UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 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 001-38066

SELECT ENERGY SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**81-4561945**
(State of incorporation)	**(IRS Employer Identification Number)**
1233 W. Loop South, Suite 1400 **Houston, TX**	**77027**
(Address of principal executive offices)	**(Zip Code)**

(713) 235-9500

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A common stock, par value $0.01 per share	WTTR	New York Stock Exchange

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐	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 7(a)(2)(B) of the Securities Act. ☐

Indicate by check mark whether the registrant is a shell company. Yes ☐ No ☑

As of August 2, 2019, the registrant had 80,177,766 shares of Class A common stock and 26,026,843 shares of Class B common stock outstanding.

SELECT ENERGY SERVICES, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Quarterly Report") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact included in this Quarterly Report, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project," "preliminary," "forecast," and similar expressions or variations 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 "Risk Factors" included in our most recent Annual Report on Form 10-K and under the heading "Part II—Item 1A. Risk Factors" in this Quarterly 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.

Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- the level of capital spending and access to capital markets by oil and gas companies;
- trends and volatility in oil and gas prices;
- demand for our services;
- capacity constraints on regional oil, natural gas and water gathering, processing and pipeline systems that result in a slowdown or delay in drilling and completion activity, and thus a slowdown or delay in the demand for our services in our core markets;
- our ability to retain key management and employees;
- our ability to hire and retain skilled labor;
- regional impacts to our business, including our key infrastructure assets within the Bakken and northern Delaware formation of the Permian Basin;
- our access to capital to fund expansions, acquisitions and our working capital needs and our ability to obtain debt or equity financing on satisfactory terms;
- our health, safety and environmental performance;
- the impact of current and future laws, rulings and governmental regulations, including those related to hydraulic fracturing, accessing water, disposing of wastewater, transferring produced water, interstate freshwater transfer, chemicals and various environmental matters;
- the impact of competition on our operations;
- the degree to which our exploration and production ("E&P") customers may elect to bring their water-management services in-house rather than source these services from companies like us;
- our level of indebtedness and our ability to comply with covenants contained in our Credit Agreement (as defined herein) or future debt instruments;

- delays or restrictions in obtaining permits by us or our customers;
- constraints in supply or availability of equipment used in our business;
- the impact of advances or changes in well-completion technologies or practices that result in reduced demand for our services, either on a volumetric or time basis;
- changes in global political or economic conditions, generally, and in the markets we serve;
- accidents, weather, seasonality or other events affecting our business; and
- the other risks identified in our most recent Annual Report on Form 10-K, and under the headings “Part I—Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II—Item 1A. Risk Factors” in this Quarterly Report.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could have material adverse effects on our future results. Our future results will depend upon various other risks and uncertainties, including those described under the heading “Part I—Item 1A. Risk Factors” in our most recent Annual Report on Form 10-K and under the heading “Part II—Item 1A. Risk Factors” in this Quarterly Report. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise. All forward-looking statements attributable to us are qualified in their entirety by this cautionary note.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SELECT ENERGY SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	June 30, 2019 (unaudited)	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 23,818	$ 17,237
Accounts receivable trade, net of allowance for doubtful accounts of $4,921 and $5,329, respectively	324,918	341,711
Accounts receivable, related parties	3,105	1,119
Inventories	39,952	44,992
Prepaid expenses and other current assets	29,435	27,093
Total current assets	421,228	432,152
Property and equipment	1,069,496	1,114,378
Accumulated depreciation	(603,191)	(611,530)
Property and equipment held-for-sale, net	1,906	—
Total property and equipment, net	468,211	502,848
Right-of-use assets	75,302	—
Goodwill	266,934	273,801
Other intangible assets, net	142,438	148,377
Other assets	3,064	3,427
Total assets	$ 1,377,177	$ 1,360,605
Liabilities and Equity		
Current liabilities		
Accounts payable	$ 53,107	$ 53,847
Accrued accounts payable	43,311	62,536
Accounts payable and accrued expenses, related parties	3,417	5,056
Accrued salaries and benefits	16,734	22,113
Accrued insurance	15,799	14,849
Sales tax payable	1,282	5,820
Accrued expenses and other current liabilities	10,615	14,560
Current operating lease liabilities	19,553	—
Current portion of finance lease obligations	421	938
Total current liabilities	164,239	179,719
Long-term operating lease liabilities	75,169	16,752
Other long-term liabilities	10,921	8,361
Long-term debt	—	45,000
Total liabilities	250,329	249,832
Commitments and contingencies (Note 10)		
Class A common stock, $0.01 par value; 350,000,000 shares authorized; 80,176,078 and 78,956,555 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	802	790
Class A-2 common stock, $0.01 par value; 40,000,000 shares authorized; no shares issued or outstanding as of June 30, 2019 and December 31, 2018	—	—
Class B common stock, $0.01 par value; 150,000,000 shares authorized; 26,026,843 shares issued and outstanding as of June 30, 2019 and December 31, 2018	260	260
Preferred stock, $0.01 par value; 50,000,000 shares authorized; no shares issued and outstanding as of June 30, 2019 and December 31, 2018	—	—
Additional paid-in capital	821,968	813,599
Retained earnings	25,988	18,653
Accumulated other comprehensive deficit	(380)	(368)
Total stockholders' equity	848,638	832,934
Noncontrolling interests	278,210	277,839
Total equity	1,126,848	1,110,773
Total liabilities and equity	$ 1,377,177	$ 1,360,605

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

SELECT ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except share and per share data)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenue				
Water services	$ 202,011	$ 233,954	$ 422,606	$ 452,184
Water infrastructure	51,710	55,727	105,326	109,784
Oilfield chemicals	63,001	64,807	129,830	128,437
Other	7,165	38,759	28,771	79,237
Total revenue	323,887	393,247	686,533	769,642
Costs of revenue				
Water services	155,151	176,571	318,272	341,201
Water infrastructure	38,456	37,884	79,886	77,980
Oilfield chemicals	54,051	58,500	113,578	115,584
Other	7,447	33,119	28,500	68,873
Depreciation and amortization	28,843	30,445	60,361	61,327
Total costs of revenue	283,948	336,519	600,597	664,965
Gross profit	39,939	56,728	85,936	104,677
Operating expenses				
Selling, general and administrative	27,297	26,871	59,673	52,552
Depreciation and amortization	906	807	1,906	1,348
Impairment of goodwill	—	—	4,396	—
Impairment of property and equipment	374	2,282	893	2,282
Impairment of cost-method investment	—	—	—	2,000
Lease abandonment costs	183	1,973	1,256	3,097
Total operating expenses	28,760	31,933	68,124	61,279
Income from operations	11,179	24,795	17,812	43,398
Other income (expense)				
(Losses) gains on sales of property and equipment, net	(1,709)	2,056	(6,200)	1,502
Interest expense, net	(839)	(1,342)	(1,932)	(2,493)
Foreign currency gain (loss), net	67	(340)	327	(740)
Other (expense) income, net	(59)	4	210	100
Income before income tax expense	8,639	25,173	10,217	41,767
Income tax expense	(571)	(150)	(749)	(612)
Net income	8,068	25,023	9,468	41,155
Less: net income attributable to noncontrolling interests	(1,868)	(8,060)	(2,133)	(14,093)
Net income attributable to Select Energy Services, Inc.	$ 6,200	$ 16,963	$ 7,335	$ 27,062
Net income per share attributable to common stockholders (Note 16):				
Class A—Basic	$ 0.08	$ 0.24	$ 0.09	$ 0.40
Class A-2—Basic	$ —	$ —	$ —	$ 0.40
Class B—Basic	$ —	$ —	$ —	$ —
Net income per share attributable to common stockholders (Note 16):				
Class A—Diluted	$ 0.08	$ 0.24	$ 0.09	$ 0.39
Class A-2—Diluted	$ —	$ —	$ —	$ 0.39
Class B—Diluted	$ —	$ —	$ —	$ —

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

SELECT ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	$ 8,068	$ 25,023	$ 9,468	$ 41,155
Other comprehensive income				
Foreign currency translation adjustment, net of tax of $0	(66)	(191)	(12)	(450)
Comprehensive income	8,002	24,832	9,456	40,705
Less: comprehensive income attributable to noncontrolling interests	(1,853)	(7,998)	(2,130)	(13,939)
Comprehensive income attributable to Select Energy Services, Inc.	$ 6,149	$ 16,834	$ 7,326	$ 26,766

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

SELECT ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 2019 and 2018
(unaudited)
(in thousands, except share data)

	Class A Stockholders		Class A-2 Stockholders		Class B Stockholders		Preferred Stockholders							
	Shares	Class A Common Stock	Shares	Class A-2 Common Stock	Shares	Class B Common Stock	Shares	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Deficit)	Total Stockholders' Equity	Noncontrolling Interests	Total
Balance as of December 31, 2018	78,956,555	$ 790	—	$ —	26,026,843	$ 260	—	$ —	$ 813,599	$ 18,653	$ (368)	$ 832,934	$ 277,839	$ 1,110,773
ESPP shares issued	5,667	—	—	—	—	—	—	—	58	—	—	58	(2)	56
Equity-based compensation	—	—	—	—	—	—	—	—	6,271	—	—	6,271	2,037	8,308
Issuance of restricted shares	1,373,930	14	—	—	—	—	—	—	3,549	—	—	3,563	(3,563)	—
Exercise of restricted stock units	1,250	—	—	—	—	—	—	—	4	—	—	4	(4)	—
Repurchase of common stock	(152,502)	(2)	—	—	—	—	—	—	(1,539)	—	—	(1,541)	25	(1,516)
Restricted shares forfeited	(8,822)	—	—	—	—	—	—	—	(23)	—	—	(23)	23	—
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	—	—	—	—	—	(225)	(225)
NCI income tax adjustment	—	—	—	—	—	—	—	—	49	—	—	49	(49)	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	(12)	(12)	(4)	(16)
Net income	—	—	—	—	—	—	—	—	—	7,335	—	7,335	2,133	9,468
Balance as of June 30, 2019	80,176,078	$ 802	—	$ —	26,026,843	$ 260	—	$ —	$ 821,968	$ 25,988	$ (380)	$ 848,638	$ 278,210	$ 1,126,848

	Class A Stockholders		Class A-2 Stockholders		Class B Stockholders		Preferred Stockholders							
	Shares	Class A Common Stock	Shares	Class A-2 Common Stock	Shares	Class B Common Stock	Shares	Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Deficit)	Total Stockholders' Equity	Noncontrolling Interests	Total
Balance as of December 31, 2017	59,182,176	$ 592	6,731,845	$ 67	40,331,989	$ 404	—	$ —	$ 673,141	$ (17,859)	$ 302	$ 656,647	$ 406,722	$ 1,063,369
Conversion of Class A-2 to Class A	6,731,839	67	(6,731,839)	(67)	—	—	—	—	—	—	—	—	—	—
Conversion of Class B to Class A	10,948,669	110	—	—	(10,948,669)	(110)	—	—	111,803	—	—	111,803	(111,803)	—
ESPP shares issued	3,986	—	—	—	—	—	—	—	50	—	—	50	4	54
Equity-based compensation	—	—	—	—	—	—	—	—	3,617	—	—	3,617	1,848	5,465
Issuance of restricted shares	430,595	4	—	—	—	—	—	—	2,261	—	—	2,265	(2,265)	—
Exercise of restricted stock units	27,860	—	—	—	—	—	—	—	104	—	—	104	(104)	—
Stock options exercised	37,209	—	—	—	—	—	—	—	376	—	—	376	1	377
Repurchase of common stock	(45,034)	—	(6)	—	—	—	—	—	(583)	—	—	(583)	(74)	(657)
Restricted shares forfeited	(18,640)	—	—	—	—	—	—	—	(70)	—	—	(70)	70	—
Noncontrolling interest in subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	(280)	(280)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	(450)	(450)	(221)	(671)
Net income	—	—	—	—	—	—	—	—	—	27,062	—	27,062	14,093	41,155
Balance as of June 30, 2018	77,298,660	$ 773	—	$ —	29,383,320	$ 294	—	$ —	$ 790,699	$ 9,203	$ (148)	$ 800,821	$ 307,991	$ 1,108,812

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

SELECT ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended June 30, 2019 and 2018
(unaudited)
(in thousands, except share data)

	Class A Stockholders		Class A-2 Stockholders		Class B Stockholders		Preferred Stockholders				Accumulated			
	Shares	Class A Common Stock	Shares	Class A-2 Common Stock	Shares	Class B Common Stock	Shares	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income (Deficit)	Total Stockholders' Equity	Noncontrolling Interests	Total
Balance as of March 31, 2019	79,998,292	$ 800	—	$ —	26,026,843	$ 260	—	$ —	$ 818,556	$ 19,788	$ (314)	$ 839,090	$ 276,023	$ 1,115,113
ESPP shares issued	2,857	—	—	—	—	—	—	—	29	—	—	29	—	29
Equity-based compensation	—	—	—	—	—	—	—	—	3,117	—	—	3,117	1,012	4,129
Issuance of restricted shares	204,153	3	—	—	—	—	—	—	524	—	—	527	(527)	—
Exercise of restricted stock units	625	—	—	—	—	—	—	—	2	—	—	2	(2)	—
Repurchase of common stock	(26,716)	(1)	—	—	—	—	—	—	(295)	—	—	(296)	(4)	(300)
Restricted shares forfeited	(3,133)	—	—	—	—	—	—	—	(8)	—	—	(8)	8	—
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	—	—	—	—	—	(104)	(104)
NCI income tax adjustment	—	—	—	—	—	—	—	—	43	—	—	43	(43)	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	(66)	(66)	(21)	(87)
Net income	—	—	—	—	—	—	—	—	—	6,200	—	6,200	1,868	8,068
Balance as of June 30, 2019	80,176,078	$ 802	—	$ —	26,026,843	$ 260	—	$ —	$ 821,968	$ 25,988	$ (380)	$ 848,638	$ 278,210	$ 1,126,848

	Class A Stockholders		Class A-2 Stockholders		Class B Stockholders		Preferred Stockholders				Accumulated			
	Shares	Class A Common Stock	Shares	Class A-2 Common Stock	Shares	Class B Common Stock	Shares	Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Other Comprehensive Income (Deficit)	Total Stockholders' Equity	Noncontrolling Interests	Total
Balance as of March 31, 2018	66,258,163	$ 662	—	$ —	40,331,989	$ 404	—	$ —	$ 675,895	$ (7,760)	$ 43	$ 669,244	$ 412,026	$ 1,081,270
Conversion of Class B to Class A	10,948,669	110	—	—	(10,948,669)	(110)	—	—	111,803	—	—	111,803	(111,803)	—
ESPP shares issued	3,986	—	—	—	—	—	—	—	50	—	—	50	4	54
Equity-based compensation	—	—	—	—	—	—	—	—	2,075	—	—	2,075	909	2,984
Issuance of restricted shares	99,206	1	—	—	—	—	—	—	840	—	—	841	(841)	—
Exercise of restricted stock units	625	—	—	—	—	—	—	—	102	—	—	102	(102)	—
Stock options exercised	17,811	—	—	—	—	—	—	—	295	—	—	295	(48)	247
Repurchase of common stock	(29,800)	—	—	—	—	—	—	—	(361)	—	—	(361)	(32)	(393)
Restricted shares forfeited	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Noncontrolling interest in subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	(119)	(119)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	(191)	(191)	(63)	(254)
Net income	—	—	—	—	—	—	—	—	—	16,963	—	16,963	8,060	25,023
Balance as of June 30, 2018	77,298,660	$ 773	—	$ —	29,383,320	$ 294	—	$ —	$ 790,699	$ 9,203	$ (148)	$ 800,821	$ 307,991	$ 1,108,812

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

SELECT ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities		
Net income	$ 9,468	$ 41,155
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	62,267	62,675
Net loss (gain) on disposal of property and equipment	2,794	(1,503)
Bad debt expense	1,312	876
Amortization of debt issuance costs	344	344
Inventory write-down	209	394
Equity-based compensation	8,308	5,465
Impairment of goodwill	4,396	—
Impairment of property and equipment	893	2,282
Impairment of cost-method investment	—	2,000
Loss on divestitures	3,406	—
Other operating items, net	(178)	(103)
Changes in operating assets and liabilities		
Accounts receivable	3,346	(46,057)
Prepaid expenses and other assets	1,245	(17,848)
Accounts payable and accrued liabilities	(23,075)	14,625
Net cash provided by operating activities	74,735	64,305
Cash flows from investing activities		
Working capital settlement	691	—
Proceeds received from divestitures	25,259	—
Purchase of property and equipment	(57,513)	(63,050)
Proceeds received from sale of property and equipment	10,507	3,953
Net cash used in investing activities	(21,056)	(59,097)
Cash flows from financing activities		
Borrowings from revolving line of credit	5,000	25,000
Payments on long-term debt	(50,000)	(20,000)
Payments of finance lease obligations	(549)	(1,029)
Proceeds from share issuance	56	431
Distributions to noncontrolling interests, net	(225)	(280)
Repurchase of common stock	(1,516)	(657)
Net cash (used in) provided by financing activities	(47,234)	3,465
Effect of exchange rate changes on cash	136	(146)
Net increase in cash and cash equivalents	6,581	8,527
Cash and cash equivalents, beginning of period	17,237	2,774
Cash and cash equivalents, end of period	$ 23,818	$ 11,301
Supplemental cash flow disclosure:		
Cash paid for interest	$ 2,024	$ 1,959
Cash paid (refunds received) for income taxes	$ 204	$ (1,188)
Supplemental disclosure of noncash investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$ 15,208	$ 25,013

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

SELECT ENERGY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—BUSINESS AND BASIS OF PRESENTATION

Description of the business: Select Energy Services, Inc. ("we," "Select Inc." or the "Company") was incorporated as a Delaware corporation on November 21, 2016. The Company is a holding company whose sole material asset consists of common units ("SES Holdings LLC Units") in SES Holdings, LLC ("SES Holdings" or the "Predecessor").

We are a leading provider of water-management solutions to the oil and gas industry in the United States ("U.S."). We also develop, manufacture and deliver chemical solutions for use in oil and gas well completions and production operations. Within the major shale plays in the U.S., we believe we are a market leader in water sourcing, water transfer (both by permanent pipeline and temporary hose) and temporary water containment prior to its use in drilling and completion activities associated with hydraulic fracture stimulation or "fracking," which we refer to collectively as "pre-frac water services". In addition, we provide testing and flowback services immediately following the well completion. In most of our areas of operations, we also provide additional complementary water-related services that support oil and gas well completion and production activities, including water network automation, treatment, hauling, water recycling and disposal. We also manufacture a full suite of specialty chemicals used in the fracturing process, and we provide chemicals needed by our customers to help increase oil and gas production and lower costs over the life of a well. We believe we are the only company in the oilfield services industry that combines full life cycle water-management services with the ability to develop and provide related chemical products.

