to our board of directors so long as they and their respective affiliates collectively beneficially own at least 5% of the outstanding shares of our common stock. Therefore, Cadent and Cactus WH Enterprises may each be deemed to beneficially own an aggregate 26,281,822 shares, representing an aggregate combined voting power of 34.9%.

- (5) Based on the Schedule 13G/A, filed February 5, 2020 by BlackRock, Inc., (“BlackRock”) a parent holding company, which states that BlackRock and its affiliates have sole investment discretion over 3,311,308 shares of our Class A common stock and sole voting power over 3,229,404 shares of our Class A common stock. All shares covered by such filings are held by BlackRock and/or its subsidiaries. The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.
- (6) Based on the Schedule 13G/A, filed February 12, 2020 by The Vanguard Group (“Vanguard”), which states that Vanguard has sole voting power over 98,023 shares of our Class A common stock, shared voting power over 4,804 shares of our Class A common stock, sole dispositive power over 4,205,331 shares of our Class A common stock and shared dispositive power over 97,850 shares of our Class A common stock. The address of Vanguard is 100 Vanguard Boulevard, Malvern, PA 19355.
- * Less than 1.0%.

Changes in Control

We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information relating to our LTIP as of December 31, 2019.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	Weighted average exercise price of outstanding options, warrants and rights (\$) ⁽²⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ⁽³⁾
	(a)	(b)	(c)
Equity compensation plans approved by security holders	N/A	N/A	N/A
Equity compensation plans not approved by security holders	688,865	N/A	2,036,788
Total	688,865	N/A	2,036,788

- (1) This column reflects all shares subject to time-based restricted stock units granted under the LTIP that were outstanding and unvested as of December 31, 2019. No stock options or warrants have been granted under the LTIP.
- (2) No stock options have been granted under the LTIP, and the restricted stock units reflected in column (a) are not reflected in this column as they do not have an exercise price.
- (3) This column reflects the total number of shares remaining available for issuance under the LTIP as of December 31, 2019.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Policies and Procedures for Review of Related Party Transactions

A “Related Party Transaction” is a transaction, arrangement or relationship in which we or any of our subsidiaries was, is or will be a participant, the amount of which involved exceeds \$120,000, and in which any related person had, has or will have a direct or indirect material interest. A “Related Person” means:

- any person who is, or at any time during the applicable period was, one of our executive officers or one of our directors;
- any person who is known by us to be the beneficial owner of more than 5% of any class of our voting securities;
- any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of a director, executive officer or a beneficial owner of more than 5% of our Common Stock, and any person (other than a tenant or employee) sharing the household of such director, executive officer or beneficial owner of more than 5% of our Common Stock; and
- any firm, corporation or other entity in which any of the foregoing persons is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

Our board of directors adopted a written Related Party Transactions policy prior to the completion of our IPO. Pursuant to this policy, our Audit Committee has and will continue to review all material facts of all Related Party Transactions and either approve or disapprove entry into the Related Party Transaction, subject to certain limited exceptions. In determining whether to approve or disapprove entry into a Related Party Transaction, our Audit Committee takes into account, among other factors, the following: (i) whether the Related Party Transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and (ii) the extent of the Related Person’s interest in the transaction. Further, the policy requires that all Related Party Transactions required to be disclosed in our filings with the SEC be so disclosed in accordance with applicable laws, rules and regulations.

Cactus Wellhead LLC Agreement

Under the Cactus Wellhead LLC Agreement, each CW Unit Holder, subject to certain limitations, has the right, pursuant to the Redemption Right, to cause Cactus LLC to acquire all or at least a minimum portion of its CW Units for, at Cactus LLC’s election, (x) shares of our Class A Common Stock at a redemption ratio of one share of Class A Common Stock for each CW Unit redeemed, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions, or (y) an equivalent amount of cash. Alternatively, upon the exercise of the Redemption Right, Cactus Inc. (instead of Cactus LLC) will have the right, pursuant to the Call Right, to acquire each tendered CW Unit directly from the exchanging CW Unit Holder for, at its election, (x) one share of Class A Common Stock, subject to conversion rate adjustments for stock splits, stock dividends and reclassifications and other similar transactions, or (y) an equivalent amount of cash. In connection with any redemption of CW Units pursuant to the Redemption Right or our Call Right, the corresponding number of shares of Class B Common Stock will be canceled. In addition, any redemptions involving all of the CW Units held by a CW Unit Holder (subject to the discretion of Cactus Inc. to restrict redemptions of a lower number of units) may occur at any time. As the CW Unit Holders redeem their CW Units, our membership interest in Cactus LLC will be correspondingly increased, the number of shares of Class A Common Stock outstanding will be increased, and the number of shares of Class B Common Stock outstanding will be reduced.

Under the Cactus Wellhead LLC Agreement, we have the right to determine when distributions will be made to CW Unit Holders and the amount of any such distributions. If we authorize a distribution, such distribution will be made to the holders of CW Units on a pro rata basis in accordance with their respective percentage ownership of CW Units.

The holders of CW Units, including us, will generally incur U.S. federal, state and local income taxes on their proportionate share of any taxable income of Cactus LLC and will be allocated their proportionate share of any taxable loss of Cactus LLC. Net profits and net losses of Cactus LLC generally will be allocated to holders of CW Units on a pro rata basis in accordance with their respective percentage ownership of CW Units, except that certain non pro rata adjustments will be required to be made to reflect built-in gains and losses and tax depletion, depreciation and amortization with respect to such built-in gains and losses. To the extent Cactus LLC has available cash and subject to the terms of any current or future credit agreements or debt instruments, we intend to cause Cactus LLC to make (i) pro rata distributions to the holders of CW Units, including us, in an amount at least sufficient to allow us to pay our taxes and make payments under the Tax Receivable Agreement that we entered into with the TRA Holders in connection with our IPO and (ii) non pro rata payments to Cactus Inc. to reimburse us for our corporate and other overhead expenses incurred by us in connection with serving as a managing member of Cactus LLC.

The Cactus Wellhead LLC Agreement provides that, except as otherwise determined by us, at any time we issue a share of our Class A Common Stock or any other equity security, the net proceeds received by us with respect to such issuance, if any, shall be concurrently invested in Cactus LLC, and Cactus LLC shall issue to us one CW Unit or other economically equivalent equity interest. Conversely, if at any time, any shares of our Class A Common Stock are redeemed, repurchased or otherwise acquired, Cactus LLC shall redeem, repurchase or otherwise acquire an equal number of CW Units held by us, upon the same terms and for the same price, as the shares of our Class A Common Stock are redeemed, repurchased or otherwise acquired.

Under the Cactus Wellhead LLC Agreement, Cadent and its affiliates are not required to offer to us an opportunity to participate in specified business opportunities that are from time to time presented to Cadent and its affiliates, including any of our directors affiliated with Cadent. The Cactus Wellhead LLC Agreement further provides that if Cadent or an affiliate, including any of our directors affiliated with Cadent, becomes aware of a potential business opportunity, transaction or other matter, they will have no duty to communicate or offer that opportunity to us (unless such opportunity is expressly offered to such director in his capacity as one of our directors). In addition, the Cactus Wellhead LLC Agreement provides that none of Cadent and its affiliates, including any of our directors affiliated with Cadent, will have any duty to refrain from (i) engaging in a corporate opportunity in the same or similar lines of business in which we or our affiliates now engage or propose to engage or (ii) otherwise competing with us or our affiliates.

Cactus LLC will be dissolved only upon the first to occur of (i) the sale of substantially all of its assets or (ii) an election by us to dissolve the company. Upon dissolution, Cactus LLC will be liquidated and the proceeds from any liquidation will be applied and distributed in the following manner: (a) first, to creditors (including to the extent permitted by law, creditors who are members) in satisfaction of the liabilities of Cactus LLC, (b) second, to establish cash reserves for contingent or unforeseen liabilities and (c) third, to the members in proportion to the number of CW Units owned by each of them.

Tax Receivable Agreement

Pursuant to the Cactus Wellhead LLC Agreement, each TRA Holder will, subject to certain limitations, have the right (the “Redemption Right”) to cause Cactus LLC to acquire all or at least a minimum portion of its CW Units for, at Cactus LLC’s election, (x) shares of our Class A common stock at a redemption ratio of one share of Class A common stock for each CW Unit redeemed, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions, or (y) an equivalent amount of cash. Alternatively, upon the exercise of the Redemption Right, Cactus Inc. (instead of Cactus LLC) will have the right (the “Call Right”) to acquire each tendered CW Unit directly from the exchanging TRA Holder for, at its election, (x) one share of Class A common stock,

subject to conversion rate adjustments for stock splits, stock dividends and reclassifications and other similar transactions, or (y) an equivalent amount of cash. In connection with any redemption of CW Units pursuant to the Redemption Right or our Call Right, the corresponding number of shares of Class B common stock will be canceled.