Select 144A Offering and Initial Public Offering. On December 20, 2016, Select Inc. completed a private placement (the "Select 144A Offering") of 16,100,000 shares of Select Inc. Class A-1 common stock, par value $0.01 per share, which were converted into shares of Class A common stock, par value $0.01 per share ("Class A Common Stock") following the Company's initial public offering ("IPO"). SES Holdings issued 16,100,000 SES Holdings LLC Units to Select Inc., and Select Inc. became the sole managing member of SES Holdings. Select Inc. issued 38,462,541 shares of its Class B common stock, par value $0.01 per share ("Class B Common Stock"), to the other member of SES Holdings, SES Legacy Holdings, LLC ("Legacy Owner Holdco") or one share for each SES Holdings LLC Unit held by Legacy Owner Holdco. On April 26, 2017, the Company completed its IPO of 8,700,000 shares of Class A Common Stock. Shareholders of Class A Common Stock and Class B Common Stock vote together as a single class on all matters, subject to certain exceptions in the Company's amended and restated certificate of incorporation. Holders of Class B Common Stock have voting rights only and are not entitled to an economic interest in Select Inc. based on their ownership of Class B Common Stock.

Tax Receivable Agreements: In connection with the Company's restructuring at the Select 144A Offering, Select Inc. entered into two tax receivable agreements (the "Tax Receivable Agreements") with Legacy Owner Holdco and certain other affiliates of the then-holders of SES Holdings LLC Units (each such person and any permitted transferee thereof, a "TRA Holder," and together, the "TRA Holders"). On July 18, 2017, the Company's board of directors approved amendments to each of the Tax Receivable Agreements. See Note 13—Related Party Transactions for further discussion.

Exchange rights: Under the Eighth Amended and Restated Limited Liability Company Agreement of SES Holdings (the "SES Holdings LLC Agreement"), Legacy Owner Holdco and its permitted transferees have the right (an "Exchange Right") to cause SES Holdings to acquire all or a portion of its SES Holdings LLC Units for, at SES Holdings' election, (i) shares of Class A Common Stock at an exchange ratio of one share of Class A Common Stock for each SES Holdings LLC Unit exchanged, subject to conversion rate adjustments for stock splits, stock dividends, reclassification and other similar transactions or (ii) cash in an amount equal to the Cash Election Value (as defined within the SES Holdings LLC Agreement) of such Class A Common Stock. Alternatively, upon the exercise of any Exchange Right, Select Inc. has the right (the "Call Right") to acquire the tendered SES Holdings LLC Units from the exchanging unitholder for, at its election, (i) the number of shares of Class A Common Stock the exchanging unitholder would have received under the Exchange Right or (ii) cash in an amount equal to the Cash Election Value of such Class

A Common Stock. In connection with any exchange of SES Holdings LLC Units pursuant to an Exchange Right or Call Right, the corresponding number of shares of Class B Common Stock will be cancelled.

2017 Business Combinations: The Company completed three business combinations during 2017 that significantly increased its size. On March 10, 2017, the Company completed the acquisition of Gregory Rockhouse Ranch, Inc. (the “GRR Acquisition”) and certain other affiliated entities and assets (collectively, the “GRR Entities”) for consideration of $59.6 million. On September 15, 2017, the Company completed the acquisition (the “Resource Water Acquisition”) of Resource Water Transfer Services, L.P. and certain other affiliated assets (collectively, “Resource Water”) for $9.0 million. Additionally, on November 1, 2017, the Company completed its merger (the “Rockwater Merger”) with Rockwater Energy Solutions, Inc. (“Rockwater”) in which the Company combined with Rockwater for total consideration of $620.2 million.

Basis of presentation: The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all disclosures required for financial statements prepared in conformity with GAAP.

This Form 10-Q relates to the three and six months ended June 30, 2019 (the “Current Quarter” and the “Current Period”, respectively) and the three and six months ended June 30, 2018 (the “Prior Quarter” and the “Prior Period”, respectively). The Company’s annual report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”) filed with the SEC on March 1, 2019, includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results for the interim periods have been reflected. The results for the Current Quarter and Current Period are not necessarily indicative of the results to be expected for the full year.

The unaudited interim consolidated financial statements include the accounts of the Company and all of its majority-owned or controlled subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

For investments in subsidiaries that are not wholly owned, but where the Company exercises control, the equity held by the minority owners and their portion of net income or loss are reflected as noncontrolling interests. Investments in entities for which the Company does not have significant control or influence are accounted for using the cost method. As of June 30, 2019, the Company had one cost-method investee. The Company’s investments are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. When circumstances indicate that the fair value of its investment is less than its carrying value and the reduction in value is other than temporary, the reduction in value is recognized in earnings.

Segment reporting: The Company has three operating and reportable segments. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker (“CODM”) in deciding how to allocate resources and assess performance. The Company’s current reportable segments are Water Services, Water Infrastructure, and Oilfield Chemicals, following its decision in the first quarter of 2019 to sell and wind down certain operations within its former Wellsite Services segment, including the operations of its subsidiary Affirm Oilfield Services, LLC (“Affirm”), and its sand hauling and Canadian operations.

The Water Services segment consists of the Company’s services businesses including water transfer, flowback and well testing, fluids hauling, containment, and water treatment and water network automation, primarily serving E&P companies. Additionally, this segment includes the operations of our accommodations and rentals business, which were previously a part of the former Wellsite Services segment.

The Water Infrastructure segment consists of the Company’s infrastructure assets and ongoing infrastructure development projects, including operations associated with our water sourcing and pipelines, produced water gathering systems and salt water disposal wells, primarily serving E&P companies.

The Oilfield Chemicals segment develops, manufactures and provides a full suite of chemicals used in hydraulic fracturing, stimulation, cementing and well completions, including polymer slurries, crosslinkers, friction reducers, buffers breakers and other chemical technologies, to leading pressure pumping service companies in the United States.

The results of our remaining service lines that were previously a part of the former Wellsite Services segment including the operations of our Affirm subsidiary, our sand hauling operations and our Canadian operations are combined in the “Other” category.

The unaudited interim consolidated financial statements in this report reflect our new segment structure, and the statements of operations, statements of comprehensive income and statements of cash flows for the three and six months ended June 30, 2018 have been restated to reflect our new segment structure.

Reclassifications: Certain reclassifications have been made to the Company’s prior period consolidated financial information in order to conform to the current period presentation. These presentation changes did not impact the Company’s consolidated net income, consolidated cash flows, total assets, total liabilities or total stockholders’ equity.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies: The Company’s significant accounting policies are disclosed in Note 2 of the consolidated financial statements for the year ended December 31, 2018, included in the Company’s most recent Annual Report on Form 10-K. With the exception of the adoption of the new lease standard discussed in Note 5, there have been no significant changes in such policies or the application of such policies during the Current Quarter.

Use of estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, the Company evaluates its estimates, including those related to the recoverability of long-lived assets and intangibles, useful lives used in depreciation and amortization, uncollectible accounts receivable, inventory, income taxes, self-insurance liabilities, share-based compensation, contingent liabilities and the incremental borrowing rate for leases. The Company bases its estimates on historical and other pertinent information that are believed to be reasonable under the circumstances. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company’s operating environment changes.

Asset retirement obligations: The Company's asset retirement obligations ("ARO") relate to 16 disposal facilities with obligations for plugging wells, removing surface equipment, and returning land to its pre-drilling condition. The following table describes the changes to the Company's ARO liability for the Current Period:

	Six months ended June 30, 2019
	(in thousands)
Balance at beginning of Current Period	$ 1,898
Accretion expense, included in depreciation and amortization expense	57
Change in estimate	—
Divestitures	(61)
Balance at end of Current Period	$ 1,894

We review the adequacy of our ARO liabilities whenever indicators suggest that the estimated cash flows underlying the liabilities have changed. The Company's ARO liabilities are included in accrued expenses and other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

Recent accounting pronouncements: In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*, which modifies the lease recognition requirements and requires entities to recognize the assets and liabilities arising from leases on the balance sheet and to disclose key qualitative and quantitative information about the entity's leasing arrangements. Based on the original guidance in ASU 2016-02, lessees and lessors would have been required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, including a number of optional practical expedients. In July 2018, the FASB issued ASU No. 2018-11, *Leases (ASC 842): Targeted Improvements,* which provides entities with an option to apply the guidance prospectively, instead of retrospectively, and allows for other classification provisions. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2016-02 in the first quarter of 2019. The Company elected to recognize its lease assets and liabilities on a prospective basis, beginning on January 1, 2019, using the modified retrospective transition method. Additionally, the Company elected practical expedients to (i) exclude right-of-use assets and lease liabilities for short-term leases, (ii) elected to treat lease and non-lease components as a single lease component, (iii) grandfathered its current accounting for land easements that commenced before January 1, 2019, and (iv) used the package of practical expedients to retain prior lease classification, prior treatment of initial direct costs and prior determination of whether a contract constituted a lease. See Note 5—Leases for additional information.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends U.S. GAAP by introducing a new impairment model for financial instruments that is based on expected credit losses rather than incurred credit losses. The new impairment model applies to most financial assets, including trade accounts receivable. The amendments are effective for interim and annual reporting periods beginning after December 15, 2019, although it may be adopted one year earlier, and requires a modified retrospective transition approach. This will mainly impact the Company's trade receivables allowance calculation. The Company is assessing the best approach to estimate allowances and is evaluating the impact this standard will have on its consolidated financial statements.

NOTE 3—ACQUISITIONS AND DIVESTITURES

Business combinations

Pro Well Acquisition

On November 20, 2018, the Company acquired Pro Well Testing and Wireline, Inc. with an initial payment of $12.4 million, funded with cash on hand (the “Pro Well Acquisition”). During March 2019, upon final settlement, the purchase price was revised to $11.8 million.

This acquisition expanded the Company’s flowback footprint into New Mexico and added new strategic customers. The Pro Well Acquisition was accounted for as a business combination under the acquisition method of accounting. When determining the fair values of assets acquired and liabilities assumed, management made significant estimates, judgments and assumptions. Management estimated that total consideration paid exceeded the fair value of the net assets acquired by $1.1 million, with the excess recorded as goodwill. The goodwill recognized was primarily attributable to expanding the Company’s flowback footprint into New Mexico and adding new strategic customers. The assets acquired, liabilities assumed and the results of operations of the acquired business are included in the Company’s Water Services segment. The goodwill acquired is deductible for tax purposes. The following table summarizes the consideration transferred and the estimated fair value of identified assets acquired and liabilities assumed at the date of acquisition:

Purchase price allocation	**Amount**
Consideration transferred	**(in thousands)**
Cash paid	$ 11,754
Total consideration transferred	11,754
Less: identifiable assets acquired and liabilities assumed	
Working capital	1,051
Property and equipment	6,588
Customer relationship intangible assets	3,000
Total identifiable net assets acquired	10,639
Goodwill	1,115
Fair value allocated to net assets acquired	$ 11,754

Divestitures

Affirm and Canadian Operations Divestitures

During the Current Period, the Company closed on four sale transactions and wound down the remaining Affirm and Canadian operations. The Company sold property and equipment with a combined net book value of $18.6 million and assigned contracts to the buyers. Additionally, two of the four transactions included the assignment of working capital. The following table summarizes sales details for each of the four transactions:

Date of Divestiture	**Entity**	**Initial Net Proceeds**	**Working Capital True Up**	**Adjusted Net Proceeds**	**Working Capital Status at June 30, 2019**	**(Gain)/loss for the six months ended June 30, 2019**
				(in thousands)		
February 26, 2019	Affirm	$ 10,982	$ 92	$ To be determined	Not Final	$ (92)
June 28, 2019	Affirm	6,968	—	6,968	Final	(1,646)
March 19, 2019	Canada	4,975	(325)	4,650	Final	5,040
April 1, 2019	Canada	2,242	—	To be determined	Not Final	101

In connection with the Affirm crane operation divestiture in the first quarter of 2019, no gain or loss was initially recognized and goodwill was reduced by $2.6 million. Additionally, during the first quarter of 2019, the Company recorded an impairment of the remaining Affirm goodwill of $4.4 million (see Note 8).

NOTE 4—REVENUE

Effective for the year ended December 31, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective adoption method. There was no impact on the consolidated financial statements and no cumulative effect adjustment was recognized. Although most revenue recognition is governed by the new standard, the accommodations and rentals revenue continued to be guided by ASC 842 - *Leases*, discussed further below. The core principle of Topic 606 is that revenue is recognized when goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services.

ASU 2014-09 provides a five-step model for determining revenue recognition for arrangements that are within the scope of the standard: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that we will collect the consideration the Company is entitled to in exchange for the goods or services the Company transfers to the customer.

The Company elected practical expedients (i) not to access whether immaterial promised goods or services are performance obligations, (ii) not to provide disclosures on remaining performance obligations for contracts that have an original expected duration of one year or less and (iii) to exclude transaction price taxes assessed by governmental authorities as revenue.

The following factors are applicable to all three of the Company's segments for the first six months of 2019 and 2018, respectively:

- The vast majority of customer agreements are short-term, lasting less than one year
- Contracts are seldom combined together as virtually all of our customer agreements constitute separate performance obligations. Each job is typically distinct, thereby not interdependent or interrelated with other customer agreements.
- Most contracts allow either party to terminate at any time without substantive penalties. If the customer terminates the contract, the Company is unconditionally entitled to the payments for the products delivered to date.
- Contract terminations before the end of the agreement are rare
- Sales returns are rare and no sales return assets have been recognized on the balance sheet
- There are no volume discounts
- There are no service-type warranties
- There is no long-term customer financing

In the Water Services and Water Infrastructure segments, performance obligations arise in connection with services provided to customers in accordance with contractual terms, in an amount the Company expects to collect. Services are generally sold based upon customer orders or contracts with customers that include fixed or determinable prices. Revenues are generated by services rendered and measured based on output generated, which is usually simultaneously received and consumed by customers at their job sites. As a multi-job site organization, contract terms, including pricing for the Company's services, are negotiated on a job site level on a per-job basis. Most jobs completed in a short period of time, usually between one day and one month. Revenue is recognized as performance obligations are completed on a daily, hourly or per unit basis with unconditional rights to consideration for services rendered reflected as accounts receivable trade, net of allowance for doubtful accounts. In cases where a prepayment is received before the Company satisfies its performance obligations, a contract liability is recorded in accrued expenses and other current liabilities. Final billings generally occur once all of the proper approvals are obtained. No revenue is associated with mobilization or demobilization of personnel and equipment. Rather, mobilization and demobilization are factored into pricing for services. Billings and costs related to mobilization and demobilization is not material for customer agreements that start in one period and end in another. As of June 30, 2019, the Company had two contracts in place lasting over a year.

In the Oilfield Chemicals segment, the typical performance obligation is to provide a specific quantity of chemicals to customers in accordance with the customer agreement in an amount the Company expects to collect. Products and services are generally sold based upon customer orders or contracts with customers that include fixed or determinable prices. Revenue is recognized as the customer takes title to chemical products in accordance with the agreement. Products may be provided to customers in packaging or delivered to the customers' containers through a hose. In some cases, the customer takes title to the chemicals upon consumption from storage containers on their property, where the chemicals are considered inventory until customer usage. In cases where the Company delivers products and recognizes revenue before collecting payment, the Company usually has an unconditional right to payment reflected in accounts receivable trade, net of allowance for doubtful accounts. Customer returns are rare and immaterial and there were no in-process customer agreements as of June 30, 2019 lasting greater than one year.

The Company accounts for accommodations and rentals agreements as an operating lease. The Company recognizes revenue from renting equipment on a straight-line basis. Accommodations and rental contract periods are generally daily, weekly or monthly. The average lease term is less than three months and as of June 30, 2019, no rental agreements lasted more than a year.

The following table sets forth certain financial information with respect to the Company's disaggregation of revenues by geographic location:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Geographic Region				
Permian Basin	$ 148,118	$ 154,422	$ 310,783	$ 282,783
MidCon	48,515	67,425	106,978	129,024
Eagle Ford	41,033	42,486	79,759	89,028
Bakken	20,361	39,487	46,143	79,261
Marcellus/Utica	28,292	34,533	58,451	69,019
Rockies	21,494	28,221	43,936	62,680
Haynesville/E. Texas	18,314	13,129	35,596	30,009
All other/eliminations	(2,240)	13,544	4,887	27,838
Total	$ 323,887	$ 393,247	$ 686,533	$ 769,642

In the Water Services segment, the top three revenue producing regions are the Permian Basin, MidCon and Eagle Ford, which collectively comprised 74%, 73%, 74% and 70% of segment revenue for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. In the Water Infrastructure segment, the top two revenue producing regions are the Permian Basin and Bakken, which collectively comprised 81%, 82%, 82% and 83% of segment revenue for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. In the Oilfield Chemicals segment, the top two revenue producing regions are the Permian Basin and MidCon, which collectively comprised 75%, 78%, 76% and 74% of segment revenue for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

NOTE 5—LEASES

As of June 30, 2019, the Company was the lessee for approximately 580 operating leases with durations greater than a year, approximately 14 subleases, approximately 65 finance leases, and is the lessor for three owned properties. Most of the operating leases either have renewal options of between one and five years or convert to month-to-month agreements at the end of the specified lease term. In addition to normal lease activity, the four Affirm and Canadian divestitures occurring in the Current Period included the assignment of leases to the buyers. The assigned leases impacted expenses during the Current Period, but were not included in the June 30, 2019 consolidated balance sheet.

The Company's operating leases are primarily for (i) housing personnel for operations, (ii) operational yards for storing and staging equipment, (iii) equipment used in operations, (iv) facilities used for back-office functions and (v) equipment used for back office functions. The Company has determined that it is reasonably certain to exercise future renewal options for one facility lease for the corporate office building in Gainesville, Texas. The majority of the Company's long-term lease expenses are at fixed prices.

Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and the Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company has a significant number of short-term leases including month-to-month agreements that continue in perpetuity until the lessor or the Company terminates the lease agreement. Due to the volatility of the price of a barrel of oil and the short-term nature of the Company's contracts with customers, the Company has determined that no short-term leases with indefinite renewals are reasonably certain to last more than a year into the future. When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of the Company's leases do not provide a readily determinable implicit rate. Therefore, the Company estimates the incremental borrowing rate based on what it would pay to borrow on a collateralized basis, over a similar term based on information available at lease commencement.

The Company previously had an $18.8 million lease obligation associated with certain exit and disposal activities in connection with approximately 17 abandoned facility leases as of December 31, 2018. Upon adopting the new lease standard, the former exit-disposal cease use liability was reclassified and factored into the initial right-of-use ("ROU") asset impairment calculation.

The financial impact of leases is listed in the tables below:

Balance Sheet	Classification		As of June 30, 2019 (in thousands)
Assets			
ROU Assets(1)	Long-term right-of-use assets	$	75,302
Finance lease assets(2)	Property and equipment		422
Liabilities			
Operating lease liabilities — ST	Current operating lease liabilities	$	19,553
Operating lease liabilities — LT(3)	Long-term operating lease liabilities		75,169
Finance lease liabilities — ST	Current portion of finance lease obligations		421
Finance lease liabilities — LT	Other long term liabilities		129

(1) Net of impairment of $17.9 million.

(2) Net of accumulated amortization of $1.7 million.

(3) The $16.8 million on the consolidated balance sheet as of December 31, 2018 represented long-term lease liabilities in connection with the exit-disposal rules prior to adopting the new lease standard.

Statements of Operations and Cash Flows	Classification	Three months ended June 30, 2019	Six months ended June 30, 2019
		(in thousands)	
Operating lease cost:			
Operating lease cost — fixed	Cost of revenue and Selling, general and administrative	$ 7,091	$ 15,150
Lease abandonment costs	Lease abandonment costs	183	1,256
Short-term agreements:	Cost of revenue	$ 24,914	$ 47,812
Finance lease cost:			
Amortization of leased assets	Depreciation and amortization	$ 523	$ 737
Interest on lease liabilities	Interest expense, net	3	7
Lessor income:			
Sublease income	Cost of sales and lease abandonment costs	$ 390	$ 762
Lessor income	Cost of sales	69	180
Statement of cash flows			
Cash paid for operating leases	Operating cash flows	$ 7,606	$ 15,957
Cash paid for finance leases lease interest	Operating cash flows	3	7
Cash paid for finance leases	Financing cash flows	264	549

Long Term and Discount Rate	As of June 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	4.8
Finance leases	1.3
Weighted-average discount rate	
Operating leases	5.3 %
Finance leases	5.2 %

The Company has the following operating and finance lease commitments as of June 30, 2019:

Period	Operating Leases(1)	Finance Leases	Total
		(in thousands)	
July 2019 through December 2019	$ 14,874	$ 371	$ 15,245
2020	21,852	135	21,987
2021	15,113	89	15,202
2022	11,745	—	11,745
2023	9,985	—	9,985
Thereafter	47,911	—	47,911
Total minimum lease payments	$ 121,480	$ 595	$ 122,075
Less reconciling items to reconcile undiscounted cash flows to lease liabilities:			
Leases commencing in the future	(621)	—	(621)
Short-term leases excluded from balance sheet	(2,785)	—	(2,785)
Imputed interest	(23,352)	(45)	(23,397)
Total reconciling items	(26,758)	(45)	(26,803)
Total liabilities per balance sheet	94,722	550	95,272

(1) This table excludes sublease income of $0.7 million from July 2019 to December 2019, $0.9 million during 2020 and $0.2 million during 2021.

NOTE 6—INVENTORIES

Inventories, which are comprised of chemicals and materials available for resale and parts and consumables used in operations, are valued at the lower of cost and net realizable value, with cost determined under the weighted-average method. The significant components of inventory are as follows:

	June 30, 2019	December 31, 2018
	(in thousands)	
Raw materials	$ 16,685	$ 15,219
Finished goods	22,570	28,540
Materials and supplies	697	1,233
	$ 39,952	$ 44,992

During the Current Quarter, Prior Quarter, Current Period and Prior Period, the Company recorded charges to the reserve for excess and obsolete inventory for $0.1 million, $0.1 million, $0.2 million and $0.4 million, respectively, which were recognized within costs of revenue on the accompanying consolidated statements of operations. The reserve for excess and obsolete inventories is determined based on the Company's historical usage of inventory on hand, as well as future expectations, and the amount necessary to reduce the cost of the inventory to its estimated net realizable value.

NOTE 7—PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
	(in thousands)	
Land	$ 16,030	$ 17,799
Buildings and leasehold improvements	105,220	106,626
Vehicles and equipment	62,046	83,435
Vehicles and equipment - finance lease	1,599	1,833
Machinery and equipment	724,500	758,528
Machinery and equipment - finance lease	202	532
Computer equipment and software	17,044	15,775
Computer equipment and software - finance lease	356	356
Office furniture and equipment	4,614	4,612
Disposal wells	64,321	64,038
Other	497	497
Construction in progress	73,067	60,347
	1,069,496	1,114,378
Less accumulated depreciation(1)	(603,191)	(611,530)
Property and equipment held-for-sale	1,906	—
Total property and equipment, net	$ 468,211	$ 502,848

(1) Includes $1.7 million of accumulated depreciation related to finance leases.

During the Current Quarter, Prior Quarter, Current Period and Prior Period, depreciation expense was $26.8 million, $27.9 million, $56.3 million and $55.4 million, respectively. Depreciation of assets held under finance leases for the Current Quarter, Prior Quarter, Current Period and Prior Period was $0.5 million, $0.3 million, $0.7 million and $0.7 million, respectively, and is included in the totals above and in depreciation and amortization expense in the accompanying consolidated statements of operations.

Property and Equipment Held-for-Sale and Impairments

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the first quarter of 2019, the Company made the decision to sell and wind down certain operations within its former Wellsite Services segment, including the operations of its Affirm subsidiary, its sand hauling operations and its Canadian operations. This decision led us to classify the property and equipment of these business as held-for-sale. All operations have been wound down, with $1.9 million remaining in held-for-sale as of June 30, 2019. The table below shows the property and equipment sold and divested as follows:

Type of sale event	Business	Net Book Value of Property and Equipment Sold or Divested
		(in thousands)
Business divestitures	Affirm subsidiary	$ 11,275
Property and equipment sales	Affirm subsidiary	1,339
Business divestitures	Canadian operations	7,372
Property and equipment sales	Canadian operations	351
Property and equipment sales	Sand hauling operations	2,301
Total property and equipment sold and divested		$ 22,638

During the Current Period, the Company recorded an impairment of $0.9 million of Canadian property and equipment to write down the carrying value based on the expected future sale proceeds. In addition, during the Current Period, the net loss on divestitures and sales of property and equipment held-for-sale was $2.8 million.

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is evaluated for impairment on at least an annual basis, or more frequently if indicators of impairment exist. The annual impairment tests are based on Level 3 inputs (see Note 12). During the first quarter of 2019, the Affirm goodwill was reduced to zero from the crane divestiture and impairment. The $4.4 million of goodwill impairment was based on the expected proceeds from selling and winding down the rest of the Affirm business. Also, in connection with the Company's segment realignment, the Company reallocated goodwill from reporting units in the 2018 Water Solutions segment to reporting units in the 2019 Water Services and Water Infrastructure segments. The changes in the carrying amounts of goodwill by reportable segment as of June 30, 2019 and December 31, 2018 are as follows:

	Oilfield Chemicals	Water Solutions	Wellsite Services	Water Services	Water Infrastructure	Other	Total
				(in thousands)			
Balance as of December 31, 2017	$ 15,637	$ 245,542	$ 12,242	$ —	$ —	$ —	$ 273,421
Additions	—	982	—	—	—	—	982
Impairment	(12,652)	—	(5,242)	—	—	—	(17,894)
Measurement period adjustments	(2,985)	20,277	—	—	—	—	17,292
Balance as of December 31, 2018	—	266,801	7,000	—	—	—	273,801
Resegmentation	—	(266,801)	(7,000)	186,335	80,466	7,000	—
Measurement period adjustments(1)	—	—	—	133	—	—	133
Affirm crane business divestiture	—	—	—	—	—	(2,604)	(2,604)
Affirm impairment	—	—	—	—	—	(4,396)	(4,396)
Balance as of June 30, 2019	$ —	$ —	$ —	$ 186,468	$ 80,466	$ —	$ 266,934

(1) 2019 measurement period adjustment related to the Pro Well working capital settlement. See Note 3.

The components of other intangible assets, net as of June 30, 2019 and December 31, 2018 are as follows:

	As of June 30, 2019			As of December 31, 2018		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
		(in thousands)			(in thousands)	
Definite-lived						
Customer relationships	$ 116,078	$ 15,723	$ 100,355	$ 171,245	$ 66,402	$ 104,843
Patents	10,110	1,918	8,192	10,110	1,417	8,693
Other	7,516	4,098	3,418	7,234	2,866	4,368
Total definite-lived	133,704	21,739	111,965	188,589	70,685	117,904
Indefinite-lived						
Water rights	7,031	—	7,031	7,031	—	7,031
Trademarks	23,442	—	23,442	23,442	—	23,442
Total indefinite-lived	30,473	—	30,473	30,473	—	30,473
Total other intangible assets, net	$ 164,177	$ 21,739	$ 142,438	$ 219,062	$ 70,685	$ 148,377

Amortization expense was $2.9 million, $3.3 million, $5.9 million and $7.2 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. Annual amortization of intangible assets for the next five years and beyond is as follows:

	Amount (in thousands)
Remainder of 2019	$ 5,927
2020	11,561
2021	10,378
2022	10,163
2023	10,092
Thereafter	63,844
	$ 111,965

NOTE 9—DEBT

Credit facility and revolving line of credit

On November 1, 2017, SES Holdings and Select LLC entered into a $300.0 million senior secured revolving credit facility (the "Credit Agreement"), by and among SES Holdings, as parent, Select LLC, as borrower and certain of SES Holdings' subsidiaries, as guarantors, each of the lenders party thereto and Wells Fargo Bank, N.A., as administrative agent, issuing lender and swingline lender (the "Administrative Agent"). The Credit Agreement also has a sublimit of $40.0 million for letters of credit and a sublimit of $30.0 million for swingline loans. Subject to obtaining commitments from existing or new lenders, the Company has the option to increase the maximum amount under the Credit Agreement by $150.0 million during the first three years following the closing. The maturity date of the Credit Agreement is the earlier of (a) November 1, 2022, and (b) the earlier termination in whole of the Commitments pursuant to Section 2.1(b) of Article VII of the Credit Agreement.

The Credit Agreement permits extensions of credit up to the lesser of $300.0 million and a borrowing base that is determined by calculating the amount equal to the sum of (i) 85% of the Eligible Billed Receivables (as defined in the Credit Agreement), plus (ii) 75% of Eligible Unbilled Receivables (as defined in the Credit Agreement), provided that this amount will not equal more than 35% of the borrowing base, plus (iii) the lesser of (A) the product of 70% multiplied by the value of Eligible Inventory (as defined in the Credit Agreement) at such time and (B) the product of 85% multiplied by the Net Recovery Percentage (as defined in the Credit Agreement) identified in the most recent Acceptable Appraisal of Inventory (as defined in the Credit Agreement), multiplied by the value of Eligible Inventory at such time, provided that this amount will not equal more than 30% of the borrowing base, minus (iv) the aggregate amount of Reserves (as defined in the Credit Agreement), if any, established by the Administrative Agent from time to time, including, if any, the amount of the Dilution Reserve (as defined in the Credit Agreement). The borrowing base is calculated on a monthly basis pursuant to a borrowing base certificate delivered by Select LLC to the Administrative Agent.

Borrowings under the Credit Agreement bear interest, at Select LLC's election, at either the (a) one-, two-, three- or six-month LIBOR ("Eurocurrency Rate") or (b) the greatest of (i) the federal funds rate plus 0.5%, (ii) the one-month Eurocurrency Rate plus 1% and (iii) the Administrative Agent's prime rate (the "Base Rate"), in each case plus an applicable margin. Interest is payable monthly in arrears. The applicable margin for Eurocurrency Rate loans ranges from 1.50% to 2.00% and the applicable margin for Base Rate loans ranges from 0.50% to 1.00%, in each case, depending on Select LLC's average excess availability under the Credit Agreement. During the continuance of a bankruptcy event of default, automatically and during the continuance of any other default, upon the Administrative Agent's or the required lenders' election, all outstanding amounts under the Credit Agreement will bear interest at 2.00% plus the otherwise applicable interest rate.

Level	Average Excess Availability	Base Rate Margin	Eurocurrency Rate Margin
I	< 33% of the commitments	1.00%	2.00%
II	< 66.67% of the commitments and ≥ 33.33% of the commitments	0.75%	1.75%
III	≥ 66.67% of the commitments	0.50%	1.50%

Level	Average Revolver Usage	Unused Line Fee Percentage
I	≥ 50% of the commitments	0.250%
II	< 50% of the commitments	0.375%

The obligations under the Credit Agreement are guaranteed by SES Holdings and certain subsidiaries of SES Holdings and Select LLC and secured by a security interest in substantially all of the personal property assets of SES Holdings, Select LLC and their domestic subsidiaries.

The Credit Agreement contains certain customary representations and warranties, affirmative and negative covenants and events of default. If an event of default occurs and is continuing, the lenders may declare all amounts outstanding under the Credit Agreement to be immediately due and payable.

In addition, the Credit Agreement restricts SES Holdings' and Select LLC's ability to make distributions on, or redeem or repurchase, its equity interests, except for certain distributions, including distributions of cash so long as, both at the time of the distribution and after giving effect to the distribution, no default exists under the Credit Agreement and either (a) excess availability at all times during the preceding 30 consecutive days, on a pro forma basis and after giving effect to such distribution, is not less than the greater of (1) 25% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (2) $37.5 million or (b) if SES Holdings' fixed charge coverage ratio is at least 1.0 to 1.0 on a pro forma basis, and excess availability at all times during the preceding 30 consecutive days, on a pro forma basis and after giving effect to such distribution, is not less than the greater of (1) 20% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (2) $30.0 million. Additionally, the Credit Agreement generally permits Select LLC to make distributions to allow Select Inc. to make payments required under the existing Tax Receivable Agreements. See Note 13—Related Party Transactions for further discussion of the Tax Receivable Agreements.

The Credit Agreement also requires SES Holdings to maintain a fixed charge coverage ratio of at least 1.0 to 1.0 at any time availability under the Credit Agreement is less than the greater of (i) 10% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (ii) $15.0 million and continuing through and including the first day after such time that availability under the Credit Agreement has equaled or exceeded the greater of (i) 10% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (ii) $15.0 million for 60 consecutive calendar days.

Certain lenders party to the Credit Agreement and their respective affiliates have from time to time performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for the Company and its affiliates in the ordinary course of business for which they have received and would receive customary compensation. In addition, in the ordinary course of their various business activities, such parties and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investments and securities activities may involve the Company's securities and/or instruments.

The Company had no borrowings and $45.0 million outstanding under the Credit Agreement as of June 30, 2019 and December 31, 2018, respectively. The weighted-average interest rate of outstanding borrowings under the Credit Agreement was 4.256% as of December 31, 2018. As of June 30, 2019 and December 31, 2018, the borrowing base under the Credit Agreement was $256.4 million and $270.5 million, respectively. The borrowing capacity under the Credit Agreement was reduced by outstanding letters of credit of $16.4 million and $20.8 million as of June 30, 2019 and December 31, 2018, respectively. The Company's letters of credit have a variable interest rate between 1.50% and

2.00% based on the Company's average excess availability as outlined above. The unused portion of the available borrowings under the Credit Agreement was $240.0 million as of June 30, 2019.

Debt issuance costs are amortized to interest expense over the life of the debt to which they pertain. Total unamortized debt issuance costs as of June 30, 2019 and December 31, 2018 were $2.3 million and $2.6 million, respectively. As these debt issuance costs relate to a revolving line of credit, they are presented as a deferred charge within other assets on the consolidated balance sheets. Amortization expense related to debt issuance costs was $0.2 million, $0.2 million, $0.3 million and $0.3 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

The Company was in compliance with all debt covenants as of June 30, 2019.

NOTE 10—COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to a number of lawsuits and claims arising out of the normal conduct of its business. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. Based on a consideration of all relevant facts and circumstances, including applicable insurance coverage, it is not expected that the ultimate outcome of any currently pending lawsuits or claims against the Company will have a material adverse effect on its consolidated financial position, results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these matters.

Certain subsidiaries acquired in the Rockwater Merger are under investigation by the U.S. Attorney's Office for the Middle District of Pennsylvania and the U.S. Environmental Protection Agency (the "EPA"). It is alleged that certain employees at some of the facilities altered emissions controls systems on 4% of the vehicles in the fleet in violation of the Clean Air Act. The Company is cooperating with the relevant authorities to resolve the matter. At this time no administrative, civil or criminal charges have been brought against the Company and the Company cannot estimate the possible fines and penalties that may be levied against the Company.

Self-Insured Reserves

We are self-insured up to certain retention limits with respect to workers' compensation, general liability and vehicle liability matters. We maintain accruals for self-insurance retentions that we estimate using third-party data and claims history.

NOTE 11—EQUITY-BASED COMPENSATION

The SES Holdings 2011 Equity Incentive Plan, (“2011 Plan”) was approved by the board of managers of SES Holdings in April 2011. In conjunction with the Select 144A Offering, the Company adopted the Select Energy Services, Inc. 2016 Equity Incentive Plan (as amended, the “2016 Plan”) for employees, consultants and directors of the Company and its affiliates. Options that were outstanding under the 2011 Plan immediately prior to the Select 144A Offering were cancelled in exchange for new options granted under the 2016 Plan.

On July 18, 2017, the Select Inc. board of directors approved the First Amendment to the 2016 Plan (the “Equity Plan Amendment”), which clarifies the treatment of substitute awards under the 2016 Plan (including substitute awards that may be granted in connection with the Rockwater Merger which occurred on November 1, 2017) and allowed for the assumption by the Company of shares eligible under any pre-existing stockholder-approved plan of an entity acquired by the Company or its affiliate (including the Rockwater Energy Solutions Inc. Amended and Restated 2017 Long Term Incentive Plan (the “Rockwater Equity Plan”)), in each case subject to the listing rules of the stock exchange on which the Company’s Class A Common Stock is listed. The effectiveness of the Equity Plan Amendment was subject to approval by the Company's stockholders and the consummation of the transactions contemplated by the Merger Agreement for the Rockwater Merger. The Company’s consenting stockholders, who held a majority of the outstanding common stock of the Company, approved the Equity Plan Amendment on July 18, 2017. The Equity Plan Amendment became effective on November 1, 2017 upon the consummation of the Rockwater Merger. Currently, the maximum number of shares reserved for issuance under the 2016 Plan, taking into account the impact of the Rockwater Merger, is approximately 9.3 million shares. For all share-based compensation award types, the Company accounts for forfeitures as they occur.

Stock option awards

Stock options were granted with an exercise price equal to or greater than the fair market value of a share of Class A Common Stock as of the date of grant. Prior to the Company’s initial public offering on April 26, 2017, the Company historically valued Class A Common Stock on a quarterly basis using a market approach that includes a comparison to publicly traded peer companies using earnings multiples based on their market values and a discount for lack of marketability. This fair value measurement relied on Level 3 inputs. The estimated fair value of its stock options is expensed over their vesting period, which is generally three years from the applicable date of grant. However, certain awards granted during the years ended December 31, 2017 and 2016 in exchange for cancelled awards were immediately vested and fully exercisable on the date of grant because they were either granted in exchange for the cancellation of outstanding options granted under the 2011 Plan or the Rockwater Equity Plan, as applicable, that were fully vested and exercisable prior to such cancellation.

The Company utilized the Monte Carlo option pricing model to determine fair value of the options granted during 2018, which incorporates assumptions to value equity-based awards. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The expected life of the options was based on the vesting period and term of the options awarded, which is ten years.

A summary of the Company’s stock option activity and related information as of and for the Current Period is as follows:

	For the six months ended June 30, 2019			
	Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands) [(a)]
Beginning balance, outstanding	3,865,678	$ 16.00	4.9	$ 19
Granted	—	—		
Exercised	—	—		
Forfeited	(12,459)	17.83		
Expired	(27,303)	22.21		
Ending balance, outstanding	3,825,916	$ 15.95	4.7	$ 2,516
Ending balance, exercisable	3,373,046	$ 15.26	4.3	$ 2,189
Nonvested at end of period	452,870	$ 21.06		

(a) Aggregate intrinsic value for stock options is based on the difference between the exercise price of the stock options and the quoted closing Class A Common Stock price of $11.61 and $6.32 as of June 28, 2019 and December 31, 2018, respectively.