Cactus LLC has made for itself (and for each of its direct or indirect subsidiaries that is treated as a partnership for U.S. federal income tax purposes and that it controls) an election under Section 754 of the Internal Revenue Code (the “Code”) that will be effective for 2018 and each taxable year in which a redemption of CW Units pursuant to the Redemption Right or the Call Right occurs. Pursuant to the Section 754 election, redemptions of CW Units pursuant to the Redemption Right or the Call Right are expected to result in adjustments to the tax basis of the tangible and intangible assets of Cactus LLC. These adjustments will be allocated to Cactus Inc. Such adjustments to the tax basis of the tangible and intangible assets of Cactus LLC would not have been available to Cactus Inc. absent its acquisition or deemed acquisition of CW Units pursuant to the exercise of the Redemption Right or the Call Right. In addition, the repayment of borrowings outstanding under the Cactus LLC term loan facility resulted in adjustments to the tax basis of the tangible and intangible assets of Cactus LLC, a portion of which was allocated to Cactus Inc.

These basis adjustments are expected to increase (for tax purposes) Cactus Inc.’s depreciation and amortization deductions and may also decrease Cactus Inc.’s gains (or increase its losses) on future dispositions of certain assets to the extent tax basis is allocated to those assets. Such increased deductions and losses and reduced gains may reduce the amount of tax that Cactus Inc. would otherwise be required to pay in the future.

The TRA will generally provide for the payment by Cactus Inc. to each TRA Holder of 85% of the net cash savings, if any, in U.S. federal, state and local income tax and franchise tax that Cactus Inc. actually realizes or is deemed to realize in certain circumstances as a result of (i) certain increases in tax basis that occur as a result of Cactus Inc.’s acquisition (or deemed acquisition for U.S. federal income tax purposes) of all or a portion of such TRA Holder’s CW Units in connection with CW Unit exchanges or pursuant to the exercise of the Redemption Right or the Call Right, (ii) certain increases in tax basis resulting from the repayment of borrowings outstanding under Cactus LLC’s term loan facility and (iii) imputed interest deemed to be paid by Cactus Inc. as a result of, and additional tax basis arising from, any payments Cactus Inc. makes under the TRA. We will retain the benefit of the remaining 15% of the cash savings.

The payment obligations under the TRA are Cactus Inc.’s obligations and not obligations of Cactus LLC, and we expect that the payments we will be required to make under the TRA will be substantial. We have determined that it is more likely than not that actual cash tax savings will be realized by Cactus Inc. from the tax benefits resulting from our IPO (and the related transactions), the follow-on equity offering in July 2018 and March 2019 and CW Unit exchanges. Future exchanges of CW Units create additional liability and follow the same accounting procedures. Estimating the amount and timing of payments that may become due under the TRA is by its nature imprecise and the assumptions used in the estimate can change. For purposes of the TRA, net cash savings in tax generally will be calculated by comparing Cactus Inc.’s actual tax liability (determined by using the actual applicable U.S. federal income tax rate and an assumed combined state and local income tax rate) to the amount it would have been required to pay had it not been able to utilize any of the tax benefits subject to the TRA. The amounts payable, as well as the timing of any payments under the TRA, are dependent upon significant future events and assumptions, including the timing of the redemption of CW Units, the price of our Class A common stock at the time of each redemption, the extent to which such redemptions are taxable transactions, the amount of the redeeming unit holder’s tax basis in its CW Units at the time of the relevant redemption, the depreciation and amortization periods that apply to the increase in tax basis, the amount and timing of taxable income we generate in the future and the U.S. federal income tax rate then applicable, and the portion of Cactus Inc.’s payments under the TRA that constitute imputed interest or give rise to depreciable or amortizable tax basis.

A delay in the timing of redemptions of CW Units, holding other assumptions constant, would be expected to decrease the discounted value of the amounts payable under the TRA as the benefit of the depreciation and amortization deductions would be delayed and the estimated increase in tax basis could be reduced as a result of allocations of Cactus

LLC taxable income to the redeeming unit holder prior to the redemption. Stock price increases or decreases at the time of each redemption of CW Units would be expected to result in a corresponding increase or decrease in the undiscounted amounts payable under the TRA in an amount equal to 85% of the tax-effected change in price. The amounts payable under the TRA are dependent upon Cactus Inc. having sufficient future taxable income to utilize the tax benefits on which it is required to make payments under the TRA. If Cactus Inc.'s projected taxable income is significantly reduced, the expected payments would be reduced to the extent such tax benefits do not result in a reduction of Cactus Inc.'s future income tax liabilities.

It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding liability from the TRA. Moreover, there may be a negative impact on our liquidity if, as a result of timing discrepancies or otherwise, (i) the payments under the TRA exceed the actual benefits we realize in respect of the tax attributes subject to the TRA or (ii) distributions to Cactus Inc. by Cactus LLC are not sufficient to permit Cactus Inc. to make payments under the TRA after it has paid its taxes and other obligations. The payments under the TRA will not be conditional on a holder of rights under the TRA having a continued ownership interest in either Cactus LLC or Cactus Inc.

In addition, although we are not aware of any issue that would cause the Internal Revenue Service ("IRS") or other relevant tax authorities to challenge potential tax basis increases or other tax benefits covered under the TRA, the TRA Holders will not reimburse us for any payments previously made under the TRA if such basis increases or other benefits are subsequently disallowed, except that excess payments made to any such holder will be netted against payments otherwise to be made, if any, to such holder after our determination of such excess. As a result, in such circumstances, Cactus Inc. could make payments that are greater than its actual cash tax savings, if any, and may not be able to recoup those payments.

The term of the TRA commenced upon completion of our IPO and will continue until all tax benefits that are subject to the TRA have been utilized or expired, unless we exercise our right to terminate the TRA. In the event that the TRA is not terminated, the payments under the TRA, which commenced in 2019, will continue for approximately 20 years after the date of the last redemption of CW Units. Accordingly, it is expected that payments will continue to be made under the TRA for more than 20 years. If we elect to terminate the TRA early (or it is terminated early due to certain mergers, asset sales, other forms of business combinations or other changes of control), our obligations under the TRA would accelerate and we would be required to make an immediate payment equal to the present value of the anticipated future payments to be made by us under the TRA (determined by applying a discount rate of one-year LIBOR plus 150 basis points) and such payment is expected to be substantial. The calculation of anticipated future payments will be based upon certain assumptions and deemed events set forth in the TRA, including the assumptions that (i) we have sufficient taxable income to fully utilize the tax benefits covered by the TRA and (ii) any CW Units (other than those held by Cactus Inc.) outstanding on the termination date are deemed to be redeemed on the termination date. Any early termination payment may be made significantly in advance of the actual realization, if any, of the future tax benefits to which the termination payment relates. Assuming no material changes in the relevant tax law, we expect that if the TRA were terminated as of December 31, 2019, the estimated termination payments, based on the assumptions discussed above, would be approximately \$331.3 million (calculated using a discount rate equal to one-year LIBOR plus 150 basis points, applied against an undiscounted liability of \$434.7 million). A 10% increase in the price of our Class A Common Stock at December 31, 2019 would have increased the discounted liability by \$17.2 million to \$348.5 million (an undiscounted increase of \$23.2 million to \$457.9 million), and likewise, a 10% decrease in the price of our Class A Common Stock at December 31, 2019 would have decreased the discounted liability by \$17.3 million to \$314.0 million (an undiscounted decrease of \$23.3 million to \$411.4 million).

The TRA provides that in the event that we breach any of our material obligations under the TRA, whether as a result of (i) our failure to make any payment when due (including in cases where we elect to terminate the TRA early, the TRA is terminated early due to certain mergers, asset sales, or other forms of business combinations or changes of control or we have available cash but fail to make payments when due under circumstances where we do not have the

right to elect to defer the payment, as described below), (ii) our failure to honor any other material obligation under it or (iii) by operation of law as a result of the rejection of the TRA in a case commenced under the U.S. Bankruptcy Code or otherwise, then the TRA Holders may elect to treat such breach as an early termination, which would cause all our payment and other obligations under the TRA to be accelerated and become due and payable applying the same assumptions described above.

As a result of either an early termination or a change of control, we could be required to make payments under the TRA that exceed our actual cash tax savings under the TRA. In these situations, our obligations under the TRA could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, or other forms of business combinations or changes of control.

Decisions we make in the course of running our business, such as with respect to mergers, asset sales, other forms of business combinations or other changes in control, may influence the timing and amount of payments that are received by the TRA Holders under the TRA. For example, the earlier disposition of assets following a redemption of CW Units may accelerate payments under the TRA and increase the present value of such payments, and the disposition of assets before a redemption of CW Units may increase the TRA Holders' tax liability without giving rise to any rights of the TRA Holders to receive payments under the TRA. Such effects may result in differences or conflicts of interest between the interests of the TRA Holders and other shareholders.

Payments generally are due under the TRA within five business days following the finalization of the schedule with respect to which the payment obligation is calculated. However, interest on such payments will begin to accrue from the due date (without extensions) of our U.S. federal income tax return for the period to which such payments relate until such payment date at a rate equal to one-year LIBOR plus 150 basis points. Except in cases where we elect to terminate the TRA early or it is otherwise terminated as described above, generally we may elect to defer payments due under the TRA if we do not have available cash to satisfy our payment obligations under the TRA. Any such deferred payments under the TRA generally will accrue interest from the due date for such payment until the payment date at a rate of one-year LIBOR plus 550 basis points. However, interest will accrue from the due date for such payment until the payment date at a rate of one-year LIBOR plus 150 basis points if we are unable to make such payment as a result of limitations imposed by our credit facility. We have no present intention to defer payments under the TRA.

Because we are a holding company with no operations of our own, our ability to make payments under the TRA is dependent on the ability of Cactus LLC to make distributions to us in an amount sufficient to cover our obligations under the TRA. This ability, in turn, may depend on the ability of Cactus LLC's subsidiaries to make distributions to it. The ability of Cactus LLC, its subsidiaries and other entities in which it directly or indirectly holds an equity interest to make such distributions will be subject to, among other things, the applicable provisions of Delaware law (or other applicable jurisdiction) that may limit the amount of funds available for distribution and restrictions in relevant debt instruments issued by Cactus LLC or its subsidiaries and other entities in which it directly or indirectly holds an equity interest. Additionally, distributions made by Cactus LLC generally require pro-rata distribution among all its members, which could be significant. To the extent that we are unable to make payments under the TRA for any reason, such payments will be deferred and will accrue interest until paid.

Two of our independent directors, Messrs. McGovern and O'Donnell, have the right to receive payments under the Tax Receivable Agreement in respect of CW Units owned by them at the time of our IPO. During 2019, a company controlled by Scott Bender and Joel Bender received approximately \$2.1 million in payments under the TRA in respect

of CW Units owned by them. In addition, Cadent and Steven Bender received payments under the TRA of approximately \$6.3 million and \$0.2 million, respectively, during 2019 in respect of CW Units owned by them.

	Liability related to TRA
2020	\$ 14,630
2021	11,959
2022	12,183
2023	12,439
2024	12,700
Thereafter	152,621
	<u>\$ 216,532</u>

Registration Rights Agreement

In connection with our IPO, we entered into a registration rights agreement (the “Registration Rights Agreement”) with Cadent, Cactus WH Enterprises and Lee Boquet (together with Cactus WH Enterprises and Cadent, the “Registration Rights Holders”). Pursuant to the Registration Rights Agreement, we agreed to register the sale of shares of Class A Common Stock by the Registration Rights Holders under certain circumstances as described below.

On March 15, 2019, in accordance with the requirements of the Registration Rights Agreement, we filed a shelf registration statement on Form S-3 pursuant to the Securities Act of 1933, as amended, to, among other things, permit the resale by the Registration Rights Holders of shares of Class A Common Stock issuable upon the exercise of redemption rights. If at any time we are not eligible to register the sale of our securities on Form S-3, each of Cadent and Cactus WH Enterprises will have the right to request three “demand” registrations, provided that the aggregate amount of registrable securities that are requested to be included in such demand registration is at least \$25,000,000. Further, the Registration Rights Holders and certain of their assignees will have customary “piggyback” registration rights.

Upon the demand of a Registration Rights Holder, we will facilitate in the manner described in the Registration Rights Agreement a “takedown” of Class A Common Stock off of an effective shelf registration statement. A shelf takedown may take the form of an underwritten public offering provided that the aggregate amount of registrable securities that are requested to be included in such offering is at least \$25,000,000.

These registration rights are subject to certain conditions and limitations, including the right of the underwriters to limit the number of shares to be included in a registration and our right to delay or withdraw a registration statement under certain circumstances. Also, any demand for a registered offering or a takedown and the exercise of any piggyback registration rights will be subject to the constraints of any applicable lock-up arrangements. In addition, we may postpone the filing of a demanded registration statement, suspend the initial effectiveness of any shelf registration statement or delay offerings and sales under any effective shelf registration statement for a reasonable “blackout period” not in excess of 90 days if the board determines that such registration or offering could materially interfere with a bona fide business, acquisition or divestiture or financing transaction or is reasonably likely to require premature disclosure of information, the premature disclosure of which could materially and adversely affect us; provided that we shall not delay the filing of any demanded registration statement more than once in any 12-month period.

We will generally pay all registration expenses in connection with our obligations under the registration rights agreement, regardless of whether a registration statement is filed or becomes effective.

Stockholders' Agreement

In connection with our IPO, we entered into a stockholders' agreement (the "Stockholders' Agreement") with Cadent and Cactus WH Enterprises. Summaries of certain material terms of the Stockholders' Agreement are set forth below. Among other things, the Stockholders' Agreement provides Cadent with the right to designate a number of nominees (each, a "Cadent Director") to our board of directors such that:

- at least 50% of the directors on the board are Cadent Directors for so long as Cadent and its affiliates collectively beneficially own at least 20% of the outstanding shares of Common Stock;
- at least 25% of the directors on the board are Cadent Directors for so long as Cadent and its affiliates collectively beneficially own less than 20% but at least 10% of the outstanding shares of Common Stock;
- at least one of the directors on the board are Cadent Directors for so long as Cadent and its affiliates collectively beneficially own less than 10% but at least 5% of the outstanding shares of Common Stock; and
- once Cadent and its affiliates collectively own less than 5% of the outstanding shares of Common Stock, Cadent will not have any board designation rights.

Further, the Stockholders' Agreement provides Cactus WH Enterprises with the right to designate a number of nominees (each, a "CWHE Director") to the Board such that:

- at least 50% of the directors on the board are CWHE Directors for so long as Cactus WH Enterprises and its affiliates collectively beneficially own at least 20% of the outstanding shares of Common Stock;
- at least 25% of the directors on the board are CWHE Directors for so long as Cactus WH Enterprises and its affiliates collectively beneficially own less than 20% but at least 10% of the outstanding shares of Common Stock;
- at least one of the directors on the board are CWHE Directors for so long as Cactus WH Enterprises and its affiliates collectively beneficially own less than 10% but at least 5% of the outstanding shares of Common Stock; and
- once Cactus WH Enterprises and its affiliates collectively own less than 5% of the outstanding shares of Common Stock, Cactus WH Enterprises will not have any Board designation rights.

In the event that the percentage ownership of Cadent or Cactus WH Enterprises declines such that the number of Cadent Directors or CWHE Directors, as the case may be, exceeds the number of directors that Cadent or Cactus WH Enterprises is then entitled to designate to our board of directors under the Stockholders' Agreement, then if requested by the Company, Cadent or Cactus WH Enterprises shall take such actions as are reasonably necessary to remove such excess Cadent Directors or CWHE Directors from the board.

Currently, Bruce Rothstein and Michael McGovern are each deemed to be designees of Cadent, and Scott Bender, Joel Bender and Alan Semple are each deemed to be designees of Cactus WH Enterprises.

Pursuant to the Stockholders' Agreement, we, Cadent and Cactus WH Enterprises are required to take all necessary action, to the fullest extent permitted by applicable law (including with respect to any fiduciary duties under Delaware law), to cause the election of the nominees designated by Cadent and Cactus WH Enterprises.

The rights granted to Cadent and Cactus WH Enterprises to designate directors are additive to and not intended to limit in any way the rights that Cadent and Cactus WH Enterprises or any of their affiliates may have to nominate, elect or remove our directors under our amended and restated certificate of incorporation, our amended and restated bylaws or the Delaware General Corporation Law.

Non-Exclusive Aircraft Lease Agreements

In July 2019, Cactus LLC entered into a Non-Exclusive Aircraft Lease Agreement (the “SusieAir Lease”) with SusieAir, LLC (“SusieAir”), an entity wholly owned by Mr. Scott Bender, pursuant to which Cactus LLC leases an aircraft, excluding crew, from SusieAir. The 2019 agreement replaced the previous agreement originally entered into in 2014 due to the sale of the aircraft under the previous lease. Under the SusieAir Lease, the aircraft may be subject to use by other lessees. The SusieAir Lease has an initial term of one year and automatically renews for successive one year terms unless either party gives at least 15 days’ advance notice of its intention to terminate the agreement. The SusieAir Lease shall terminate automatically upon a sale or total loss of the aircraft or at any time, upon 30 days’ written notice by either party. Cactus LLC pays SusieAir a base hourly rent of \$1,750 per flight hour of use of the aircraft, payable monthly, for the hours of aircraft operation during the prior calendar month. Cactus LLC is also responsible for employing pilots and certain fuel true up fees. Mr. Scott Bender and Mr. Joel Bender pay the Company \$1,800/day for their personal use of the pilots employed by the Company. The SusieAir Lease generally provides that Cactus LLC will indemnify SusieAir from liabilities arising from the operation of the aircraft. During 2019, total expense recognized in connection with these rentals totaled \$0.3 million. As of December 31, 2019, we owed less than \$0.1 million to SusieAir, which amount is included in accounts payable in the consolidated balance sheets.