The Company recognized $1.0 million, $1.4 million, $2.3 million and $2.7 million of compensation expense related to stock options during the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. As of June 30, 2019, there was $2.2 million of unrecognized equity-based compensation expense related to nonvested stock options. This cost is expected to be recognized over a weighted-average period of one year.

Restricted Stock Awards and Restricted Stock Units

The value of the restricted stock awards and restricted stock units issued was established by the market price of the Class A Common Stock on the date of grant and is recorded as compensation expense ratably over the vesting term, which is generally one to three years from the applicable date of grant. The Company recognized compensation expense of $2.2 million, $1.2 million, $4.0 million and $2.1 million related to the restricted stock awards and restricted stock units for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. As of June 30, 2019, there was $13.6 million of unrecognized compensation expense with a weighted-average remaining life of 1.6 years related to unvested restricted stock awards and restricted stock units.

A summary of the Company’s restricted stock awards activity and related information for the Current Period is as follows:

	For the six months ended June 30, 2019	
	Restricted Stock Awards	Weighted-average Grant Date Fair Value
Nonvested at December 31, 2018	496,945	$ 19.02
Granted	1,373,930	8.77
Vested	(255,582)	18.80
Forfeited	(8,822)	19.79
Nonvested at June 30, 2019	1,606,471	$ 10.28

A summary of the Company's restricted stock unit activity and related information for the Current Period is as follows:

	For the six months ended June 30, 2019	
	Restricted Stock Units	Weighted-average Grant Date Fair Value
Nonvested at December 31, 2018	2,500	$ 19.00
Granted	—	—
Vested	(1,250)	19.00
Nonvested at June 30, 2019	1,250	$ 19.00

Performance Share Units (PSUs)

During 2018 and 2019, the Company approved grants of performance share units ("PSUs") that are subject to both performance-based and service-based vesting provisions. The number of shares of Class A Common Stock issued to a recipient upon vesting of the PSU will be calculated based on performance against certain metrics that relate to the Company's return on asset performance over the January 1, 2018 through December 31, 2020 and January 1, 2019 through December 31, 2021 performance periods, respectively.

The target number of shares of Class A Common Stock subject to each PSU is one; however, based on the achievement of performance criteria, the number of shares of Class A Common Stock that may be received in settlement of each PSU can range from zero to 1.75 times the target number. The PSUs become earned at the end of the performance period after the attainment of the performance level has been certified by the compensation committee, which will be no later than June 30, 2021 for the 2018 PSU grants, and June 30, 2022 for the 2019 PSU grants, assuming the minimum performance metrics are achieved. The target PSUs that become earned PSUs during the performance period will be determined in accordance with the following table:

Return on Assets at Performance Period End Date	Percentage of Target PSUs Earned
Less than 9.6%	0%
9.6%	50%
12%	100%
14.4%	175%

The grant date fair value of PSUs granted during 2018 was $5.9 million and the grant fair value of PSUs granted during the first half of 2019 was $6.9 million. Compensation expense related to the PSUs is determined by multiplying the number of shares of Class A Common Stock underlying such awards that, based on the Company's estimate, are probable to vest, by the measurement-date (i.e., the last day of each reporting period date) fair value and recognized using the accelerated attribution method. The Company recognized compensation expense of $0.8 million, $0.4 million, $1.7 million and $0.6 million related to the PSUs for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

As of June 30, 2019, the fair value of outstanding PSUs issued was $11.8 million. The unrecognized compensation cost related to our unvested PSUs is estimated to be $8.6 million and is expected to be recognized over a weighted-average period of 1.8 years as of June 30, 2019.

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The following table summarizes the information about the performance share units outstanding as of June 30, 2019:

	Performance Share Units
Nonvested as of December 31, 2018	255,364
Target shares granted	769,741
Target shares vested	—
Target shares forfeited	(9,442)
Target shares outstanding as of June 30, 2019	1,015,663

Stock-Settled Incentive Awards

Effective May 17, 2018, the Company approved grants of stock-settled incentive awards to certain key employees under the 2016 Equity Incentive Plan that are subject to both market-based and service-based vesting provisions. These awards will vest after a two-year service period and, if earned, settled in shares of Class A Common Stock. The ultimate amount earned is based on the achievement of the market metrics, which is based on the stock price of the Class A Common Stock at the vesting date, for which payout could range from 0% to 200%. Any award not earned on the vesting date is forfeited. The target amount that becomes earned during the performance period will be determined in accordance with the following table:

Stock Price at Vesting Date(1)	Percentage of Target Amount Earned
Less than $20.00	0%
At least $20.00, but less than $25.00	100%
$25.00 or greater	200%

(1) The stock price at vesting date equals the greater of (i) the fair market value of a share of the Class A Common Stock on the vesting date, or (ii) the volume weighted average closing price of a share of the Class A Common Stock, as reported on the New York Stock Exchange ("NYSE"), for the 30 trading days preceding the vesting date.

The target amount of stock-settled incentive awards granted was $3.9 million. However, the ultimate settlement of the awards will be in shares of Class A Common Stock with a fair market value equal to the earned amount, which could range from 0% to 200% of the target amount depending on the stock price at vesting date.

Compensation expense associated with the stock-settled incentive awards is recognized ratably over the corresponding requisite service period. The fair value of the stock-settled incentive awards was determined using a Monte Carlo option pricing model, similar to the Black-Scholes-Merton model, and adjusted for the specific characteristics of the awards. The key assumptions in the model included price, the expected volatility of our stock, risk-free interest rate based on U.S. Treasury yield curve, cross-correlations between us and our self-determined peer companies' asset, equity and debt-to-equity volatility.

The Company recognized stock compensation expense of $0.1 million, $0.1 million, $0.3 million and $0.1 million related to the stock-settled incentive awards for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. The unrecognized compensation cost related to our unvested stock-settled incentive awards is estimated to be $0.5 million and is expected to be recognized over approximately 11 months as of June 30, 2019.

The following table summarizes the information about the stock-settled incentive awards outstanding as of June 30, 2019:

	Value at Target	Award Value Being Recognized
Nonvested as of December 31, 2018	$ 3,147	$ 1,202
Granted during 2019	—	—
Forfeited during 2019	(210)	(80)
Nonvested as of June 30, 2019	$ 2,937	$ 1,122

Employee Stock Purchase Plan (ESPP)

We have an Employee Stock Purchase Plan ("ESPP") under which employees that have been continuously employed for at least one year may purchase shares of Class A Common Stock at a discount. The plan provides for four offering periods for purchases: December 1 through February 28, March 1 through May 31, June 1 through August 31 and September 1 through November 30. At the end of each offering period, enrolled employees purchase shares of Class A Common Stock at a price equal to 95% of the market value of the stock on the last day of such offering period. The purchases are made at the end of an offering period with funds accumulated through payroll deductions over the course of the offering period. Subject to limitations set forth in the plan and under IRS regulations, eligible employees may elect to contribute a maximum of $15,000 to the plan in a single calendar year. The plan is deemed to be noncompensatory.

The following table summarizes ESPP activity (in thousands, except shares):

	For the six months ended June 30, 2019
Cash received for shares issued	$ 56
Shares issued	5,667

Share-repurchases

During the Current Quarter and Current Period, the Company repurchased 0 and 82,092 shares, respectively, of Class A Common Stock in the open market and repurchased 26,716 and 70,410 shares, respectively, of Class A Common Stock in connection with employee minimum tax withholding requirements for units vested under the 2016 Plan. All repurchased shares were retired. This was accounted for as a decrease to paid-in-capital of $1.5 million and a decrease to Class A Common Stock of approximately $1,500.

NOTE 12—FAIR VALUE MEASUREMENT

The Company utilizes fair value measurements to measure assets and liabilities in a business combination or assess impairment of property and equipment, intangible assets and goodwill. Fair value is defined as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in an orderly transaction between market participants at the measurement date. Further, ASC 820, Fair Value Measurements, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and includes certain disclosure requirements. Fair value estimates are based on either (i) actual market data or (ii) assumptions that other market participants would use in pricing an asset or liability, including estimates of risk.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

Level 1—Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2—Quoted prices for similar assets or liabilities in non-active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—Inputs that are unobservable and significant to the fair value measurement (including the Company's own assumptions in determining fair value).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers into, or out of, the three levels of the fair value hierarchy for the six months ended June 30, 2019 or the year ended December 31, 2018. The following table presents information about the Company's assets measured at fair value on a non-recurring basis as of June 30, 2019.

	Fair Value Measurements Using			Carrying	
	Level 1	Level 2	Level 3	Value(1)	Impairment
		(in thousands)			
Six Months Ended June 30, 2019					
Affirm goodwill	$ —	$ —	$ —	$ 4,396	$ 4,396
Property and equipment	—	—	4,732	5,625	893

(1) Amount represents carrying value at the date of assessment.

Other fair value considerations

The carrying values of the Company's current financial instruments, which include cash and cash equivalents, accounts receivable trade and accounts payable, approximate their fair value as of June 30, 2019 and December 31, 2018, due to the short-term maturity of these instruments. The carrying value of bank debt as of December 31, 2018 approximated fair value due to variable market rates of interest. The fair value of bank debt as of December 31, 2018, which is a Level 3 measurement, was estimated based on the Company's incremental borrowing rates for similar types of borrowing arrangements, when quoted market prices are not available. The Company did not have any bank debt as of June 30, 2019. The estimated fair values of the Company's financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange. The Affirm goodwill impairment was based on the Company's estimate as of March 31, 2019 of fair value based on the expected proceeds to sell the remaining property and equipment utilizing Level 3 inputs. The property and equipment impairment during the Current Period was based on the expected proceeds from selling a portion of the remaining Canadian property and equipment utilizing Level 3 inputs.

NOTE 13—RELATED-PARTY TRANSACTIONS

The Company considers its related parties to be those stockholders who are beneficial owners of more than 5.0% of its common stock, executive officers, members of its board of directors or immediate family members of any of the foregoing persons and an unconsolidated joint venture. The Company has entered into a number of transactions with related parties. In accordance with the Company’s related persons transactions policy, the audit committee of the Company’s board of directors regularly reviews these transactions; however, the Company’s results of operations may have been different if these transactions were conducted with non-related parties. For more information regarding the Company’s policies and procedures for review of related party transactions, see the Company’s Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders filed with the SEC on March 22, 2019.

During the Current Quarter, sales to related parties were $3.6 million and purchases from related-party vendors were $6.4 million. These purchases consisted of $0.4 million relating to purchases of property and equipment, $5.6 million relating to the rental of certain equipment or other services used in operations and $0.4 million relating to management, consulting and other services.

During the Prior Quarter, sales to related parties were $1.2 million and purchases from related-party vendors were $4.2 million. These purchases consisted of $1.0 million relating to purchases of property and equipment, $2.6 million relating to the rental of certain equipment or other services used in operations and $0.6 million relating to management, consulting and other services.

During the Current Period, sales to related parties were $9.9 million and purchases from related-party vendors were $12.4 million. These purchases consisted of $1.9 million relating to purchases of property and equipment, $9.5 million relating to the rental of certain equipment or other services used in operations and $1.0 million relating to management, consulting and other services.

During the Prior Period, sales to related parties were $3.6 million and purchases from related-party vendors were $7.5 million. These purchases consisted of $2.6 million relating to purchases of property and equipment, $0.2 million relating to inventory and consumables, $3.8 million relating to the rental of certain equipment or other services used in operations and $0.9 million relating to management, consulting and other services.

Tax Receivable Agreements

In connection with the Select 144A Offering, the Company entered into the Tax Receivable Agreements with the TRA Holders.

The first of the Tax Receivable Agreements, which the Company entered into with Legacy Owner Holdco and Crestview Partners II GP, L.P. (“Crestview GP”), generally provides for the payment by the Company to such TRA Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income and franchise tax that the Company actually realizes (computed using simplifying assumptions to address the impact of state and local taxes) or is deemed to realize in certain circumstances in periods after the Select 144A Offering as a result of, as applicable to each such TRA Holder, (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 SES Holdings LLC Units in connection with the Select 144A Offering or pursuant to the exercise of the Exchange Right or the Company’s Call Right and (ii) 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 such Tax Receivable Agreement.

The second of the Tax Receivable Agreements, which the Company entered into with an affiliate of the Contributing Legacy Owners and Crestview GP, generally provides for the payment by the Company to such TRA Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income and franchise tax that the Company actually realizes (computed using simplifying assumptions to address the impact of state and local taxes) or is deemed to realize in certain circumstances in periods after the Select 144A Offering as a result of, as applicable to each such TRA Holder, (i) any net operating losses available to the Company as a result of certain reorganization transactions entered into in connection with the Select 144A Offering and (ii) imputed interest deemed to be paid by the Company as a result of any payments the Company makes under such Tax Receivable Agreement.

On July 18, 2017, the Company's board of directors approved amendments to each of the Tax Receivable Agreements revising the definition of a "change of control" for purposes of the Tax Receivable Agreements and acknowledging that the Rockwater Merger would not result in such a change of control.

NOTE 14—INCOME TAXES

The Company's income tax information is presented in the table below. The effective tax rate is lower than the 21% standard Federal rate due to net income allocated to noncontrolling interests, state income taxes and valuation allowances.

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Current income tax expense	$ 405	$ 160	$ 583	$ 622
Deferred income tax expense (benefit)	166	(10)	166	(10)
Total income tax expense	$ 571	$ 150	$ 749	$ 612
Effective Tax Rate	6.6%	0.6%	7.3%	1.5%

NOTE 15—NONCONTROLLING INTERESTS

The Company's noncontrolling interests fall into two categories as follows:

- Noncontrolling interests attributable to joint ventures formed for water-related services.
- Noncontrolling interests attributable to holders of Class B Common Stock.

	As of June 30, 2019	As of December 31, 2018
	(in thousands)	
Noncontrolling interests attributable to joint ventures formed for water-related services	$ 2,723	$ 3,273
Noncontrolling interests attributable to holders of Class B Common Stock	275,487	274,566
Total noncontrolling interests	$ 278,210	$ 277,839

For all periods presented, there were no changes to Select's ownership interest in joint ventures formed for water-related services. However, during the Current Period and Prior Period, there were changes in Select's ownership interest in SES Holdings LLC. The effects of the changes in Select's ownership interest in SES Holdings LLC is as follows:

	For the six months ended June 30,	
	2019	2018
	(in thousands)	
Net income attributable to Select Energy Services, Inc.	$ 7,335	$ 27,062
Transfers (to) from noncontrolling interests:		
Increase (decrease) in additional paid-in capital as a result of stock option exercises	—	(1)
Increase in additional paid-in capital as a result of restricted stock issuance, net of forfeitures	3,540	2,195
Increase in additional paid-in capital as a result of issuance of common stock due to vesting of restricted stock units	4	104
(Decrease) increase in additional paid-in capital as a result of the repurchase of SES Holdings LLC Units	(25)	74
Increase in additional paid-in capital as a result of exchanges of SES Holdings LLC Units (an equivalent number of shares of Class B Common Stock) for shares of Class A Common Stock	—	111,803
Increase (decrease) in additional paid-in capital as a result of the Employee Stock Purchase Plan shares issued	2	(4)
Change to equity from net income attributable to Select Energy Services, Inc. and transfers from noncontrolling interests	$ 10,856	$ 141,233

NOTE 16—EARNINGS PER SHARE

Earnings per share are based on the amount of income allocated to the shareholders and the weighted-average number of shares outstanding during the period for each class of common stock. Outstanding options to purchase 2,972,967, 1,834,105, 2,976,537 and 1,848,482 shares are not included in the calculation of diluted weighted-average shares outstanding for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively, as the effect is antidilutive.

The following tables present the Company's calculation of basic and diluted earnings per share for the Current and Prior Quarter and the Current and Prior Period (dollars in thousands, except share and per share amounts):

	Three months ended June 30, 2019				Three months ended June 30, 2018			
	Select Energy Services, Inc.	Class A	Class A-2	Class B	Select Energy Services, Inc.	Class A	Class A-2	Class B
Numerator:								
Net income	$ 8,068				$ 25,023			
Net income attributable to noncontrolling interests	(1,868)				(8,060)			
Net income attributable to Select Energy Services, Inc. — basic	6,200	$ 6,200	$ —	$ —	16,963	$ 16,963	$ —	$ —
Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of restricted stock	9	9	—	—	6	6	—	—
Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of stock options	3	3	—	—	22	22	—	—
Net income attributable to Select Energy Services, Inc. — diluted	$ 6,212	$ 6,212	$ —	$ —	$ 16,991	$ 16,991	$ —	$ —
Denominator:								
Weighted-average shares of common stock outstanding — basic		78,544,502	—	26,026,843		71,412,158	—	34,677,182
Dilutive effect of restricted stock		471,542	—	—		71,969	—	—
Dilutive effect of stock options		150,889	—	—		261,582	—	—
Dilutive effect of ESPP		102	—	—		99	—	—
Weighted-average shares of common stock outstanding — diluted		79,167,035	—	26,026,843		71,745,808	—	34,677,182
Earnings per share:								
Basic		$ 0.08	$ —	$ —		$ 0.24	$ —	$ —
Diluted		$ 0.08	$ —	$ —		$ 0.24	$ —	$ —

	Six months ended June 30, 2019				Six months ended June 30, 2018			
	Select Energy Services, Inc.	Class A	Class A-2	Class B	Select Energy Services, Inc.	Class A	Class A-2	Class B
Numerator:								
Net income	$ 9,468				$ 41,155			
Net income attributable to noncontrolling interests	(2,133)				(14,093)			
Net income attributable to Select Energy Services, Inc. — basic	7,335	$ 7,335	$ —	$ —	27,062	$ 25,784	$ 1,278	$ —
Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of restricted stock	8	8	—	—	17	18	(1)	—
Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of stock options	2	2	—	—	49	53	(4)	—
Net income attributable to Select Energy Services, Inc. — diluted	$ 7,345	$ 7,345	$ —	$ —	$ 27,128	$ 25,855	$ 1,273	$ —
Denominator:								
Weighted-average shares of common stock outstanding — basic		78,533,761	—	26,026,843		65,270,048	3,235,746	37,488,964
Dilutive effect of restricted stock		351,780	—	—		118,719	—	—
Dilutive effect of stock options		78,353	—	—		343,127	—	—
Dilutive effect of ESPP		195	—	—		83	—	—
Weighted-average shares of common stock outstanding — diluted		78,964,089	—	26,026,843		65,731,977	3,235,746	37,488,964
Earnings per share:								
Basic		$ 0.09	$ —	$ —		$ 0.40	$ 0.40	$ —
Diluted		$ 0.09	$ —	$ —		$ 0.39	$ 0.39	$ —

NOTE 17—SEGMENT INFORMATION

Select Inc. is an oilfield services company that provides solutions to the onshore oil and natural gas industry in the United States. The Company's services are offered through three operating segments. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the CODM in deciding how to allocate resources and assess performance. The Company's CODM assesses performance and allocates resources on the basis of the three reportable segments. Corporate and other expenses that do not individually meet the criteria for segment reporting are reported separately as Corporate or Other. Each operating segment reflects a reportable segment led by separate managers that report directly to the Company's CODM.