Employment Agreements

We have entered into employment agreements and non-compete agreements with Scott Bender, our Chief Executive Officer, and Joel Bender, our Chief Operating Officer. Mr. Tadlock has an agreement providing him severance pay under certain circumstances. Mr. Isaac also has an agreement providing him severance pay under certain circumstances and he also has a non-compete agreement. For more information, please read Part III. Item 11. Executive Compensation—Employment, Severance and Change in Control Agreements—Employment Agreements.

Director Independence

See “Item 10. Directors, Executive Officers and Corporate Governance” for a discussion of the directors who our Board has determined to be independent.

Item 14. Principal Accounting Fees and Services

The table below sets forth the aggregate fees billed or expected to be billed by PricewaterhouseCoopers LLP, our independent registered public accounting firm, for services rendered for each of the last two fiscal years:

	2019	2018
	(in thousands)	
Audit Fees ⁽¹⁾	\$ 1,760	\$ 1,645
Audit-Related Fees	3	10
Tax Fees ⁽²⁾	—	328
All Other Fees	—	—
Total	\$ 1,763	\$ 1,983

- (1) Audit fees consist of the aggregate fees billed or expected to be billed for professional services rendered for (i) the audit of annual financial statements, (ii) reviews of our quarterly financial statements, (iii) statutory

audits, (iv) research necessary to comply with generally accepted accounting principles, (v) other filings with the SEC, including consents and comfort letters, and (vi) services related to our IPO and our follow-on equity offering.

- (2) Tax fees consist of fees for tax compliance, including the preparation, preview and filing of tax returns, and for tax advice and tax planning.

The charter of the Audit Committee and its pre-approval policy require that the Audit Committee review and pre-approve the plan and scope of our independent registered public accounting firm's audit, audit-related, tax and other services. During 2019 and 2018, all audit and non-audit services were pre-approved by the Audit Committee.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(1) Financial Statements

The consolidated financial statements of Cactus, Inc. and Subsidiaries and the Report of Independent Registered Public Accounting Firm are included in Part II, Item 8 of this Annual Report. Reference is made to the accompanying Index to Consolidated Financial Statements.

(2) Financial Statement Schedules

All financial statement schedules have been omitted because they are not applicable or the required information is presented in the financial statements or the notes thereto.

(3) Index to Exhibits

The exhibits required to be filed or furnished pursuant to Item 601 of Regulation S-K are set forth below.

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Cactus, Inc., effective February 12, 2018 (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)
3.2	Amended and Restated Bylaws of Cactus, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)
3.3	First Amendment to the Amended and Restated Bylaws of Cactus, Inc (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the Commission on January 31, 2020)
4.1*	Description of Securities
10.1	First Amended and Restated Limited Liability Company Operating Agreement of Cactus Wellhead, LLC, (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)
10.2†	Amended and Restated Employment Agreement with Scott Bender, dated as of February 12, 2018 (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)
10.3†	First Amendment to the Amended and Restated Employment Agreement, dated February 21, 2019, by and between Scott Bender and Cactus Wellhead, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on February 22, 2019)
10.4†	Amended and Restated Employment Agreement with Joel Bender, dated as of February 12, 2018 (incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)

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Exhibit No.	Description
10.5†	<u>First Amendment to the Amended and Restated Employment Agreement, dated February 21, 2019, by and between Joel Bender and Cactus Wellhead, LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed with the Commission on February 22, 2019)</u>
10.6†	<u>Amended and Restated Noncompetition Agreement with Scott Bender, dated as of February 12, 2018 (incorporated by reference to Exhibit 10.5 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)</u>
10.7†	<u>Amended and Restated Noncompetition Agreement with Joel Bender, dated as of February 12, 2018 (incorporated by reference to Exhibit 10.6 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)</u>
10.8†	<u>Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 filed with the Commission on January 12, 2018)</u>
10.9†*	<u>Schedule of Director and Officer Indemnification Agreements Identical in All Material Respects to the Form of Director and Officer Indemnification Agreement Filed as Exhibit 10.8 to this Annual Report pursuant to Instruction 2 to Item 6-1 of Regulation S-K</u>
10.10	<u>Tax Receivable Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)</u>
10.11	<u>Registration Rights Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)</u>
10.12	<u>Stockholders' Agreement, effective as of February 12, 2018, by and among Cactus, Inc., Cadent Energy Partners II, L.P. and Cactus WH Enterprises, LLC (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)</u>
10.13	<u>Credit Agreement, dated July 31, 2014, among Cactus Wellhead, LLC, Credit Suisse AG, as administrative agent, collateral agent and issuing bank, and the lenders named therein as parties thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-222540) filed with the Commission on January 12, 2018)</u>
10.14†	<u>Cactus, Inc. Long Term Incentive Plan (incorporated by reference to Exhibit 10.18 to the Registrant's Form 8-K filed with the Commission on February 12, 2018)</u>
10.15†	<u>Amendment No. 1 to Cactus, Inc. Long Term Incentive Plan, dated November 25, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on November 26, 2019)</u>
10.16†	<u>Form of Restricted Stock Agreement under the Cactus Inc. Long Term Incentive Plan (incorporated by reference to Exhibit 10.10 to the Registrant's Form S-1 Registration Statement (File No. 333-222540) filed with the Commission on January 12, 2018)</u>
10.17†	<u>Form of Restricted Stock Unit Agreement under the Cactus Inc. Long Term Incentive Plan (incorporated by reference to Exhibit 10.11 to the Registrant's Form S-1 Registration Statement (File No. 333-222540) filed with the Commission on January 12, 2018)</u>

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Exhibit No.	Description
10.18	Credit Agreement, dated as of August 21, 2018, among Cactus Wellhead, LLC, as borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, an issuing bank and swingline lender (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on August 24, 2018)
10.19†	Form of Restricted Stock Unit Agreement (Directors, one-year vesting) (incorporated by reference to Exhibit 4.7 to the Registrants Form S-8 Registration Statement (File No. 333-22569) filed with the Commission on May 29, 2018)
10.20†	Form of Restricted Stock Unit Agreement (Directors, three-year vesting) (incorporated by reference to Exhibit 4.7 to the Registrants Form S-8 Registration Statement (File No. 333-22569) filed with the Commission on May 29, 2018)
10.21†	Offer Letter to Stephen Tadlock dated May 30, 2017 (incorporated by reference to Item 10.17 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Commission on March 15, 2019)
10.22†*	Offer letter to David Isaac dated September 17, 2018
10.23†*	Severance Agreement by and between Cactus Wellhead, LLC and David Isaac, dated as of September 24, 2018
21.1*	List of Subsidiaries of Cactus, Inc.
23.1*	Consent of PricewaterhouseCoopers LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Document

* Filed herewith

** Furnished herewith. Pursuant to SEC Release No. 33-8212, this certification will be treated as “accompanying” this Annual Report and not “filed” as part of such report for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act, except to the extent that the registrant specifically incorporates it by reference.

† Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

Signatures

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

Cactus, Inc.

Date: February 28, 2020

By: /s/ Scott Bender
 Scott Bender
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Scott Bender</u> Scott Bender	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2020
<u>/s/ Stephen Tadlock</u> Stephen Tadlock	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	February 28, 2020
<u>/s/ Donna Anderson</u> Donna Anderson	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2020
<u>/s/ Bruce Rothstein</u> Bruce Rothstein	Chairman of the Board and Director	February 28, 2020
<u>/s/ Joel Bender</u> Joel Bender	Senior Vice President, Chief Operating Officer and Director	February 28, 2020
<u>/s/ John (Andy) O'Donnell</u> John (Andy) O'Donnell	Director	February 28, 2020
<u>/s/ Michael McGovern</u> Michael McGovern	Director	February 28, 2020
<u>/s/ Alan Semple</u> Alan Semple	Director	February 28, 2020
<u>/s/ Gary Rosenthal</u> Gary Rosenthal	Director	February 28, 2020
<u>/s/ Melissa Law</u> Melissa Law	Director	February 28, 2020

Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934

Capitalized terms used but not defined herein have the meanings set forth in the Annual Report on Form 10-K to which this Exhibit is attached. References to “we,” “our” and “us” refer to Cactus, Inc., unless the context otherwise requires. References to “stockholders” refer to holders of our Class A common stock and Class B common stock, unless the context otherwise requires.

As of December 31, 2019, we had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”): Class A common stock, \$0.01 par value per share. Although described below, our Class B common stock, \$0.01 par value per share, is not registered under Section 12 of the Exchange Act.

The following contains a description of our Class A common stock and Class B common stock, as well as certain related additional information. The following summary does not purport to be complete and is qualified in its entirety by reference to the provisions of applicable law and to our Amended and Restated Bylaws and Amended and Restated Certificate of Incorporation, which we refer to as our “amended and restated bylaws” and our “amended and restated certificate of incorporation,” respectively. Our amended and restated bylaws and amended and restated certificate of incorporation as they exist on the date of this Annual Report on Form 10-K are incorporated by reference or filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part, and amendments or restatements of each will be filed with the Securities and Exchange Commission (the “SEC”) in future periodic or current reports in accordance with the rules of the SEC. You are encouraged to read these documents.

General

As of February 24, 2020, our authorized capital stock consisted of: 300,000,000 shares of Class A common stock, \$0.01 par value per share, of which 47,339,551 shares were issued and outstanding; 215,000,000 shares of Class B common stock, \$0.01 par value per share, of which 27,957,699 shares were issued and outstanding; and 10,000,000 shares of preferred stock, \$0.01 par value per share, of which no shares were issued and outstanding.

Class A Common Stock

Voting Rights. Holders of shares of Class A common stock are entitled to one vote per share held of record on all matters to be voted upon by the stockholders. The holders of Class A common stock do not have cumulative voting rights in the election of directors.

Dividend Rights. Holders of shares of our Class A common stock are entitled to ratably receive dividends when and if declared by our board of directors out of funds legally available for that purpose, subject to any statutory or contractual restrictions on the payment of dividends and to any prior rights and preferences that may be applicable to any outstanding preferred stock.

Liquidation Rights. Upon our liquidation, dissolution, distribution of assets or other winding up, the holders of Class A common stock are entitled to ratably receive the assets available for distribution to the stockholders after payment of liabilities and the liquidation preference of any of our outstanding shares of preferred stock.

Other Matters. The shares of Class A common stock have no preemptive or conversion rights and are not subject to further calls or assessment by us. There are no redemption or sinking fund provisions applicable to the Class A common stock. All outstanding shares of our Class A common stock are fully paid and non-assessable.

Class B Common Stock

Generally. In connection with our IPO, each owner of CW Units (a “CW Unit Holder”) received one share of Class B common stock for each CW Unit that it held. Accordingly, each CW Unit Holder has a number of votes in Cactus, Inc. equal to the aggregate number of CW Units that it held.

Voting Rights. Holders of shares of our Class B common stock are entitled to one vote per share held of record on all matters to be voted upon by the stockholders. The holders of our Class B common stock do not have cumulative voting rights in the election of directors. Holders of shares of our Class A common stock and Class B common stock vote together as a single class on all matters presented to our stockholders for their vote or approval, except with respect to the amendment of certain provisions of our amended and restated certificate of incorporation that would alter or change the powers, preferences or special rights of the Class B common stock so as to affect them adversely, which amendments must be by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment, voting as a separate class, or as otherwise required by applicable law.

Dividend and Liquidation Rights. Holders of our Class B common stock do not have any right to receive dividends, unless the dividend consists of shares of our Class B common stock or of rights, options, warrants or other securities convertible or exercisable into or exchangeable for shares of Class B common stock paid proportionally with respect to each outstanding share of our Class B common stock and a dividend consisting of shares of Class A common stock or of rights, options, warrants or other securities convertible or exercisable into or exchangeable for shares of Class A common stock on the same terms is simultaneously paid to the holders of Class A common stock. Holders of our Class B common stock do not have any right to receive a distribution upon a liquidation or winding up of Cactus, Inc.

Other Matters. The shares of Class B common stock have no preemptive rights and are not subject to further calls or assessment by us. There are no redemption or sinking fund provisions applicable to the Class B common stock. All outstanding shares of our Class B common stock are fully paid and non-assessable.

Anti-Takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation, our Amended and Restated Bylaws and Delaware Law

Some provisions of Delaware law, and our amended and restated certificate of incorporation and our amended and restated bylaws described below, contain provisions that could make the following transactions more difficult: acquisitions of us by means of a tender offer, a proxy contest or otherwise; or removal of our incumbent officers and directors. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in our best interest, including transactions that might result in a premium over the market price for our shares.

These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection and our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

Delaware Law

We are not subject to the provisions of Section 203 of the Delaware General Corporation Law (“DGCL”), regulating corporate takeovers. In general, those provisions prohibit a Delaware corporation, including

those whose securities are listed for trading on the New York Stock Exchange, from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- the transaction is approved by the board of directors before the date the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- on or after such time the business combination is approved by the board of directors and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Amended and Restated Certificate of Incorporation and Our Amended and Restated Bylaws

Provisions of our amended and restated certificate of incorporation and our amended and restated bylaws may delay or discourage transactions involving an actual or potential change in control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interest. Therefore, these provisions could adversely affect the price of our Class A common stock.

Among other things, our amended and restated certificate of incorporation and amended and restated bylaws:

- establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors or new business to be brought before meetings of our stockholders. These procedures provide that notice of stockholder proposals must be timely given in writing to our corporate secretary prior to the meeting at which the action is to be taken. Generally, to be timely, notice must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the annual meeting for the preceding year. Our amended and restated bylaws specify the requirements as to form and content of all stockholders' notices. These requirements may preclude stockholders from bringing matters before the stockholders at an annual or special meeting;
- provide our board of directors the ability to authorize undesignated preferred stock. This ability makes it possible for our board of directors to issue, without stockholder approval, preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of our company;
- provide that the authorized number of directors may be changed only by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, the rights of holders of any series of preferred stock and the then applicable provisions of the "Stockholders' Agreement" be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;

- provide that any action required or permitted to be taken by the stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing in lieu of a meeting of such stockholders, subject to the rights of the holders of any series of preferred stock with respect to such series;
- provide that our amended and restated certificate of incorporation and amended and restated bylaws may be amended by the affirmative vote of the holders of at least two-thirds of our then outstanding Class A common stock;
- provide that special meetings of our stockholders may only be called by the board of directors, the chief executive officer or the chairman of the board;
- provide for our board of directors to be divided into three classes of directors, with each class as nearly equal in number as possible, serving staggered three-year terms, other than directors which may be elected by holders of preferred stock, if any. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for stockholders to replace a majority of the directors;
- provide that we renounce any interest in existing and future investments in other entities by, or the business opportunities of, Cadent or any of its officers, directors, agents, stockholders, members, partners, affiliates and subsidiaries (other than our directors that are presented business opportunities in their capacity as our directors) and that they have no obligation to offer us those investments or opportunities, and that they have no duty to refrain from engaging in corporate opportunities in the same or similar lines of business in which we or our affiliates now engage or propose to engage or otherwise competing with us or our affiliates; and
- provide that our amended and restated bylaws can be amended by the board of directors.

Forum Selection

Our amended and restated certificate of incorporation provides that unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by applicable law, be the sole and exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders;
- any action asserting a claim against us or any director or officer or other employee of ours arising pursuant to any provision of the DGCL, our certificate of incorporation or our bylaws; or
- any action asserting a claim against us or any director or officer or other employee of ours that is governed by the internal affairs doctrine, in each such case subject to such Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein.

Our amended and restated certificate of incorporation also provides that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of, and to have consented to, this forum selection provision. Although we believe these provisions benefit us by providing

increased consistency in the application of Delaware law for the specified types of actions and proceedings, the provisions may have the effect of discouraging lawsuits against our directors, officers, employees and agents. The enforceability of similar exclusive forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with one or more actions or proceedings described above, a court could rule that this provision in our amended and restated certificate of incorporation is inapplicable or unenforceable.

Business Opportunities and Competition

Delaware law permits corporations to adopt provisions renouncing any interest or expectancy in certain opportunities that are presented to the corporation or its officers, directors or stockholders.

Our amended and restated certificate of incorporation, to the maximum extent permitted from time to time by Delaware law, renounces any interest or expectancy that we have in, or right to be offered an opportunity to participate in, specified business opportunities that are from time to time presented to Cadent and its affiliates, including any of our directors affiliated with Cadent and provides that if Cadent or its affiliates, including any of our directors affiliated with Cadent, becomes aware of a potential business opportunity, transaction or other matter, they have no duty to communicate or offer that opportunity to us (unless such opportunity is expressly offered to such director in his capacity as one of our directors).

In addition, our amended and restated certificate of incorporation, to the maximum extent permitted from time to time by Delaware law, provides that none of Cadent or its affiliates, including any of our directors affiliated with Cadent, have any duty to refrain from (i) engaging in a corporate opportunity in the same or similar lines of business in which we or our affiliates now engage or propose to engage or (ii) otherwise competing with us or our affiliates.