During the first quarter of 2019, the Company made the decision to sell and wind down certain operations within its former Wellsite Services segment, including the operations of its Affirm subsidiary, its sand hauling operations and its Canadian operations. As a result, the Company reevaluated its segment structure and changed its reportable segments to Water Services, Water Infrastructure, and Oilfield Chemicals.

The Company's CODM assesses performance and allocates resources on the basis of the following three reportable segments:

Water Services — The Water Services segment consists of the Company's services businesses including water transfer, flowback and well testing, fluids hauling, containment, and water treatment and water network automation. Additionally, this segment includes the operations of our accommodations and rentals business, which were previously a part of the former Wellsite Services segment.

Water Infrastructure — The Water Infrastructure segment consists of the Company's strategic infrastructure assets and ongoing infrastructure development projects, including operations associated with our water sourcing and pipelines, produced water gathering systems and salt water disposal wells.

Oilfield Chemicals — The Oilfield Chemicals segment develops, manufactures and provides a full suite of chemicals used in hydraulic fracturing, stimulation, cementing and well completions, including polymer slurries, crosslinkers, friction reducers, buffers breakers and other chemical technologies, to leading pressure pumping service companies in the United States. This segment also provides chemicals needed by our customers to increase oil and gas production and lower production costs over the life of a well.

The results of our remaining service lines that were previously a part of the former Wellsite Services segment, including the operations of our Affirm subsidiary, our sand hauling operations and our Canadian operations, are combined in the "Other" category.

Financial information by segment for the Current and Prior Quarter and the Current and Prior Period is as follows:

	For the three months ended June 30, 2019			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water services	$ 202,997	$ 16,234	$ 21,024	$ 9,489
Water infrastructure	51,719	3,202	6,072	11,542
Oilfield chemicals	62,997	4,424	1,747	2,132
Other	9,403	673	—	3
Eliminations	(3,229)	—	—	—
Income from operations		24,533		
Corporate	—	(13,354)	906	—
Interest expense, net	—	(839)	—	—
Other income, net	—	(1,701)	—	—
	$ 323,887	$ 8,639	$ 29,749	$ 23,166

	For the three months ended June 30, 2018			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water services	$ 234,040	$ 27,039	$ 18,947	$ 33,321
Water infrastructure	55,733	7,030	5,219	7,214
Oilfield chemicals	64,842	1,031	2,823	3,424
Other	39,343	911	3,456	1,860
Eliminations	(711)	—	—	—
Income from operations		36,011		
Corporate	—	(11,216)	807	—
Interest expense, net	—	(1,342)	—	—
Other income, net	—	1,720	—	—
	$ 393,247	$ 25,173	$ 31,252	$ 45,819

	For the six months ended June 30, 2019			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water services	$ 423,877	$ 39,894	$ 42,286	$ 22,615
Water infrastructure	105,335	7,003	12,161	28,780
Oilfield chemicals	130,116	6,437	4,200	3,352
Other	33,073	(5,850)	1,714	64
Eliminations	(5,868)	—	—	—
Income from operations		47,484		
Corporate	—	(29,672)	1,906	—
Interest expense, net	—	(1,932)	—	—
Other income, net	—	(5,663)	—	—
	$ 686,533	$ 10,217	$ 62,267	$ 54,811

	For the six months ended June 30, 2018			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water services	$ 452,395	$ 49,757	$ 37,839	$ 51,218
Water infrastructure	109,790	12,779	10,256	14,650
Oilfield chemicals	128,472	1,962	5,738	5,679
Other	80,167	(58)	7,494	5,378
Eliminations	(1,182)	—	—	—
Income from operations		64,440		
Corporate	—	(21,042)	1,348	—
Interest expense, net	—	(2,493)	—	—
Other income, net	—	862	—	—
	$ 769,642	$ 41,767	$ 62,675	$ 76,925

Total assets by segment as of June 30, 2019 and December 31, 2018 is as follows:

	As of June 30, 2019	As of December 31, 2018
	(in thousands)	
Water services	$ 873,107	$ 865,992
Water infrastructure	312,638	250,207
Oilfield chemicals	171,457	173,762
Other	19,975	70,644
	$ 1,377,177	$ 1,360,605

NOTE 18—SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and/or disclosure through August 7, 2019, the date these consolidated financial statements were available to be issued.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report, as well as the historical consolidated financial statements and notes thereto included in our 2018 Form 10-K. This discussion and analysis contains forward-looking statements based upon our current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors as described under "Cautionary Note Regarding Forward-Looking Statements."

This discussion relates to the three and six months ended June 30, 2019 (the "Current Quarter" and the "Current Period", respectively) and the three and six months ended June 30, 2018 (the "Prior Quarter" and the "Prior Period", respectively).

Overview

We are a leading provider of water-management solutions to the oil and gas industry in the United States ("U.S."). We also develop, manufacture and deliver chemical solutions for use in oil and gas well completions and production operations. Within the major shale plays in the U.S., we believe we are a market leader in water sourcing, water transfer (both by permanent pipeline and temporary hose) and temporary water containment prior to its use in drilling and completion activities associated with hydraulic fracture stimulation or "fracking," which we refer to collectively as "pre-frac water services". In addition, we provide testing and flowback services immediately following the well completion. In most of our areas of operations, we also provide additional complementary water-related services that support oil and gas well completion and production activities, including water network automation, treatment, hauling, water recycling and disposal. We also manufacture a full suite of specialty chemicals used in the fracturing process, and we provide chemicals needed by our customers to increase oil and gas production and lower production costs over the life of a well. We believe we are the only company in the oilfield services industry that combines full life cycle water-management services with the ability to develop and provide related chemical products.

Our operations have benefited from the investments and acquisitions we have made, and we continue to invest both in our existing business and in new infrastructure and technology. When evaluating new investment decisions, we prioritize high returns on long-lived assets where applicable. One way we do this is through margin-enhancing capital expenditures, which often comprises upgrading or automating equipment in order to increase margin realization from those assets. One example of this type of investment is replacing conventional water transfer pumps with automated pumps, which lowers labor costs, increases reliability and improves environmental safeguards for our customers. Another area of focus is longer-lived infrastructure assets in areas we believe will experience consistently high levels of completion activity. We have successfully executed these types of investments both in the Bakken, through our fixed infrastructure investments there, through our GRR Acquisition in the northern Delaware Basin and with our recently announced northern Delaware Basin pipeline project. Additionally, as market opportunities continue to grow for treating and re-using produced water for new well completions, we are also focused on developing and expanding our production-related services including our existing produced water gathering infrastructure to help manage growing produced water volumes. The quality of water used for a well completion directly impacts the completion chemicals that are used in the frac fluid system. Our knowledge and expertise related to treatment, recycling and frac fluid chemistry allows us to provide our customers with sustainable solutions across a range of various water attributes.

For our Oilfield Chemicals segment, the opening of our Midland Friction Reducer production line has saved us freight and logistics cost relative to shipping this high-volume product out of our Tyler, Texas production facility. We continue to make investments in driving operational efficiencies with our in-basin manufacturing that will continue to reduce unnecessary logistics and freight cost, making us more competitive and more nimble to our customers. The trend of increased use of produced water may require additional chemical treatment solutions, which we are well positioned to provide given our water treatment capabilities.

We have executed these acquisitions and investments within the context of a steadily improving balance sheet. As of June 30, 2019, we have no outstanding bank debt and a net cash position. We prioritize sustained positive free cash flow and a strong balance sheet, and evaluate potential acquisitions and investments in the context of those priorities, in addition to the economics of the opportunity. We believe this approach provides the Company with additional flexibility to evaluate larger investments as well as improved resilience in a sustained downturn versus many of our peers.

Going forward, we may pursue selected acquisitions of complementary assets, businesses and technologies, and believe we are well positioned to capture attractive opportunities due to our market position, customer and landowner relationships and industry experience and expertise.

Our Segments

Our services are offered through three operating segments: (i) Water Services; (ii) Water Infrastructure; and (iii) Oilfield Chemicals.

- *Water Services.* The Water Services segment consists of the Company's services businesses including water transfer, flowback and well testing, fluids hauling, containment, and water treatment and water network automation, primarily serving E&P companies. Additionally, this segment includes the operations of our accommodations and rentals business, which were previously a part of our former Wellsite Services segment.

- *Water Infrastructure.* The Water Infrastructure segment consists of the Company's strategic infrastructure assets and ongoing infrastructure development projects, including operations associated with our water sourcing and pipelines, produced water gathering systems and salt water disposal wells, primarily serving E&P companies.

- *Oilfield Chemicals.* The Oilfield Chemicals segment develops, manufactures and provides a full suite of chemicals used in hydraulic fracturing, stimulation, cementing and well completions, including polymer slurries, crosslinkers, friction reducers, buffers breakers and other chemical technologies, to leading pressure pumping service companies in the United States. This segment also provides chemicals needed by our customers to increase oil and gas production and lower production costs over the life of a well.

The results of our remaining service lines that were previously a part of our former Wellsite Services segment including the operations of our Affirm subsidiary, our sand hauling operations and our Canadian operations are combined in the "Other" category. As of June 30, 2019, these operations have ceased, and we do not expect regular recurring revenue going forward from this segment.

How We Generate Revenue

We currently generate most of our revenue through our water-management services associated with hydraulic fracturing, provided through our Water Services and Water Infrastructure segments. We generate the majority of our revenue through customer agreements with fixed pricing terms and earn revenue when delivery of services is provided, generally at our customers' sites. While we have some long-term pricing arrangements, particularly in our Water Infrastructure segment, most of our water and water-related services are priced based on prevailing market conditions, giving due consideration to the specific requirements of the customer.

We also generate revenue by providing completion, specialty chemicals and production chemicals through our Oilfield Chemicals segment. We invoice the majority of our Oilfield Chemicals customers for services provided based on the quantity of chemicals used or pursuant to short-term contracts as the customer's needs arise.

Costs of Conducting Our Business

The principal expenses involved in conducting our business are labor costs, equipment costs (including depreciation, repair, rental and maintenance and leasing costs), raw materials and water sourcing costs and fuel costs. Our fixed costs are relatively low. Most of the costs of serving our customers are variable, i.e., they are only incurred when we provide water and water-related services, or chemicals and chemical-related services to our customers.

Labor costs associated with our employees and contract labor represent the most significant costs of our business. We incurred labor and labor-related costs of $122.6 million, $140.0 million, $264.7 million and $278.9 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. The majority of our recurring labor costs are variable and are incurred only while we are providing our operational services. We also incur costs to employ personnel to sell and supervise our services and perform maintenance on our assets, which is not directly tied to our level of business activity. Additionally, we incur selling, general and administrative costs for compensation of our administrative personnel at our field sites and in our operational and corporate headquarters. In light of the challenging activity and pricing trends, management has taken direct action during the Current Quarter to reduce operating and equipment costs, as well as selling, general and administrative costs, in order to proactively manage these expenses as a percentage of revenue.

We incur significant equipment costs in connection with the operation of our business, including depreciation, repair and maintenance, rental and leasing costs. We incurred equipment costs of $61.6 million, $71.1 million, $127.6 million and $139.8 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

We incur significant transportation costs associated with our service lines, including fuel and freight. We incurred fuel and freight costs of $20.2 million, $24.5 million, $42.5 million and $47.3 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. Fuel prices impact our transportation costs, which affect the pricing and demand for our services and have an impact on our results of operations.

We incur raw material costs in manufacturing our chemical products, as well as for water that we source for our customers. We incurred raw material costs of $66.0 million, $69.3 million, $136.3 million and $137.8 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

Industry Overview

During the Current Quarter, the average spot price of West Texas Intermediate (“WTI”) (Cushing) crude oil was $59.88 versus an average price of $68.07 for the Prior Quarter. The average Henry Hub natural gas spot price during the Current Quarter was $2.56 versus an average of $2.86 for the Prior Quarter. The decline in oil and gas prices in the Current Quarter relative to the Prior Quarter has negatively impacted the pace of completions activity in 2019, relative to the Prior Period. Though oil prices have modestly recovered in recent months, many operators prepared and announced their capital budgets during a period of lower prices. With most operators appearing to prioritize free cash flow over production growth at this time, we do not see much potential upside in activity from Current Quarter levels for the second half of 2019. Additionally, capital markets, especially the IPO market, do not appear favorably disposed towards the Oil & Gas industry at this time. While we believe that the current oil prices and production profiles could lead to increased operator cash flow and additional activity in the future, current indications lead us not to anticipate large incremental sums of capital potentially entering the market to create higher demand for our services over the course of 2019.

While we cannot predict the future direction of oil or natural gas prices, our discussions with customers and the improving financial metrics of many U.S. onshore-focused operators lead us to believe that current price levels support significant capital investment by our customers over the longer term to maintain and grow oil and gas production from U.S. onshore resources. Additionally, the high rate of decline of U.S. onshore unconventional resources requires significant ongoing investment just to maintain production levels.

Trends beyond oil and natural gas prices present both support and challenges. While we believe leading-edge lateral lengths and proppant use are plateauing, the average operator continues to catch up to this leading edge. The continued trend towards multi-well pad development, executed within a limited time frame, has increased the overall complexity of well completions, while increasing frac efficiency and the use of lower cost in-basin sand have decreased total costs for our customers. This multi-well pad development, combined with recent upstream acreage consolidation and the emerging trends around the reuse applications of produced water, particularly in the Permian, provides significant opportunity for companies like us that can deliver increasingly complex solutions for our E&P customers across the full completion and production lifecycle of wells. We note the continued efficiency gains in the well completions process can limit the days we spend on the wellsite and therefore negatively impact the total revenue opportunity.

The trend of increased use of produced water may require additional chemical treatment solutions, which we are well positioned to provide given our water treatment capabilities and our knowledge base within our Oilfield Chemicals segment. Additionally, this trend supports more complex “on the fly” solutions that treat, proportion, and blend various streams of water and chemicals at the wellsite. This complexity favors service companies able to provide advanced technology solutions.

How We Evaluate Our Operations

We use a variety of operational and financial metrics to assess our performance. Among other measures, management considers each of the following:

- Revenue;
- Gross Profit;
- Gross Margins;
- EBITDA; and
- Adjusted EBITDA.

Revenue

We analyze our revenue and assess our performance by comparing actual monthly revenue to our internal projections and across periods. We also assess incremental changes in revenue compared to incremental changes in direct operating costs, and selling, general and administrative expenses across our operating segments to identify potential areas for improvement, as well as to determine whether segments are meeting management’s expectations.

Gross Profit

To measure our financial performance, we analyze our gross profit, which we define as revenues less direct operating expenses (including depreciation and amortization expenses). We believe gross profit provides insight into profitability and true operating performance of our assets. We also compare gross profit to prior periods and across segments to identify trends as well as underperforming segments.

Gross Margins

Gross margins provide an important gauge of how effective we are at converting revenue into profits. This metric works in tandem with gross profit to ensure that we do not increase gross profit at the expense of lower margins, thus decreasing our return on capital employed, nor pursue higher gross margins exclusively at the expense of declining gross profits. We track gross margins by segment and service line and compare them across prior periods and across segments and service lines to identify trends as well as underperforming segments.

EBITDA and Adjusted EBITDA

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income/(loss), plus interest expense, income taxes, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus/(minus) loss/(income) from discontinued operations, plus any impairment charges or asset write-offs pursuant to GAAP, plus/(minus) non-cash losses/(gains) on the sale of assets or subsidiaries, non-recurring compensation expense, non-cash compensation expense, and non-recurring or unusual expenses or charges, including severance expenses, transaction costs, or facilities-related exit and disposal-related expenditures, plus/(minus) foreign currency losses/(gains) and plus any inventory write-downs. See "—Note Regarding Non-GAAP Financial Measures —EBITDA and Adjusted EBITDA" for more information and a reconciliation of EBITDA and Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP.

Factors Affecting the Comparability of Our Results of Operations to Our Historical Results of Operations

Our future results of operations may not be comparable to our historical results of operations for the periods presented, primarily for the reasons described below.

Acquisition and Divestiture Activity

As described above, we are continuously evaluating potential investments, particularly in water infrastructure and other water-related services and technology. To the extent we consummate acquisitions, any incremental revenues or expenses from such transactions are not included in our historical results of operations.

Pro Well Acquisition

On November 20, 2018, we completed our acquisition of the assets of Pro Well Testing and Wireline, Inc. ("Pro Well"). Our historical financial statements for periods prior to November 20, 2018 do not include the results of operations of Pro Well.

Affirm Divestitures

We sold the Affirm crane and field services businesses on February 26, 2019 and June 28, 2019, respectively. We wound down the rest of Affirm during the Current Quarter. Affirm accounted for $58.9 million of revenue during 2018. Following the two divestitures, the divested operations were not included in the consolidated results of operations.

Canadian Operations Divestitures

On March 19, 2019, we sold over half of our Canadian operations which accounted for approximately $40.0 million of annual revenue during 2018. On April 1, 2019, we sold and wound down the rest of the Canadian operations which accounted for approximately $8.6 million of annual revenue during 2018. Following the divestitures, the divested Canadian operations were not included in the consolidated results of operations.

Sand Hauling Wind Down

During the Current Period, we wound down our sand hauling operations and sold certain of our sand hauling property and equipment. Sand hauling accounted for $37.0 million of annual revenue during 2018.

Proceeds received from Divestitures and Wind Down

During the Current Period, we received $30.1 million from divestitures and fixed asset sale activity in connection with the sale and wind down of our Affirm subsidiary and the sand hauling and Canadian operations.

Impact of Industry Conditions on Our Operating Results

Demand for oilfield services depends substantially on drilling, completion and production activity by E&P companies, which, in turn, depends largely upon the current and anticipated profitability of developing oil and natural gas reserves. Our business is directly affected by our customers' capital spending to develop and produce oil and gas in the United States. The significant decline in oil and gas prices that began in the fourth quarter of 2014 caused a reduction in the development activities of most of our customers and their spending on our services in 2015 and 2016, which led to a reduction in the rates we were able to charge and the utilization of our assets. In 2017 and through the third quarter of 2018, our clients steadily increased their spending as compared to 2016 levels as oil prices generally recovered; however, in the fourth quarter of 2018, we experienced a pullback in spending by our customers, driven by a decline in oil prices and seasonal factors. While oil prices have since improved, customers have prioritized spending within their cash flows and capital budgets, and additional volatility or declines could result in our customers cancelling or curtailing their spending on our services. In the discussion of our operating results below, we reference the fluctuations in industry conditions in connection with certain changes in our results of operations.

Results of Operations

The following tables set forth our results of operations for the periods presented, including revenue by segment.