Limitation of Liability and Indemnification Matters

Our amended and restated certificate of incorporation limits the liability of our directors for monetary damages for breach of their fiduciary duty as directors, except for liability that cannot be eliminated under the DGCL. Delaware law provides that directors of a company will not be personally liable for monetary damages for breach of their fiduciary duty as directors, except for liabilities:

- for any breach of their duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- for unlawful payment of dividend or unlawful stock repurchase or redemption, as provided under Section 174 of the DGCL; or
- for any transaction from which the director derived an improper personal benefit.

Any amendment, repeal or modification of these provisions will be prospective only and would not affect any limitation on liability of a director for acts or omissions that occurred prior to any such amendment, repeal or modification.

Our amended and restated bylaws also provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law. Our amended and restated bylaws also permit us to purchase insurance on behalf of any officer, director, employee or other agent for any liability arising out of that person's actions as our officer, director, employee or agent, regardless of whether Delaware law would

permit indemnification. We have entered into indemnification agreements with each of our current directors and officers and intend to enter into indemnification agreements with any future directors and officers. These agreements require us to indemnify these individuals to the fullest extent permitted under Delaware law against liability that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. We believe that the limitation of liability provision that is in our amended and restated certificate of incorporation and the indemnification agreements will facilitate our ability to continue to attract and retain qualified individuals to serve as directors and officers.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock is American Stock Transfer & Trust Company, LLC.

Listing

Our Class A common stock is listed on the NYSE under the symbol “WHD.”

[Company Letterhead]

September 17, 2018

Dear David:

We are pleased to extend you an offer of employment with Cactus Wellhead, LLC.

Your position will be Vice President of Administration and General Counsel, based in Houston, TX, reporting to me. Your tentative start date will be September 24, 2018. You will be paid a bi-weekly base salary of \$10,576.92, or \$275,000.00 per year. As this position is considered "exempt" for federal wage-hour purposes, you will not be eligible for overtime pay for hours worked in excess of 40 in a given workweek.

As a full-time employee with Cactus Wellhead, you are eligible for the following:

- Comprehensive benefits package including medical, dental, vision effective the 1st of the month following 30 days of employment. Disability, voluntary ancillary benefits, and 401(k) retirement programs (please see attached) are also offered.
- 20 Paid Time Off (PTO) days per calendar year, prorated, which includes vacation and sick time.
- Cell phone allowance, as per company policy.
- Participation in our Incentive Program (IP). This plan provides for annual bonus payments based on achieving the financial and operational goals of the Company and weighs your personal contributions to the Company as well. In your position, you are eligible for the Company incentive plan. Payment of this plan is based on the objectives that are set by the Company.
- Your initial target participation level in the Incentive Program would be at a 34% level, with inclusion in the Tier 1 participant pool, which currently incorporates the highest stretch bonus component in the plan.
- With Board approval, you will participate in our long-term incentive program, which is generally equivalent in value to your annual non-stretch cash bonus target percentage of 34% with three-year vesting terms starting in 2019 (vesting equally in one third installments per year).
- A one-time restricted stock unit award of \$300,000 with three-year vesting terms that will be granted at the closing stock price 30 days after your start date (vesting equally in one third installments per year).

Your employment with the company is contingent upon the successful completion of a background investigation and a drug and alcohol screen. Additionally, this offer is contingent upon satisfactory review of any covenants related to non-compete agreements that may be currently in force with your current or previous employers. Once satisfactory results are received, we will contact you to confirm your start date.

Employment with Cactus Wellhead, LLC is considered "at will", meaning that either you or the company may terminate the relationship at any time for any reason, with or without cause or notice. Notwithstanding the aforementioned, a one-year severance payment will be provided should the Company terminate you without Cause. Nothing in this letter is intended or should be construed as a contract, express or implied. This letter supersedes any prior representation or agreement, whether written or oral. This employment letter may not be modified or amended except by a written agreement.

We hope you will find working with Cactus Wellhead, LLC to be a rewarding experience.

Sincerely,

Scott Bender

Please confirm your acceptance of this offer by signing below and returning the signed copy by email to Recruiting@CactusWellhead.com. This offer is void if your response is not received within seven (7) days. Should you have any questions, please do not hesitate to contact [Omitted] at [Omitted].

Signature /s/ David Isaac

Date: 9/17/18

SEVERANCE AGREEMENT

This Severance Agreement (this “Agreement”) is made effective as of September 24, 2018 (the “Commencement Date”) by Cactus Wellhead, LLC (the “Employer”), and David Isaac, an individual resident in Houston, Texas (the “Executive”).

RECITALS

(A) The Employer employs the Executive as of September 24, 2018 (the “Commencement Date”)

(B) The Employer wishes to provide severance pay in the event of certain terminations of employment.

(C) In this Agreement, the Employer and the Executive will be known as “Party” or “Parties” as the context requires.

(D) In consideration of the mutual agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

AGREEMENT

1. FORM, CONTENT AND GOVERNING LAW

1.1 This Agreement comprises 5 Clauses and 2 Schedules and the contents of the Schedules are incorporated herein by reference as if fully set forth herein and are made a part of this Agreement for all purposes.

1.2 Capitalized terms used in this Agreement shall have the meanings set forth in Schedule 1 or as otherwise set forth herein.

1.3 This Agreement will be governed by the internal laws of the State of Texas without regard to conflict of laws principles.

2. TERM OF AGREEMENT

This Agreement will terminate, except to the extent that any obligation of the Company hereunder remains unpaid as of such time and the Executive’s ongoing obligations pursuant to Section 4 of this Agreement, upon the earlier of (i) the date three years after the Commencement Date or (ii) the termination of the Executive’s employment with the Company and its Affiliates for any reason.

3. NON-COMPETITION AND NON-SOLICITATION; CONFIDENTIALITY

As an additional inducement to the Employer to enter into this Agreement, and in order to protect the confidential information (including, without limitation, trade secrets) and goodwill of the Employer and its Affiliates, the Executive agrees that he will abide by the restrictions set forth in the Confidentiality, Non-Solicitation, Non-competition, and Non-Recruitment Agreement entered

into by the Executive and the Employer effective as of September 24, 2018, which is attached hereto as **Exhibit A** (the “Non-Competition Agreement”) and incorporated herein by reference, and that, in the event that the Employer determines that the Executive has violated any covenant contained in the Non-Competition Agreement or if any court of competent jurisdiction in a proceeding between the Executive and the Employer or any Affiliates determines that any of the covenants set forth in the Non-Competition Agreement may not be enforced, the Executive will forfeit any remaining rights to any payment under this Agreement and upon the Employer’s demand, the Executive will forfeit and repay to the Employer, any amounts previously paid to the Executive pursuant to this Agreement, in addition to any other remedies that may be available to the Employer in such event.

4. SEVERANCE PAY

- 4.1 If, during the term of this Agreement, the Executive experiences a Qualifying Termination, then the Employer will provide the Executive with a Severance Payment (as defined below), subject to compliance by Executive with the Non-Competition Agreement and the Executive’s execution without revocation of the Release Agreement set forth in **Exhibit B** on or before the fiftieth (50th) day following his separation from service. The amount of the Severance Payment will be equal to (i) one times the Executive’s then current annual base salary if the Qualifying Termination occurs prior to the first anniversary of the Commencement Date, (ii) 2/3 times the Executive’s then current annual base salary if the Qualifying Termination occurs on or after the first anniversary of the Commencement Date and prior to the second anniversary of the Commencement Date, or (iii) 1/3 times the Executive’s then current annual base salary if the Qualifying Termination occurs on or after the second anniversary of the Commencement Date and prior to the third anniversary of the Commencement Date. Payment of the Severance Payment pursuant to this paragraph will be made in a single lump sum cash payment to the Executive (less all applicable withholding) on the sixtieth (60th) day immediately following the date of Executive’s separation from service.
- 4.2 If the Executive’s employment with the Employer and its Affiliates terminates otherwise than in a Qualifying Termination, no amount shall be payable under this Agreement.

5. MISCELLANEOUS

General provisions pertaining to this Agreement are contained in **Schedule 1** attached hereto. Additionally, **Schedule 2** of this Agreement contains grievance procedures and dispute resolution procedures.

- Remainder of Page Intentionally Left Blank -

IN WITNESS WHEREOF the Parties have executed and delivered this Agreement to be effective as of the Commencement Date.

CACTUS WELLHEAD, LLC

By: /s/ Scott Bender
Name: Scott Bender
Title: President

EXECUTIVE

/s/ David Isaac
David Isaac

SCHEDULE 1: DEFINITIONS AND GENERAL PROVISIONS

This is Schedule 1 to the Severance Agreement between Cactus Wellhead, LLC and David Isaac dated effective September 24, 2018.