Current Quarter Compared to the Prior Quarter

	Three months ended June 30,		Change	
	2019	2018	Dollars	Percentage
	(in thousands)			
Revenue				
Water services	$ 202,011	$ 233,954	$ (31,943)	(13.7)%
Water infrastructure	51,710	55,727	(4,017)	(7.2)%
Oilfield chemicals	63,001	64,807	(1,806)	(2.8)%
Other	7,165	38,759	(31,594)	(81.5)%
Total revenue	323,887	393,247	(69,360)	(17.6)%
Costs of revenue				
Water services	155,151	176,571	(21,420)	(12.1)%
Water infrastructure	38,456	37,884	572	1.5 %
Oilfield chemicals	54,051	58,500	(4,449)	(7.6)%
Other	7,447	33,119	(25,672)	(77.5)%
Depreciation and amortization	28,843	30,445	(1,602)	(5.3)%
Total costs of revenue	283,948	336,519	(52,571)	(15.6)%
Gross profit	39,939	56,728	(16,789)	(29.6)%
Operating expenses				
Selling, general and administrative	27,297	26,871	426	1.6 %
Depreciation and amortization	906	807	99	12.3 %
Impairment of property and equipment	374	2,282	(1,908)	NM
Lease abandonment costs	183	1,973	(1,790)	(90.7)%
Total operating expenses	28,760	31,933	(3,173)	(9.9)%
Income from operations	11,179	24,795	(13,616)	(54.9)%
Other income (expense)				
(Losses) gains on sales of property and equipment, net	(1,709)	2,056	(3,765)	NM
Interest expense, net	(839)	(1,342)	503	(37.5)%
Foreign currency gain (loss), net	67	(340)	407	NM
Other (expense) income, net	(59)	4	(63)	NM
Income before income tax expense	8,639	25,173	(16,534)	(65.7)%
Income tax expense	(571)	(150)	(421)	NM
Net income	$ 8,068	$ 25,023	$ (16,955)	(67.8)%

Revenue

Our revenue decreased $69.4 million, or 17.6%, to $323.9 million for the Current Quarter compared to $393.2 million for the Prior Quarter. The decrease was driven by $31.6 million lower revenue from the combination of our Affirm subsidiary, sand hauling operations and Canadian operations, all of which were fully divested and wound down during the Current Period. Also impacting the decrease was $31.9 million of lower Water Services revenue, $4.0 million of lower Water Infrastructure revenue and $1.8 million of lower Oilfield Chemicals revenue discussed below. For the Current Quarter, our Water Services, Water Infrastructure, Oilfield Chemicals and Other segments constituted 62.4%, 16.0%, 19.4% and 2.2% of our total revenue, respectively, compared to 59.5%, 14.2%, 16.5%, and 9.8%, respectively, for the Prior Quarter. The 2018 adoption of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers,* did not have a material impact on revenue recognition. The revenue decrease by operating segment were as follows:

Water Services. Revenue decreased $31.9 million, or 13.7%, to $202.0 million for the Current Quarter compared to $234.0 million for the Prior Quarter. The decrease was primarily attributable to reduced activity and pricing pressures in our water transfer business.

Water Infrastructure. Revenue decreased by $4.0 million, or 7.2%, to $51.7 million for the Current Quarter compared to $55.7 million for the Prior Quarter, primarily due to reduced activity on our Bakken pipeline system, partially offset by increased revenues in the Permian.

Oilfield Chemicals. Revenue decreased $1.8 million, or 2.8%, to $63.0 million for the Current Quarter compared to $64.8 million for the Prior Quarter, primarily due to reduced demand for guar-based frac fluid systems, partially offset by increased friction reducer sales.

Other. Other revenue decreased $31.6 million, or 81.5%, to $7.2 million for the Current Quarter compared to $38.8 million in the Prior Quarter as our Affirm subsidiary, sand hauling operations and Canadian operations were divested and wound down as of June 30, 2019.

Costs of Revenue

Costs of revenue decreased $52.6 million, or 15.6%, to $283.9 million for the Current Quarter compared to $336.5 million for the Prior Quarter. The decrease was primarily due to $25.7 million lower combined costs from our Affirm subsidiary, sand hauling operations and Canadian operations, all of which were divested and wound down during the Current Period. Also impacting the decrease were $21.4 million lower Water Services costs, $4.4 million lower Oilfield Chemicals costs and $1.6 million lower depreciation costs further discussed below.

Water Services. Cost of revenue decreased $21.4 million, or 12.1%, to $155.2 million for the Current Quarter compared to $176.6 million for the Prior Quarter. Cost of revenue as a percent of revenue increased from 75.5% to 76.8% due to pricing pressures we could not fully offset with cost reductions.

Water Infrastructure. Cost of revenue increased $0.6 million, or 1.5%, to $38.5 million for the Current Quarter compared to $37.9 million for the Prior Quarter. Cost of revenue as a percent of revenue increased from 68.0% to 74.4% primarily due to a decline in contribution from our high-margin Bakken pipeline system.

Oilfield Chemicals. Costs of revenue decreased $4.4 million, or 7.6%, to $54.1 million for the Current Quarter compared to $58.5 million for the Prior Quarter. Cost of revenue as a percent of revenue decreased from 90.3% to 85.8% due primarily to freight cost savings from our Midland, Texas plant.

Other. Other costs decreased $25.7 million, or 77.5%, to $7.4 million for the Current Quarter compared to $33.1 million in the Prior Quarter primarily due to the divestitures discussed above.

Depreciation and Amortization. Depreciation and amortization expense decreased $1.6 million, or 5.3%, to $28.8 million for the Current Quarter compared to $30.4 million for the Prior Quarter, primarily due to the divestitures discussed above.

Gross Profit

Gross profit decreased by $16.8 million, or 29.6%, to a gross profit of $39.9 million for the Current Quarter compared to a gross profit of $56.7 million for the Prior Quarter primarily due to a $10.5 million decrease in Water Services gross profit stemming from lower revenue, $5.9 million lower gross profit from the combination of our Affirm subsidiary, sand hauling operations and Canadian operations, all of which were divested and wound down during the Current Period, and a $4.6 million decrease to Water Infrastructure gross profit due to lower revenue and slightly higher costs. This was partially offset by $2.6 million higher Oilfield Chemicals gross profit and $1.6 million lower depreciation expense. Gross margin as a percent of revenue was 12.3% and 14.4% in the Current Quarter and Prior Quarter, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $0.4 million, or 1.6%, to $27.3 million for the Current Quarter compared to $26.9 million for the Prior Quarter.

Lease Abandonment Costs

Lease abandonment costs were $0.2 million and $2.0 million in the Current Quarter and Prior Quarter, respectively. During the Current Quarter, lease abandonment costs primarily related to the wind-down of impaired right-of-use assets from previously abandoned properties, partially offset by sublease income. The Prior Quarter costs were primarily due to excess facility capacity stemming from the Rockwater Merger.

Net Interest Expense

Net interest expense decreased by $0.5 million, or 37.5%, to $0.8 million during the Current Quarter compared to $1.3 million in the Prior Quarter primarily due to lower average borrowings due to paying down our debt.

Net Income

Net income decreased by $17.0 million, or 67.8%, to net income of $8.1 million for the Current Quarter compared to net income of $25.0 million for the Prior Quarter primarily due to lower Water Services and Water Infrastructure revenue, higher relative Water Infrastructure costs, and lower gross profit from the combination of our Affirm subsidiary, sand hauling operations and Canadian operations, as discussed above. This was partially offset by lower lease abandonment costs, lower interest expense and lower impairment expense.

Current Period Compared to the Prior Period

	Six months ended June 30, 2019	Six months ended June 30, 2018	Change Dollars	Change Percentage
	(in thousands)			
Revenue				
Water services	$ 422,606	$ 452,184	$ (29,578)	(6.5)%
Water infrastructure	105,326	109,784	(4,458)	(4.1)%
Oilfield chemicals	129,830	128,437	1,393	1.1 %
Other	28,771	79,237	(50,466)	(63.7)%
Total revenue	686,533	769,642	(83,109)	(10.8)%
Costs of revenue				
Water services	318,272	341,201	(22,929)	(6.7)%
Water infrastructure	79,886	77,980	1,906	2.4 %
Oilfield chemicals	113,578	115,584	(2,006)	(1.7)%
Other	28,500	68,873	(40,373)	(58.6)%
Depreciation and amortization	60,361	61,327	(966)	(1.6)%
Total costs of revenue	600,597	664,965	(64,368)	(9.7)%
Gross profit	85,936	104,677	(18,741)	(17.9)%
Operating expenses				
Selling, general and administrative	59,673	52,552	7,121	13.6 %
Depreciation and amortization	1,906	1,348	558	41.4 %
Impairment of goodwill	4,396	—	4,396	NM
Impairment of property and equipment	893	2,282	(1,389)	NM
Impairment of cost-method investment	—	2,000	(2,000)	NM
Lease abandonment costs	1,256	3,097	(1,841)	(59.4)%
Total operating expenses	68,124	61,279	6,845	11.2 %
Income from operations	17,812	43,398	(25,586)	(59.0)%
Other income (expense)				
(Losses) gains on sales of property and equipment, net	(6,200)	1,502	(7,702)	NM
Interest expense, net	(1,932)	(2,493)	561	(22.5)%
Foreign currency gain (loss), net	327	(740)	1,067	NM
Other income, net	210	100	110	NM
Income before income tax expense	10,217	41,767	(31,550)	(75.5)%
Income tax expense	(749)	(612)	(137)	NM
Net income	$ 9,468	$ 41,155	$ (31,687)	(77.0)%

Revenue

Our revenue decreased $83.1 million, or 10.8%, to $686.5 million for the Current Period compared to $769.6 million for the Prior Period. The decrease was primarily due to $50.5 million lower revenue from the combination of our Affirm subsidiary, sand hauling operations and Canadian operations, all of which were fully divested and wound down during the Current Period. Also impacting the change was $29.6 million lower Water Services revenue and $4.5 million lower Water Infrastructure revenue, partially offset by slightly higher Oilfield Chemicals revenue discussed below. For the Current Period, our Water Services, Water Infrastructure, Oilfield Chemicals and Other segments constituted 61.6%, 15.3%, 18.9% and 4.2% of our total revenue, respectively, compared to 58.7%, 14.3%, 16.7%, and 10.3%, respectively, for the Prior Period. The 2018 adoption of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers,* did not have a material impact on revenue recognition. The revenue variances by operating segment were as follows:

Water Services. Revenue decreased $29.6 million, or 6.5%, to $422.6 million for the Current Period compared to $452.2 million for the Prior Period. The decrease was primarily due to lower water transfer and fluids hauling revenue primarily attributable to reduced activity and pricing pressure, partially offset by increases in revenues from flowback and well testing, rentals and containment.

Water Infrastructure. Revenue decreased by $4.5 million, or 4.1%, to $105.3 million for the Current Period compared to $109.8 million for the Prior Period, primarily due to reduced activity on our Bakken pipeline system.

Oilfield Chemicals. Revenue increased $1.4 million, or 1.1%, to $129.8 million for the Current Period compared to $128.4 million for the Prior Period, primarily due to higher friction reducer sales stemming from larger manufacturing capacity from our Midland, Texas plant, which more than offset the declining sale of guar related products.

Other. Other revenue decreased $50.5 million, or 63.7%, to $28.8 million for the Current Period compared to $79.2 million in the Prior Period as our Affirm subsidiary, sand hauling operations and Canadian operations were divested and wound down.

Costs of Revenue

Costs of revenue decreased $64.4 million, or 9.7%, to $600.6 million for the Current Period compared to $665.0 million for the Prior Period. The decrease was primarily due to $40.4 million lower costs from the combination of our Affirm subsidiary, sand hauling operations and Canadian operations, all of which were divested and wound down during the Current Period. Also impacting the decrease was $22.9 million lower Water Services costs, primarily due to aligning our cost structure to lower revenue, further discussed below.

Water Services. Cost of revenue decreased $22.9 million, or 6.7%, to $318.3 million for the Current Period compared to $341.2 million for the Prior Period. Cost of revenue as a percent of revenue was relatively flat, moving from 75.5% to 75.3%.

Water Infrastructure. Cost of revenue increased $1.9 million, or 2.4%, to $79.9 million for the Current Period compared to $78.0 million for the Prior Period. Cost of revenue as a percent of revenue increased from 71.0% to 75.8% primarily due to a decline in contribution from our high-margin Bakken pipeline system.

Oilfield Chemicals. Costs of revenue decreased $2.0 million, or 1.7%, to $113.6 million for the Current Period compared to $115.6 million for the Prior Period. Cost of revenue as a percent of revenue decreased from 90.0% to 87.5% due primarily to freight cost-savings from our Midland, Texas plant.

Other. Other costs decreased $40.4 million, or 58.6%, to $28.5 million for the Current Period compared to $68.9 million in the Prior Period, primarily due to the divestitures discussed above.

Depreciation and Amortization. Depreciation and amortization expense decreased $1.0 million, or 1.6%, to $60.4 million for the Current Period compared to $61.3 million for the Prior Period.

Gross Profit

Gross profit decreased by $18.7 million, or 17.9%, to a gross profit of $85.9 million for the Current Period compared to a gross profit of $104.7 million for the Prior Period, primarily due to $10.1 million lower gross profit from the combination of our Affirm subsidiary, sand hauling operations and Canadian operations, all of which were divested and wound down during the Current Period. Also impacting the decrease was $6.6 million lower gross profit from Water Services and $6.4 million lower gross profit from Water Infrastructure discussed above. These were partially offset by $3.4 million higher gross profit from Oilfield Chemicals and $1.0 million lower depreciation costs discussed above. Gross margin as a percent of revenue was 12.5% and 13.6% in the Current Period and Prior Period, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $7.1 million, or 13.6%, to $59.7 million for the Current Period compared to $52.6 million for the Prior Period. The increase was primarily driven by increased equity incentive plan costs and severance expense in connection with the divestitures.

Lease Abandonment Costs

Lease abandonment costs were $1.3 million and $3.1 million in the Current Period and Prior Period, respectively. The Current Period costs were primarily due to Canadian lease terminations in connection with divesting and winding down the Canadian business. The Prior Period costs were primarily due to excess facility capacity stemming from the Rockwater Merger.

Net Interest Expense

Net interest expense decreased by $0.6 million, or 22.5%, to $1.9 million during the Current Period compared to $2.5 million in the Prior Period, primarily due to lower average borrowings.

Net Income

Net income decreased by $31.7 million, or 77.0%, to net income of $9.5 million for the Current Period compared to net income of $41.2 million for the Prior Period, primarily due to $18.7 million lower gross profit stemming from divestitures and lower revenue discussed above, $7.7 million higher losses on sales of property and equipment, net and $7.1 million higher selling, general and administrative costs discussed above, partially offset by $1.8 million lower lease abandonment costs discussed above.

Comparison of Non-GAAP Financial Measures

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income (loss), plus interest expense, income taxes, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus/(minus) loss/(income) from discontinued operations, plus any impairment charges or asset write-offs pursuant to GAAP, plus/(minus) non-cash losses/(gains) on the sale of assets or subsidiaries, non-recurring compensation expense, non-cash compensation expense, and non-recurring or unusual expenses or charges, including severance expenses, transaction costs, or facilities-related exit and disposal-related expenditures, plus/(minus) foreign currency losses/(gains) and plus any inventory write-downs.

Our board of directors, management and investors use EBITDA and Adjusted EBITDA to assess our financial performance because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP.

Note Regarding Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations. Net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as an analytical tool due to exclusion of some but not all items that affect the most directly comparable GAAP financial measures. One should not consider EBITDA or Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility. For further discussion, please see "Item 6. Selected Financial Data" in our 2018 Form 10-K.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net income, which is the most directly comparable GAAP measure for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income	$ 8,068	$ 25,023	$ 9,468	$ 41,155
Interest expense	839	1,342	1,932	2,493
Income tax expense	571	150	749	612
Depreciation and amortization	29,749	31,252	62,267	62,675
EBITDA	39,227	57,767	74,416	106,935
Impairment of goodwill	—	—	4,396	—
Impairment of property and equipment	374	2,282	893	2,282
Impairment of cost-method investment	—	—	—	2,000
Lease abandonment costs	183	1,973	1,256	3,097
Non-recurring severance expenses(1)	—	—	1,680	—
Non-recurring transaction costs(2)	412	2,481	1,074	5,175
Non-cash compensation expenses	4,129	2,984	8,308	5,465
Non-cash loss on sale of assets or subsidiaries	7,314	249	13,220	1,764
Foreign currency (gain) loss	(67)	340	(327)	740
Inventory write-down	—	128	75	394
Adjusted EBITDA	$ 51,572	$ 68,204	$ 104,991	$ 127,852

(1) These costs are due to severance payments in connection with the dissolution of our former Wellsite Services segment.

(2) For 2018, these costs were primarily related to rebranding as a result of the Rockwater Merger.

EBITDA was $39.2 million for the Current Quarter compared to $57.8 million for the Prior Quarter. The $18.6 million decrease in EBITDA was primarily driven by a decrease of $10.5 million in Water Services gross profit, a decrease of $4.6 million in Water Infrastructure gross profit and a decrease of $5.9 million in gross profit from the operations being divested and wound down, partially offset by an increase of $2.6 million in Oilfield Chemicals gross profit. Adjusted EBITDA was $51.6 million for the Current Quarter compared to $68.2 million for the Prior Quarter. The $16.6 million decrease is primarily attributable to the items discussed above.

EBITDA was $74.4 million for the Current Period compared to $106.9 million for the Prior Period. The $32.5 million decrease in EBITDA was primarily driven by a decrease of $6.6 million in Water Services gross profit, a decrease of $6.4 million in Water Infrastructure gross profit, a decrease of $10.1 million in gross profit from the operations being divested and wound down and an increase in selling, general and administrative costs of $7.1 million, partially offset by an increase of $3.4 million in Oilfield Chemicals gross profit. Adjusted EBITDA was $105.0 million for the Current Period compared to $127.9 million for the Prior Period. The $22.9 million decrease in Adjusted EBITDA was primarily due to the $32.5 million decrease in EBITDA discussed above partially offset by an $11.5 million increase in non-cash losses on sales of assets or subsidiaries.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity to date have been capital contributions from our members, the net proceeds from the Select 144A Offering, the net proceeds from the IPO, borrowing capacity under our current Credit Agreement and our prior credit facility and cash flows from operations. Our primary uses of capital have been to maintain our asset base, implement technological advancements, make capital expenditures to support organic growth and to fund acquisitions. Depending on market conditions and other factors, we may also issue debt and equity securities if needed.

We intend to finance most of our capital expenditures, contractual obligations and working capital needs with cash generated from operations and borrowings under our Credit Agreement. For a discussion of the Credit Agreement, see "—Credit Agreement" below. Although we cannot provide any assurance, we believe that our operating cash flow and available borrowings under our Credit Agreement will be sufficient to fund our operations for at least the next twelve months.

As of June 30, 2019, cash and cash equivalents totaled $23.8 million and we had approximately $240.0 million of available borrowing capacity under our Credit Agreement. As of June 30, 2019, the borrowing base under the Credit Agreement was $256.4 million, we had no outstanding borrowings and the outstanding letters of credit totaled $16.4 million. As of August 2, 2019, we had no outstanding borrowings, the borrowing base under the Credit Agreement was $256.3 million, the outstanding letters of credit totaled $19.9 million, and the available borrowing capacity under the Credit Agreement was $236.4 million.

Cash Flows

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

	Six months ended June 30, 2019	Six months ended June 30, 2018	Change Dollars	Change Percentage
	(in thousands)			
Net cash provided by operating activities	$ 74,735	$ 64,305	$ 10,430	16.2 %
Net cash used in investing activities	(21,056)	(59,097)	38,041	(64.4)%
Net cash (used in) provided by financing activities	(47,234)	3,465	(50,699)	NM
Subtotal	6,445	8,673		
Effect of exchange rate changes on cash and cash equivalents	136	(146)	282	NM
Net increase in cash and cash equivalents	$ 6,581	$ 8,527		

Analysis of Cash Flow Changes between the Six Months Ended June 30, 2019 and 2018

Operating Activities. Net cash provided by operating activities was $74.7 million for the Current Period, compared to $64.3 million for the Prior Period. The $10.4 million increase in net cash provided by operating activities related primarily to improved working capital management.

Investing Activities. Net cash used in investing activities was $21.1 million for the Current Period, compared to $59.1 million for the Prior Period. The $38.0 million decrease in net cash used in investing activities was primarily due to $25.3 million received from divestitures, a $6.6 million increase in cash proceeds from sales of property and equipment, primarily related to the wind down of Affirm and the sand hauling and Canadian operations, a $5.5 million reduction in purchases of property and equipment and $0.7 million of working capital receipts from the 2018 Pro Well acquisition.

Financing Activities. Net cash used in financing activities was $47.2 million for the Current Period compared to $3.5 million provided by financing activities by for the Prior Period. The increase in cash used in financing activities was primarily due to $45 million of net debt repayments during the Current Period.

Credit Agreement

On November 1, 2017, in connection with the closing of the Rockwater Merger (the "Closing"), SES Holdings and Select LLC entered into a $300.0 million senior secured revolving credit facility (the "Credit Agreement"), by and among SES Holdings, as parent, Select LLC, as borrower, certain of SES Holdings' subsidiaries, as guarantors, each of the lenders party thereto and Wells Fargo Bank, N.A., as administrative agent, issuing lender and swingline lender (the "Administrative Agent"). The Credit Agreement has a sublimit of $40.0 million for letters of credit and a sublimit of $30.0 million for swingline loans. Subject to obtaining commitments from existing or new lenders, we have the option to increase the maximum amount under the Credit Agreement by $150.0 million during the first three years following the Closing.

The maturity date of the Credit Agreement is the earlier of (a) November 1, 2022, and (b) the termination in whole of the Commitments pursuant to Section 2.1(b) of Article VII of the Credit Agreement.

The Credit Agreement permits extensions of credit up to the lesser of $300.0 million and a borrowing base that is determined by calculating the amount equal to the sum of (i) 85.0% of the Eligible Billed Receivables (as defined in the Credit Agreement), plus (ii) 75.0% of Eligible Unbilled Receivables (as defined in the Credit Agreement), provided that this amount will not equal more than 35.0% of the borrowing base, plus (iii) the lesser of (A) the product of 70.0% multiplied by the value of Eligible Inventory (as defined in the Credit Agreement) at such time and (B) the product of 85.0% multiplied by the Net Recovery Percentage (as defined in the Credit Agreement) identified in the most recent Acceptable Appraisal of Inventory (as defined in the Credit Agreement), multiplied by the value of Eligible Inventory at such time, provided that this amount will not equal more than 30.0% of the borrowing base, minus (iv) the aggregate amount of Reserves (as defined in the Credit Agreement), if any, established by the Administrative Agent from time to time, including, if any, the amount of the Dilution Reserve (as defined in the Credit Agreement). The borrowing base is calculated on a monthly basis pursuant to a borrowing base certificate delivered by Select LLC to the Administrative Agent.

Borrowings under the Credit Agreement bear interest, at Select LLC's election, at either the (a) one-, two-, three- or six-month LIBOR ("Eurocurrency Rate") or (b) the greatest of (i) the federal funds rate plus 0.5%, (ii) the one-month Eurocurrency Rate plus 1.0% and (iii) the Administrative Agent's prime rate (the "Base Rate"), in each case plus an applicable margin, and interest shall be payable monthly in arrears. The applicable margin for Eurocurrency Rate loans ranges from 1.50% to 2.00% and the applicable margin for Base Rate loans ranges from 0.50% to 1.00%, in each case, depending on Select LLC's average excess availability under the Credit Agreement. During the continuance of a bankruptcy event of default, automatically and during the continuance of any other default, upon the Administrative Agent's or the required lenders' election, all outstanding amounts under the Credit Agreement will bear interest at 2.00% plus the otherwise applicable interest rate.

The obligations under the Credit Agreement are guaranteed by SES Holdings and certain subsidiaries of SES Holdings and Select LLC and secured by a security interest in substantially all of the personal property assets of SES Holdings, Select LLC and their domestic subsidiaries.

The Credit Agreement contains certain customary representations and warranties, affirmative and negative covenants and events of default. If an event of default occurs and is continuing, the lenders may declare all amounts outstanding under the Credit Agreement to be immediately due and payable.

In addition, the Credit Agreement restricts SES Holdings' and Select LLC's ability to make distributions on, or redeem or repurchase, its equity interests, except for certain distributions, including distributions of cash so long as, both at the time of the distribution and after giving effect to the distribution, no default exists under the Credit Agreement and either (a) excess availability at all times during the preceding 30 consecutive days, on a pro forma basis and after giving effect to such distribution, is not less than the greater of (1) 25.0% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (2) $37.5 million or (b) if SES Holdings' fixed charge coverage ratio is at least 1.0 to 1.0 on a pro forma basis, and excess availability at all times during the preceding 30 consecutive days, on a pro forma basis and after giving effect to such distribution, is not less than the greater of (1) 20.0% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (2) $30.0 million. Additionally, the Credit Agreement generally permits Select LLC to make distributions to allow Select Inc. to make payments required under the existing Tax Receivable Agreements.

The Credit Agreement also requires SES Holdings to maintain a fixed charge coverage ratio of at least 1.0 to 1.0 at any time availability under the Credit Agreement is less than the greater of (i) 10.0% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (ii) $15.0 million and continuing through and including the first day after such time that availability under the Credit Agreement has equaled or exceeded the greater of (i) 10.0% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (ii) $15.0 million for 60 consecutive calendar days.

We were in compliance with all debt covenants as of June 30, 2019.

Contractual Obligations

Our contractual obligations include, among other things, our Credit Agreement and operating leases. Refer to Note 9—Debt in Part I, Item 1 of this Quarterly Report for an update to our contractual obligations as of June 30, 2019.

Critical Accounting Policies and Estimates

With the exception of the adoption of the new lease standard, there were no other changes to our critical accounting policies from those disclosed in our 2018 Form 10-K filed on March 1, 2019.

Recent Accounting Pronouncements

For information regarding new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements, please refer to Note 2—Significant Accounting Policies in Part I, Item 1 of this Quarterly Report.

Off-Balance-Sheet Arrangements

As of June 30, 2019, we had no material off-balance-sheet arrangements. As such, we are not exposed to any material financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The demand, pricing and terms for oilfield services provided by us are largely dependent upon the level of activity for the U.S. oil and gas industry. Industry conditions are influenced by numerous factors over which we have no control, including, but not limited to: the supply of and demand for oil and gas; current prices as well as expectations about future prices of oil and gas; the cost of exploring for, developing, producing and delivering oil and gas; the expected decline in rates of current production; the discovery rates of new oil and gas reserves; available pipeline and other transportation capacity; weather conditions; domestic and worldwide economic conditions; political instability in oil-producing countries; environmental regulations; technical advances affecting energy consumption; the price and availability of alternative fuels; the ability of oil and gas producers to raise equity capital and debt financing; and merger and divestiture activity among oil and gas producers.

The level of activity in the U.S. oil and gas industry is volatile. Expected trends in oil and gas production activities may not continue and demand for our services may not reflect the level of activity in the industry. Any prolonged substantial reduction in oil and gas prices would likely affect oil and gas drilling and completion activity and therefore affect demand for our services. A material decline in oil and gas prices or U.S. activity levels could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Interest Rate Risk

As of June 30, 2019, we had no outstanding borrowings under our Credit Agreement. As of August 2, 2019, we had no outstanding borrowings and approximately $236.4 million of available borrowing capacity under our Credit Agreement. Interest is calculated under the terms of our Credit Agreement based on our selection, from time to time, of one of the index rates available to us plus an applicable margin that varies based on certain factors. We do not currently have or intend to enter into any derivative arrangements to protect against fluctuations in interest rates applicable to our outstanding indebtedness.

Foreign Currency Exchange Risk

We are exposed to fluctuations between the U.S. dollar and the Canadian dollar with regard to the activities of our former Canadian subsidiary, acquired in the Rockwater Merger, which designated the Canadian dollar as its functional currency. With the recent divestitures of our Canadian operations, we anticipate minimal future exposure to foreign currency exchange risk.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that the information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report. 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 June 30, 2019.

Status of Previously Identified Material Weaknesses

Our management concluded that our internal control over financial reporting and our disclosure controls and procedures were ineffective as of December 31, 2018 as a result of control deficiencies related to the purchase price accounting related to the Rockwater Merger and the reconciliation of fixed assets physical counts with the general ledger that constituted material weaknesses. Specifically, the Company did not design and maintain effective controls with respect to the identification and substantiation of fixed assets purchased in the Rockwater Merger and to the reconciliation of our fixed assets physical counts with the general ledger.

In response to the material weaknesses described above, during the quarter ended March 31, 2019, we implemented new internal controls which we believe will remediate the previously identified material weaknesses. We are currently testing the operating effectiveness of these new internal controls.

Changes in Internal Control over Financial Reporting

Other than noted above, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any legal proceedings that, if determined adversely against us, individually or in the aggregate, would have a material adverse effect on our financial position, results of operations or cash flows. We are, however, named defendants in certain lawsuits, investigations and claims arising in the ordinary course of conducting our business, including certain environmental claims and employee-related matters, and we expect that we will be named defendants in similar lawsuits, investigations and claims in the future. While the outcome of these lawsuits, investigations and claims cannot be predicted with certainty, we do not expect these matters to have a material adverse impact on our business, results of operations, cash flows or financial condition. We have not assumed any liabilities arising out of these existing lawsuits, investigations and claims.

In December 2016, Rockwater was notified by the U.S. Attorney’s Office for the Middle District of Pennsylvania that it is being investigated for altering emissions control systems on several of its vehicles. We are cooperating with the investigation and have determined that mechanics servicing our vehicle fleet may have installed software on certain vehicles and modified a few other vehicles to deactivate or bypass the factory-installed emissions control systems. At present, it appears that 31 vehicles in Pennsylvania were modified in this manner, apparently to improve vehicle performance and reliability. As a result of a company-wide investigation undertaken voluntarily and in cooperation with the U.S. Department of Justice, we have determined that approximately 30 additional company vehicles outside of Pennsylvania may have been altered. As of the date of the initiation of the investigation, we operated approximately 1,400 vehicles in the U.S., and the modified vehicles constituted less than 5% of our fleet at such time. We are unable to predict at this time whether any administrative, civil or criminal charges will be brought against us, although we have learned that we may be the target of a criminal investigation, and it is possible that other individuals or we could become targets. We are cooperating with the U.S. Department of Justice in all aspects of the investigation and have instituted procedures to ensure that our mechanics do not tamper with or bypass any emissions control systems when they are performing vehicle maintenance, and we have also reached an agreement with the U.S. Department of Justice providing for either the restoration or removal from service of those vehicles that were modified. In December 2018, we met with the U.S. Attorney’s Office for the Middle District of Pennsylvania to begin discussions regarding a resolution of this matter. Although we are unable to predict the timing or outcome of this investigation, we note that in similar circumstances, the EPA has imposed fines of up to $7,200 per altered vehicle and has also required the responsible party to disgorge any financial benefit that it may have derived.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors disclosed in the 2018 Form 10-K.

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

Issuer Purchases of Equity Securities

During the Current Quarter, we repurchased the shares shown in the table below to satisfy tax withholding obligations upon the vesting of restricted stock awarded to certain of our employees:

Period	Total Number of Shares Purchased	Weighted Average Price Paid Per Share
April 1, 2019 to April 30, 2019	2,573	$ 11.45
May 1, 2019 to May 31, 2019	16,172	11.35
June 1, 2019 to June 30, 2019	7,971	$ 10.95
	26,716	

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed, furnished or incorporated by reference, as applicable, as part of this report, and such Exhibit Index is incorporated herein by reference.

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.1	Fourth Amended and Restated Certificate of Incorporation of Select Energy Services, Inc. dated as of May 10, 2019 (incorporated by reference herein to Exhibit 3.1 to Select Energy Services, Inc.'s Current Report on Form 8-K, filed May 15, 2019).
3.2	Second Amended and Restated Bylaws of Select Energy Services, Inc. dated as of May 10, 2019 (incorporated by reference herein to Exhibit 3.2 to Select Energy Services, Inc.'s Current Report on Form 8-K, filed May 15, 2019).
**†10.1	Employment Agreement between Mitchell Shauf and Select Energy Services, LLC, dated January 14, 2019.
31.1	Certification of Chief Executive Officer required by Rules 13a14 and 15d14 under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer required by Rules 13a14 and 15d14 under the Securities Exchange Act of 1934.
**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	Interactive Data Files

** Furnished herewith

† Management contract or compensatory plan or arrangement.

SIGNATURE

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

SELECT ENERGY SERVICES, INC.

Date: August 7, 2019	By: /s/ Holli Ladhani Holli Ladhani President and Chief Executive Officer
Date: August 7, 2019	By: /s/ Nick Swyka Nick Swyka Senior Vice President and Chief Financial Officer

EMPLOYMENT AGREEMENT

This Employment Agreement ("**Agreement**") is made and entered into by and between Select Energy Services, LLC, a Delaware limited liability company (the "**Company**"), and Mitchell Shauf ("**Employee**") effective as of January 14, 2019 (the "**Effective Date**").

WHEREAS, Employee is currently employed by the Company; and

WHEREAS, in order to further incentivize Employee to continue to develop the business and goodwill of the Company Group (as defined below), the Company will provide Employee with certain compensation and benefits pursuant to (and subject to the terms of) this Agreement and Select Energy Services, Inc., a Delaware corporation and the parent of the Company (the "**Parent**") will grant to Employee shares of restricted stock pursuant to (and subject the terms of) that certain Restricted Stock Grant Notice and Restricted Stock Agreement between Parent and Employee (the "**Restricted Stock Agreement**").

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Employment**. During the Employment Period (as defined in Section 4), the Company shall employ Employee, and Employee shall serve, as Senior Vice President, Operations, of the Company.

2. **Duties and Responsibilities of Employee**.

(a) During the Employment Period, Employee shall devote Employee's best efforts and full business time and attention to the businesses of Parent and its direct and indirect subsidiaries, including the Company (collectively, the Parent and its direct and indirect subsidiaries are referred to as the "**Company Group**") as may be requested by Parent or the Company from time to time. Employee's duties and responsibilities shall include those normally incidental to the position(s) identified in Section 1, as well as such additional duties as may be assigned to Employee by the Company from time to time, which duties and responsibilities may include providing services to other members of the Company Group in addition to the Company. Employee may, without violating this Section 2(a), (i) as a passive investment, own publicly traded securities in such form or manner as will not require any services by Employee in the operation of the entities in which such securities are owned; (ii) engage in charitable and civic activities; or (iii) with the prior written consent of the board of directors of Parent (the "**Board**"), engage in other personal and passive investment activities, in each case, so long as such ownership, interests or activities do not interfere with Employee's ability to fulfill Employee's duties and responsibilities under this Agreement and are not inconsistent with Employee's obligations to any member of the Company Group or competitive with the business of any member of the Company Group.

(b) Employee hereby represents and warrants that Employee is not the subject of, or a party to, any employment agreement, non-competition, non-solicitation, restrictive covenant or non-disclosure agreement, or any other agreement, obligation, restriction or understanding that would prohibit Employee from executing this Agreement or fully performing each of Employee's duties and responsibilities hereunder, or would in any manner, directly or indirectly, limit or affect any of the duties and responsibilities that may now or in the future be assigned to Employee hereunder. Employee expressly acknowledges and agrees that Employee is strictly prohibited from using or disclosing any confidential information belonging to any prior employer in the course of performing services for any member of the Company Group, and Employee promises that Employee shall not do so. Employee shall not introduce documents or other materials containing confidential information of any prior employer to the premises or property (including computers and computer systems) of any member of the Company Group.

(c) Employee owes each member of the Company Group fiduciary duties (including (i) duties of loyalty and disclosure and (ii) such fiduciary duties that an officer of the Company owes under the laws of the State of Delaware), and the obligations described in this Agreement are in addition to, and not in lieu of, the obligations Employee owes each member of the Company Group under statutory and common law.

3. **Compensation**.

(a) Base Salary. During the Employment Period, the Company shall pay to Employee an annualized base salary of $285,000 (the "**Base Salary**") in consideration for Employee's services under this Agreement, payable in substantially equal installments in conformity with the Company's customary payroll practices for similarly situated employees as may exist from time to time, but no less frequently than monthly.

(b) Signing Bonus. On the Company's first regular payroll date following the Effective Date, the Company shall pay Employee a one-time signing bonus in the amount of $206,250 (the "**Signing Bonus**"). Notwithstanding any provision of this Agreement to the contrary, Employee shall promptly return to the Company the full amount of the Signing Bonus (gross of applicable tax withholdings) in the event that at any time during the one (1)-year period following the Effective Date, Employee's employment is terminated by the Company for Cause pursuant to Section 7(a) or by Employee for convenience pursuant to Section 7(e).

(c) STI Plan. Employee shall be eligible to continue participating in the Company's short-term incentive bonus program (the "**STI Plan**"), subject to the terms of the STI Plan in effect from time to time. Each bonus, if any, paid pursuant to the STI Plan shall be paid as soon as administratively feasible after the Board (or a committee thereof) certifies whether the applicable performance targets for the applicable calendar year have been achieved, and in no event later than April 30 of the calendar year following the calendar year to which such bonus relates. Such bonus, if applicable to Employee, shall not unreasonably be withheld. Notwithstanding anything in this Section 3(b) to the contrary, no bonus will be paid under the STI Plan for a particular calendar year unless Employee remains continuously employed by the Company from the Effective Date through the date the Board (or a committee thereof) certifies whether the applicable performance targets for the applicable calendar year have been achieved.

4. **Term of Employment**. Unless earlier terminated pursuant to Section 7 below, the term of Employee's employment under this Agreement shall be for the period beginning on the Effective Date and ending on the fifth (5th) anniversary of the Effective Date (the "**Term**"). Upon the expiration of the Term, this Agreement shall automatically terminate and shall cease to have

any further force or effect and, if Employee's employment has not terminated prior to the end of the Term in accordance with Section 7, Employee's employment with the Company following the expiration of the Term shall continue on an "at-will" basis and may be terminated by either party at any time and for any reason or no reason at all, so long as the reason or lack of reason is lawful; *provided*, *however*, that notwithstanding the foregoing, the terms of Sections 9 and 11 shall remain in effect following the expiration of the Term. Notwithstanding any other provision of this Agreement, Employee's employment pursuant to this Agreement may be terminated at any time during the Term in accordance with Section 7. The period from the Effective Date through the expiration of this Agreement or, if sooner, the termination of Employee's employment pursuant to this Agreement, regardless of the time or reason for such termination, shall be referred to herein as the "**Employment Period**."