DEFINITIONS AND GENERAL PROVISIONS

1. Definitions. In this Agreement and the Schedules, the following words and expressions will have the following meanings unless the context otherwise requires:

“Affiliate” means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person. For purposes of this definition, the term “control” means, with respect to any Entity, the power to direct or cause the direction of the management and policies of such Entity, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Board” means the governing body of the Employer, which shall be the Board of Managers.

“Cause” means:

(a) the commission by the Executive of a deliberate act against the interests of the Employer, including but not limited to fraud, theft or embezzlement against the Employer, its Affiliates, or any customer or client thereof;

(b) conviction of, or plea of no contest or guilty with respect to a crime involving fraud, theft, embezzlement or other act of material dishonesty on behalf of the Executive or the Board’s loss of confidence in Executive because Executive is convicted of or enters a plea of no contest or guilty with respect to any felony or crime involving moral turpitude;

(c) the Executive’s material breach of any material employment contract, policy or agreement entered into with the Employer or its Affiliate or any material policy of the Employer or its Affiliate, other than a breach which (being capable of being remedied) is remedied by the Executive within fourteen (14) days of being called upon to do so in writing by the Employer; or

(d) the Executive’s failure to perform his duties and responsibilities (other than a failure from Disability);

“Disability” will be determined in accordance with Section 2 below.

“Good Reason” means any of the following, without the Executive’s prior written consent: (a) the Employer commits any material breach of any of the provisions of this Agreement; (b) the Employer assigns the Executive to a position, responsibilities, or duties of a materially lesser status or degree of responsibility than his position, responsibilities or duties as of the Commencement Date; (c) the requirement by the Employer that the

Executive be based anywhere other than Houston, Texas, provided that such a change in geographic location be deemed material; or (d) any decrease of more than ten percent (10%) in Executive's base salary as it exists on the effective date of this Agreement. Notwithstanding the foregoing, prior to the Executive being eligible to terminate for Good Reason, the Executive must provide written notice of termination for Good Reason pursuant to this Agreement within the ninety (90) day period immediately following the initial existence of the condition at issue, and the Employer shall have the opportunity to cure such circumstances within the thirty (30) day period of receipt of such notice. If the Employer cures the applicable condition, Good Reason shall not be deemed to exist.

"Qualifying Termination" means a termination of the Executive's employment with the Employer and its Affiliates (i) by the Employer without Cause or (ii) by the Executive for Good Reason; provided that a termination of employment due to death or Disability shall not constitute a Qualifying Termination.

2. **Disability.** The Executive will be deemed to have a "Disability" if, for physical or mental reasons, the Executive is unable to perform the essential functions of the Executive's duties under this Agreement for 3-consecutive months, or 3-months during any twelve-month period. The Disability of the Executive will be determined by the examination of the Executive by a medical doctor selected by written agreement of the Parties upon the request of either Party by notice to the other Party. If the Parties are unable to agree on the selection of a medical doctor, each of the Parties will select a medical doctor and the two medical doctors will select a third medical doctor who will conduct the examination to determine whether the Executive has a Disability. The determination of the examining medical doctor will be final and binding on the Parties. The Executive must submit to a reasonable number of examinations by the examining medical doctor and the Executive hereby authorizes the disclosure and release to the Employer of such determination and all supporting medical records. If the Executive is not legally competent then the Executive's legal guardian or duly authorized attorney-in-fact will act in the Executive's stead for the purposes of submitting the Executive to the examination and providing the authorization of disclosure required. If requested by Employer, Executive will execute such further documents as are necessary to permit such disclosure in a timely manner.

3. **Notices.** All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by facsimile (with written confirmation of receipt), provided that a copy is mailed by certified mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a Party may designate by notice to the other party):

Executive:

David Isaac
4006 Blossom Street
Houston, TX 77007

Employer:

Cactus Wellhead, LLC
920 Memorial City Way
Suite 300
Houston, Texas 77024
Attention: Chief Executive Officer

4. **Further Assurances.** The Parties agree (a) to furnish upon request in a timely manner to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other Party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

5. **Waiver.**

5.1 The rights and remedies of the Parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege.

5.2 To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement may be discharged by one Party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the both Parties; (b) no waiver that may be given by a Party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one Party will be deemed to be a waiver of any obligation of such Party or of the right of the Party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

6. **Internal Revenue Code Section 409A.** The Parties intend that this Agreement will be administered in accordance with Section 409A of the Code and all regulations promulgated thereunder ("Section 409A"). To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A, the provision shall be read in such a manner so that all payments hereunder are either exempt or comply with Section 409A. The Parties agree that this Agreement may be amended, as reasonably requested by either Party, as may be necessary to be exempt from or fully comply with Section 409A in order to preserve the payments and benefits provided hereunder without additional cost to either Party. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, Executive shall not be considered to have terminated employment with the Employer or any subsidiary or Affiliate thereof for purposes of this Agreement unless Executive would be considered to have incurred a "separation from service" within the meaning of Section 409A from the Employer or any of its subsidiaries or Affiliates. Each amount to be paid or benefit to be provided under this Agreement shall be construed as a separate identified payment for purposes of Section 409A, and any payments described in this Agreement that are

due within the “short term deferral period” as defined in Section 409A shall not be treated as deferred compensation unless applicable law requires otherwise. Without limiting the foregoing and notwithstanding anything contained herein to the contrary, if Executive is deemed by the Employer at the time of Executive’s separation from service to be a “specified employee” for purposes of Section 409A, to the extent delayed commencement of any portion of the benefits to which Executive is entitled under this Agreement is required in order to avoid the imposition of additional taxes and interest on Executive under Section 409A, such portion of Executive’s benefits shall not be provided to Executive prior to the earlier of (a) the expiration of the six-(6) month period measured from the date of Executive’s separation from service or (b) the date of Executive’s death.

7. Assignments, Successors, And No Third-Party Rights. This Agreement will inure to the benefit of, and will be binding upon, the Parties hereto and their respective successors, assigns, heirs, and legal representatives, including any entity with which the Employer may merge or consolidate or be converted into or to which all or substantially all of its assets may be transferred. The duties and covenants of the Employee under this Agreement, being personal, may not be delegated.

8. Severability. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable and the invalid or unenforceable provision(s) shall be deemed replaced by valid and enforceable provisions that are consistent with the expressed intent of the Parties to the maximum extent permitted by applicable law.

9. Time Of Essence. With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

11. Amendment. Any amendment to or modification of this Agreement shall be in writing and signed by both Parties.

SCHEDULE 2: GRIEVANCE PROCEDURES AND DISPUTE RESOLUTION

This is Schedule 2 to the Severance Agreement between Cactus Wellhead, LLC and David Isaac dated effective September 24, 2018.

GRIEVANCE PROCEDURES AND DISPUTE RESOLUTION

1. If the Executive wishes to obtain redress of any grievance relating to his employment or is dissatisfied with any reprimand, suspension or other disciplinary step taken by the Employer, he will apply in writing, setting out the nature and details of any such grievance or dissatisfaction, to the Board of Managers.

2. In the event that there is a dispute arising out of or in any way relating to this Agreement, the Parties covenant and agree as follows:

2.1 The Parties will first use their reasonable best efforts to resolve such dispute among themselves, with or without mediation.

2.2 If the Parties are unable to resolve such dispute among themselves, they will use their reasonable best efforts to agree upon an individual arbitrator to settle the dispute. Any award as a result of such arbitration will be final and binding upon the Parties and the Parties agree to abide by and perform any award rendered by the arbitrator. Such a ruling will be non-appealable.

2.3 If the Parties are unable to agree on a single arbitrator such dispute will be submitted to binding arbitration in Houston, Texas, pursuant to the Federal Arbitration Act, under the auspices of, and pursuant to the rules, of the American Arbitration Association's Commercial Arbitration Rules as then in effect, or such other procedures as the Parties may agree to at the time, before a tribunal of three (3) arbitrators, one of which will be selected by the Executive, one of which will be selected by the Employer, and the third of which will be selected by the two arbitrators so selected. Any award issued as a result of such arbitration will be final and binding upon the Parties as to all demands, complaints, claims, liens, obligations, liabilities or causes of action, including, but not limited to, all claims of unlawful employment discrimination, harassment or retaliation under state, local or federal law (including, but not limited to, the Texas Code, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Family Medical Leave Act, the National Labor Relations Act, the Labor Management Relations Act, and the Employee Retirement Income Security Act of 1974, as amended), and will be enforceable by any court having jurisdiction over the Party against whom enforcement is sought. A ruling by the arbitrators will be non-appealable except as provided by the Federal Arbitration Act. The Parties agree to abide by and perform any award rendered by the arbitrators except as provided by the Federal Arbitration Act.

2.4 If either the Employer or the Executive materially breaches this Agreement or fails to comply with any final and non-appealable award and the other party thereafter seeks enforcement of any award rendered by the arbitrators, then the prevailing Party (designated by the arbitrators) to such proceeding(s) will be entitled to recover all of its costs and expenses from the non-prevailing Party, in addition to any other relief to which it may be entitled.

2.5 If a dispute arises and one Party fails or refuses to designate an arbitrator within thirty (30) days after receipt of a written notice that an arbitration proceeding is to be held, then the rules of the Federal Arbitration Act shall apply to designate the arbitrator not so designated by a Party.

2.6 Either the Employer or the Executive may cause an arbitration proceeding to commence by giving the other Party notice in writing of such arbitration. The Employer and the Executive covenant and agree to act as expeditiously as practicable to resolve all disputes by arbitration.

2.7 The arbitration proceeding will be held in English.

2.8 Notwithstanding anything contained in this Agreement to the contrary, neither the Employer nor the Executive will be precluded from seeking interim court action at any time after commencing arbitration and before the arbitrators are selected in the event the relief sought is equitable relief to preserve the status quo. All such interim remedies shall not bind the arbitrators in connection with any subsequent rulings. Legal process in any such action or proceeding may be served on any party anywhere in the world.

2.9 Except as expressly provided herein and except for an action seeking injunctive or other equitable relief to enforce the provisions of this Agreement, no action may be brought in any court of law and **EACH OF THE PARTIES WAIVES ANY RIGHTS THAT IT MAY HAVE TO BRING A CAUSE OF ACTION IN ANY COURT OR IN ANY PROCEEDING INVOLVING A JURY TO THE MAXIMUM EXTENT PERMITTED BY LAW.**

EXHIBIT A: NON-COMPETITION

CONFIDENTIALITY, NON-SOLICITATION, NON-COMPETITION, AND NON-RECRUITMENT

A-1

EXHIBIT B: RELEASE

RELEASE AGREEMENT

FOR AND IN CONSIDERATION OF the severance pay to be provided in connection with the termination of my employment in accordance with Section 4 of the Severance Agreement, dated as of September 24, 2018 between Cactus Wellhead, LLC (the "Company") and me (the "Severance Agreement"), I, on my own behalf and on behalf of my personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees and all others connected with me, hereby release and forever discharge the Company and its affiliates and all of their respective past and present officers, directors, managers, stockholders, controlling persons, employees, agents, representatives, successors and assigns and all others connected with any of them (the "Released Parties"), both individually and in their official capacities, from any and all rights, liabilities, claims, damages, demands and causes of action, whether statutory or at common law (including any claim for salary, benefits, payments, expenses, costs, attorney's fees, damages, penalties, compensation, remuneration, contractual entitlements) (collectively, "Claims") relating to any matter occurring on or prior to the date of my signing of this Release Agreement (the "Release"), including any Claims resulting from, arising out of, or connected with my employment or its termination and any other Claims pursuant to: (a) any federal, state, foreign or local law, regulation or other requirement (including without limitation Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, and any other local, state, or federal anti-discrimination or anti-retaliation law, each as amended from time to time); (b) any other local, state or federal law, regulation or ordinance; (c) any public policy or common law; and (d) any contract I may have with any Released Party, including the Severance Agreement (collectively, the "Released Claims"); provided, however, that the foregoing release shall not apply to (i) any right explicitly set forth in the Severance Agreement to any payments and benefits to be provided in connection with the termination of my employment, (ii) any right or claim that arises after the date this release is executed, (iii) any right I may have to vested or accrued benefits or entitlements under any applicable plan, agreement, program, award, policy or arrangement of the Company and its parents, subsidiaries and affiliates, (iv) my right to indemnification and advancement of expenses in accordance with applicable laws and/or the certificate of incorporation and by-laws, limited liability company agreement or other governing documents of the Company and its parents, subsidiaries and affiliates, or any applicable insurance policy, or (v) any right I may have to obtain contribution as permitted by law in the event of entry of judgment against me as a result of any act or failure to act for which I, on the one hand, and any Released Party, on the other hand, are jointly liable. This Release is not intended to indicate that any such claims exist or that, if they do exist, they are meritorious. Rather, I am simply agreeing that, in exchange for the consideration received by me through this Release, any and all Released Claims that I may have against any Released Party, regardless of whether they actually exist, are expressly settled, compromised and waived. This Release includes matters attributable to the sole or partial negligence (whether gross or simple) or other fault, including strict liability, of any Released Party.

Nothing in this Release prohibits me from filing a charge with, or reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the U.S. Equal Opportunity Commission, the Department of Justice, the Securities and

Exchange Commission, Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation. Nothing in this Release limits my ability to communicate with any government agencies or participate in any investigation or proceeding that may be conducted by any government agency, including providing documents or other information, without notice to the Company.

In signing this Release, I acknowledge that (i) I have carefully read this Release; (ii) I have had at least twenty-one (21) days from the date of notice of termination of my employment, or in the event that such termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), the date that is forty-five (45) days following such notice date, to consider the terms of this Release and that such time has been sufficient; (iii) I am hereby encouraged by the Company to seek the advice of an attorney prior to signing this Release and have had adequate opportunity to do so; (iv) I am not entitled to the consideration set forth in the Severance Agreement but for my entry into, and non-revocation of, this Release within the time provided to do so; and (v) I am signing this Release voluntarily and with a full understanding and acceptance of its terms, I understand the final and binding effect of this Release, and the only promises made to me to sign this Release are those stated in the Severance Agreement and herein.

I understand that I may revoke this Release at any time within seven days of the date of my signing by providing written notice to the Company of such revocation so that such notice is received by the Company no later than 11:59 P.M. on the seventh (7th) day after I sign this Release and that this Release will take effect only upon the expiration of such seven-day (7) revocation period (the "Effective Date") and only if I have not timely revoked it.

Intending to be legally bound, I have signed this Release to be effective as of the Effective Date.

David Isaac

Date

**SCHEDULE OF DIRECTOR AND OFFICER INDEMNIFICATION AGREEMENTS
SUBSTANTIALLY IDENTICAL TO FORM OF DIRECTOR AND OFFICER
INDEMNIFICATION AGREEMENT FILED AS EXHIBIT TO ANNUAL REPORT**

In accordance with Instruction 2 to Item 601 of Regulation S-K, the Registrant has omitted filing the following Director and Officer Indemnification Agreements by and between Cactus, Inc. and the parties named below because they are substantially identical in all material respects to the form of Director and Officer Indemnification Agreement filed as Exhibit 10.8 to Cactus, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2019:

1. Indemnification Agreement with Scott Bender, dated as of February 12, 2018
2. Indemnification Agreement with Joel Bender, dated as of February 12, 2018
3. Indemnification Agreement with Bruce Rothstein, dated as of February 12, 2018
4. Indemnification Agreement with Brian Small, dated as of February 12, 2018
5. Indemnification Agreement with Steven Bender dated as of February 12, 2018
6. Indemnification Agreement with Stephen Tadlock, dated as of February 12, 2018
7. Indemnification Agreement with John (Andy) O'Donnell, dated as of February 12, 2018
8. Indemnification Agreement with Michael McGovern, dated as of February 12, 2018
9. Indemnification Agreement with Alan Semple, dated as of February 12, 2018
10. Indemnification Agreement with Gary Rosenthal, dated as of February 12, 2018
11. Indemnification Agreement with David Isaac, dated as of September 24, 2018
12. Indemnification Agreement with Donna Anderson, dated as of December 9, 2019
13. Indemnification Agreement with Melissa Law, dated as of January 30, 2020

Cactus, Inc.
Subsidiaries
December 31, 2019

Subsidiary	State or Country of Incorporation
Cactus Wellhead, LLC	Delaware
Cactus Wellhead (Suzhou) Pressure Control Co., Ltd.	China
Cactus Wellhead Australia Pty, Ltd	Australia

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-230328) and Form S-8 (No. 333-225269) of Cactus, Inc. of our report dated February 28, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
February 28, 2020

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a)

I, Scott Bender, certify that:

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

Date: February 28, 2020

/s/ Scott Bender

 Scott Bender
 President, Chief Executive Officer and Director
 (Principal Executive Officer)

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a)

I, Stephen Tadlock, certify that:

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

Date: February 28, 2020

 /s/ Stephen Tadlock
 Stephen Tadlock
 Vice President, Chief Financial Officer and Treasurer
 (Principal Financial Officer)

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

In connection with the Annual Report on Form 10-K of Cactus, Inc. (the "Company") for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Bender, President, Chief Executive Officer and Director of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2020

/s/ Scott Bender

Scott Bender
*President, Chief Executive Officer
and Director
(Principal Executive Officer)*

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

In connection with the Annual Report on Form 10-K of Cactus, Inc. (the "Company") for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Tadlock, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2020

/s/ Stephen Tadlock
Stephen Tadlock
*Vice President, Chief Financial
Officer and Treasurer
(Principal Financial Officer)*