5. **Business Expenses**. Subject to Section 23, the Company shall reimburse Employee for Employee's reasonable out-of-pocket business-related expenses actually incurred in the performance of Employee's duties under this Agreement so long as Employee timely submits all documentation for such expenses, as required by Company policy in effect from time to time. Any such reimbursement of expenses shall be made by the Company upon or as soon as practicable following receipt of such documentation (but in any event not later than the close of Employee's taxable year following the taxable year in which the expense is incurred by Employee). In no event shall any reimbursement be made to Employee for any expenses incurred after the date of Employee's termination of employment with the Company.

6. **Benefits**. During the Employment Period, Employee shall be eligible to participate in the same benefit plans and programs in which other similarly situated Company employees are eligible to participate, subject to the terms and conditions of the applicable plans and programs in effect from time to time. The Company shall not, however, by reason of this Section 6, be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such plan or policy, so long as such changes are similarly applicable to similarly situated Company employees generally.

7. **Termination of Employment**.

(a) Company's Right to Terminate Employee's Employment for Cause. The Company shall have the right to terminate Employee's employment hereunder at any time during the Term for Cause. For purposes of this Agreement, "**Cause**" shall mean:

(i) Employee's material breach of this Agreement or any other written agreement between Employee and one or more members of the Company Group;

(ii) Employee's material failure to follow any law applicable to the workplace or employment relationship, or Employee's breach of any material policy or code of conduct established by Parent or the Company and applicable to Employee;

(iii) Employee's gross negligence, willful misconduct, breach of fiduciary duty, fraud, theft or embezzlement;

(iv) the commission by Employee of, or conviction or indictment of Employee for, or plea of *nolo contendere* by Employee to, any felony (or state law equivalent) or any crime that constitutes a misdemeanor involving moral turpitude; or

(v) Employee's willful failure or refusal, other than due to Disability, to perform Employee's obligations pursuant to this Agreement or to follow any lawful directive from the Company, as determined by the Company; *provided*, *however*, that if Employee's actions or omissions as set forth in this Section 7(a)(v) are of such a nature that the Company determines that they are curable by Employee, such actions or omissions must remain uncured thirty (30) days after the Company first provided Employee written notice of the obligation to cure such actions or omissions.

(b) Company's Right to Terminate for Convenience. The Company shall have the right to terminate Employee's employment for convenience at any time during the Term and for any reason, or no reason at all, upon written notice to Employee.

(c) Employee's Right to Terminate for Good Reason. Employee shall have the right to terminate Employee's employment with the Company at any time during the Term for Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean:

(i) a material diminution in Employee's title, duties or responsibilities with the Company Group;

(ii) the relocation of the geographic location of Employee's principal place of employment by more than seventy-five (75) miles from the location of Employee's principal place of employment as of the Effective Date;

(iii) a relocation of Employee's principal residence required by the Company;

(iv) a material reduction in Employee's Base Salary, other than as part of one or more decreases that are applied to all of the Company's similarly situated employees;

(v) a material reduction in Employee's target bonus opportunity under the STI Plan, other than as part of one or more decreases that are applied to all of the Company's similarly situated employees; or

(vi) a material breach by the Company of any material provision of this Agreement or any other written agreement between Employee and the Company.

Notwithstanding the foregoing provisions of this Section 7(c) or any other provision of this Agreement to the contrary, any assertion by Employee of a termination for Good Reason shall not be effective unless all of the following conditions are satisfied: (A) the condition described in Section 7(c)(i), (ii), (iii), (iv), (v) or (vi) giving rise to Employee's termination of employment must have arisen without Employee's consent; (B) Employee must provide written notice to the Board of the existence of such condition(s) within thirty (30) days after the initial occurrence of such condition(s); (C) the condition(s) specified in such notice must remain uncorrected for thirty

(30) days following the Board's receipt of such written notice; and (D) the date of Employee's termination of employment must occur within sixty-five (65) days after the initial occurrence of the condition(s) specified in such notice.

(d) Death or Disability. Upon the death or Disability of Employee, Employee's employment with Company shall automatically (and without any further action by any person or entity) terminate. For purposes of this Agreement, a "**Disability**" shall exist if Employee is unable to perform the essential functions of Employee's position (after accounting for reasonable accommodation, if applicable and required by applicable law), due to physical or mental impairment that continues, or can reasonably be expected to continue, for a period in excess of one hundred-twenty (120) consecutive days or one hundred-eighty (180) days, whether or not consecutive (or for any longer period as may be required by applicable law), in any twelve (12)-month period. The determination of whether Employee has incurred a Disability shall be made in good faith by the Company.

(e) Employee's Right to Terminate for Convenience. In addition to Employee's right to terminate Employee's employment for Good Reason, Employee shall have the right to terminate Employee's employment with the Company for convenience at any time during the Term and for any other reason, or no reason at all, upon fourteen (14) days' advance written notice to the Company; *provided*, *however*, that if Employee has provided notice to the Company of Employee's termination of employment, the Company may determine, in its sole discretion, that such termination shall be effective on any date prior to the effective date of termination provided in such notice (and, if such earlier date is so required, then it shall not change the basis for Employee's termination of employment nor be construed or interpreted as a termination of employment pursuant to Section 7(b)).

(f) Effect of Termination.

(i) If, prior to the expiration of the Term, Employee's employment hereunder is terminated by the Company without Cause (referred to herein as the Company's right to terminate for convenience) pursuant to Section 7(b), by Employee for Good Reason pursuant to Section 7(c) or as a result of Employee's death or Disability pursuant to Section 7(d), then so long as (and only if) Employee (or Employee's estate, if applicable): (A) executes on or before the Release Expiration Date (as defined below), and does not revoke within any time provided by the Company to do so, a release of all claims in a form reasonably acceptable to the Company, which shall not include additional restrictive covenants related to competition or solicitation (the "**Release**"), which Release shall release each member of the Company Group and their respective affiliates, and the foregoing entities' respective shareholders, members, partners, officers, managers, directors, fiduciaries, employees, representatives, agents and benefit plans (and fiduciaries of such plans) from any and all claims, including any and all causes of action arising out of Employee's employment with the Company and any other member of the Company Group or the termination of such employment, but excluding all claims to severance payments Employee may have under this Section 7; and (B) abides by the terms of each of Sections 9, 10 and 11, then:

(A) the Company shall make severance payments to Employee in a total amount equal to (x) a number of months' worth of Employee's Base Salary equal to the lesser of (I) twelve (12) or (II) the number of complete calendar months remaining in the Term, *plus* (y) an amount equal to the target bonus under the STI Plan for the year in which such termination occurs (such total severance payments being referred to as the "**Severance Payment**"). The Severance Payment will be divided into twenty-six (26) substantially equal installments (or such lesser number of installments equal to the number of remaining regularly scheduled pay dates in the Term). On the Company's first regularly scheduled pay date that is on or after the date that is sixty (60) days after the date on which Employee's employment terminates (the "**Termination Date**"), the Company shall pay to Employee, without interest, a number of such installments equal to the number of such installments that would have been paid during the period beginning on the Termination Date and ending on the Company's first regularly scheduled pay date that is on or after the date that is sixty (60) days after the Termination Date had the installments been paid on a monthly basis commencing on the Company's first regularly scheduled pay date coincident with or next following the Termination Date, and each of the remaining installments shall be paid on a bi-weekly basis thereafter; *provided, however*, that to the extent, if any, that the aggregate amount of the installments of the Severance Payment that would otherwise be paid pursuant to the preceding provisions of this Section 7(f)(i) after March 15 of the calendar year following the calendar year in which the Termination Date occurs (the "**Applicable March 15**") exceeds the maximum exemption amount under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A), then such excess shall be paid to Employee in a lump sum on the Applicable March 15 (or the first Business Day preceding the Applicable March 15 if the Applicable March 15 is not a Business Day) and the installments of the Severance Payment payable after the Applicable March 15 shall be reduced by such excess (beginning with the installment first payable after the Applicable March 15 and continuing with the next succeeding installment until the aggregate reduction equals such excess). "**Business Day**" shall mean any day except a Saturday, Sunday or other day on which commercial banks in New York, New York or Houston, Texas are authorized or required by law to be closed.

(B) During the portion, if any, of the lesser of (x) the twelve (12)-month period following the Termination Date or (y) the remainder of the Term (as applicable, the "**Reimbursement Period**") that Employee elects to continue coverage for Employee and Employee's spouse and eligible dependents, if any, under the Company's group health plans pursuant to Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), the Company shall promptly reimburse Employee on a monthly basis for the difference between the amount Employee pays to effect and continue such coverage and the employee contribution amount that similarly situated employees of the Company pay for the same or similar coverage under such group health plans (the "**COBRA Benefit**"). Each payment of the COBRA Benefit shall be paid to Employee on the Company's first regularly scheduled pay date in the calendar month immediately following the calendar month in which Employee submits to the Company documentation of the applicable premium payment having been paid by Employee, which documentation shall be submitted by Employee to the Company within thirty (30) days following the date on which the applicable premium payment is paid. Employee shall be eligible to receive such reimbursement payments until the earliest of: (x) the last day of the Reimbursement Period; (y) the date Employee is no longer eligible to receive COBRA continuation coverage; and (z) the date on which Employee becomes eligible to receive coverage under a group health plan sponsored by another employer (and any such eligibility shall be promptly reported to the Company by Employee); *provided, however*, that the election of COBRA continuation coverage and the payment of any premiums due with respect to such COBRA continuation coverage shall remain Employee's sole responsibility, and the Company shall not assume any obligation for payment of any such premiums relating to such COBRA continuation coverage. Notwithstanding the foregoing, if the provision of the benefits described in this paragraph cannot be provided in the manner described above without penalty, tax or other adverse impact on the Company or any other member of the Company Group, then the Company and Employee shall negotiate in good faith to determine an alternative manner in which the Company may provide substantially equivalent benefits to Employee without such adverse impact on the Company or such other member of the Company Group.

(ii) Unless the parties hereto expressly agree in writing otherwise, if the Release is not executed and returned to the Company on or before the Release Expiration Date, and the required revocation period has not fully expired without revocation of the Release by Employee, then Employee (or Employee's estate) shall not be entitled to any portion of the Severance Payment or COBRA Benefit. As used herein, the "**Release Expiration Date**" is that date that is twenty-one (21) days following the date upon which the Company delivers the Release to Employee (which shall occur no later than seven (7) days after the Termination Date) 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), the date that is forty-five (45) days following such delivery date.

(iii) For the avoidance of doubt, (A) the Severance Payment and COBRA Benefit (and any portions thereof) shall not be payable if Employee's employment terminates for any reason upon or at any time following the expiration of the Term; and (B) Employee shall not be eligible for the Severance Payment or COBRA Benefit in the event that the Employment Period ends due to a termination by the Company for Cause pursuant to Section 7(a) or by Employee for convenience pursuant to Section 7(e).

(g) After-Acquired Evidence. Notwithstanding any provision of this Agreement to the contrary, in the event that the Company determines that Employee is eligible to receive the Severance Payment and COBRA Benefit pursuant to Section 7(f) but, after such determination, the Company subsequently acquires evidence or determines that: (i) Employee has failed to abide by the terms of Sections 9, 10 or 11; or (ii) a Cause condition existed prior to the Termination Date that, had the Company been fully aware of such condition, would have given the Company the right to terminate Employee's employment pursuant to Section 7(a), then the Company shall have the right to cease the payment of any future installments of the Severance

Payment or COBRA Benefit, and the Company shall have the right to require Employee to promptly return to the Company all installments of the Severance Payment and COBRA Benefit received by Employee prior to the date that the Company determines that the conditions of this Section 7(g) have been satisfied.

8. **Disclosures**. Promptly (and in any event, within three (3) Business Days) upon becoming aware of (a) any actual or potential Conflict of Interest or (b) any lawsuit, claim or arbitration filed against or involving Employee or any trust or vehicle owned or controlled by Employee, in each case, Employee shall disclose such actual or potential Conflict of Interest or such lawsuit, claim or arbitration to the Board. A "**Conflict of Interest**" shall exist when Employee engages in, or plans to engage in, any activities, associations, or interests that conflict with, or create an appearance of a conflict with, Employee's duties, responsibilities, authorities, or obligations for and to the Company Group.

9. **Confidentiality**. In the course of Employee's employment with the Company and the performance of Employee's duties on behalf of the Company Group hereunder, Employee has been provided and will continue to be provided with, and have access to, Confidential Information (as defined below). In consideration of Employee's receipt and access to such Confidential Information, and as a condition of Employee's employment, Employee shall comply with this Section 9.

(a) Both during the Employment Period and thereafter, except as expressly permitted by this Agreement or by directive of the Board, Employee shall not disclose any Confidential Information to any person or entity and shall not use any Confidential Information except for the benefit of the Company Group. Employee acknowledges and agrees that Employee would inevitably use and disclose Confidential Information in violation of this Section 9 if Employee were to violate any of the covenants set forth in Section 10. Employee shall follow all Company policies and protocols regarding the security of all documents and other materials containing Confidential Information (regardless of the medium on which Confidential Information is stored). The covenants of this Section 9(a) shall apply to all Confidential Information, whether now known or later to become known to Employee during the period that Employee is employed by or affiliated with the Company or any other member of the Company Group.

(b) Notwithstanding any provision of Section 9(a) to the contrary, Employee may make the following disclosures and uses of Confidential Information:

(i) disclosures to other employees of a member of the Company Group who have a need to know the information in connection with the businesses of the Company Group;

(ii) disclosures to customers and suppliers when, in the reasonable and good faith belief of Employee, such disclosure is in connection with Employee's performance of Employee's duties under this Agreement and is in the best interests of the Company Group;

(iii) disclosures and uses that are approved in writing by the Board; or

(iv) disclosures to a person or entity that has (x) been retained by a member of the Company Group to provide services to one or more members of the Company Group and (y) agreed in writing to abide by the terms of a confidentiality agreement.

(c) Upon the expiration of the Employment Period, and at any other time upon request of the Company, Employee shall promptly surrender and deliver to the Company all documents (including electronically stored information) and all copies thereof and all other materials of any nature containing or pertaining to all Confidential Information and any other Company Group property (including any Company Group-issued computer, mobile device or other equipment) in Employee's possession, custody or control and Employee shall not retain any such documents or other materials or property of the Company Group. Within five (5) days of any such request, Employee shall certify to the Company in writing that all such documents, materials and property have been returned to the Company.

(d) All trade secrets, non-public information, designs, ideas, concepts, improvements, product developments, discoveries and inventions, whether patentable or not, that are conceived, made, developed or acquired by or disclosed to Employee, individually or in conjunction with others, during the period that Employee is employed and has previously been employed by the Company or any other member of the Company Group (whether during business hours or otherwise and whether on the Company's premises or otherwise) that relate to any member of the Company Group's businesses or properties, products or services (including all such information relating to corporate opportunities, operations, future plans, methods of doing business, business plans, strategies for developing business and market share, research, financial and sales data, pricing terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or acquisition targets or their requirements, the identity of key contacts within customers' organizations or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names and marks) is defined as "**Confidential Information**." Moreover, all documents, videotapes, written presentations, brochures, drawings, memoranda, notes, records, files, correspondence, manuals, models, specifications, computer programs, e-mail, voice mail, electronic databases, maps, drawings, architectural renditions, models and all other writings or materials of any type including or embodying any of such information, ideas, concepts, improvements, discoveries, inventions and other similar forms of expression are and shall be the sole and exclusive property of the Company Group and be subject to the same restrictions on disclosure applicable to all Confidential Information pursuant to this Agreement. For purposes of this Agreement, Confidential Information shall not include any information that (i) is or becomes generally available to the public other than as a result of a disclosure or wrongful act of Employee or any of Employee's agents; (ii) was available to Employee on a non-confidential basis before its disclosure by a member of the Company Group; or (iii) becomes available to Employee on a non-confidential basis from a source other than a member of the Company Group; *provided*, *however*, that such source is not bound by a confidentiality agreement with, or other obligation with respect to confidentiality to, a member of the Company Group.

(e) Notwithstanding the foregoing, nothing in this Agreement shall prohibit or restrict Employee from lawfully (i) initiating communications directly with, cooperating with, providing information to, causing information to be provided to, or otherwise assisting in an investigation by, any governmental authority (including the Securities and Exchange Commission) regarding a possible violation of any law; (ii) responding to any inquiry or legal process directed to Employee from any such governmental authority; (iii) testifying, participating or otherwise assisting in any action or proceeding by any such governmental authority relating to a possible violation of law, or (iv) making any other disclosures that are protected under the whistleblower provisions of any applicable law. Additionally, pursuant to the federal Defend Trade Secrets Act of 2016, an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (1) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made to the individual's attorney in relation to a law suit for retaliation against the individual for reporting a suspected violation of law or (C) is made in a complaint or other document filed in a law suit or proceeding, if such filing is made under seal. Nothing in this Agreement requires Employee to obtain prior authorization before engaging in any conduct described in this paragraph, or to notify the Company that Employee has engaged in any such conduct.

10. **Non-Competition; Non-Solicitation**.

(a) The Company has provided and shall, during the Employment Period, continue to provide Employee access to Confidential Information for use only during the Employment Period, and Employee acknowledges and agrees that the Company Group will be entrusting Employee, in Employee's unique and special capacity, with developing the goodwill of the Company Group, and in consideration of the Company providing Employee with access to Confidential Information, in further consideration of Parent granting restricted shares to Employee pursuant to the Restricted Stock Agreement, and as an express incentive for the Company to enter into this Agreement and employ Employee hereunder, Employee has voluntarily agreed to the covenants set forth in this Section 10. Employee agrees and acknowledges that the limitations and restrictions set forth herein, including geographical and temporal restrictions on certain competitive activities, are reasonable in all respects, will not cause Employee undue hardship, and are material and substantial parts of this Agreement intended and necessary to prevent unfair competition and to protect the Company Group's Confidential Information, goodwill and legitimate business interests.

(b) During the Prohibited Period, Employee shall not, without the prior written approval of the Board, directly or indirectly, for Employee or on behalf of or in conjunction with any other person or entity of any nature:

(i) engage in or participate within the Market Area in competition with any member of the Company Group in any aspect of the Business, which prohibition shall prevent Employee from directly or indirectly: (A) owning, managing, operating, or being an officer or director of, any business that competes with any member of the Company Group in the Market Area, or (B) joining, becoming an employee or consultant of, or otherwise being affiliated with, any person or entity engaged in, or planning to engage in, the Business in the Market Area in competition, or anticipated competition, with any member of the Company Group in any capacity (with respect to this clause (B)) in which Employee's duties or responsibilities are the same as or similar to the duties or responsibilities that Employee had on behalf of any member of the Company Group;

(ii) appropriate any Business Opportunity of, or relating to, any member of the Company Group located in the Market Area;

(iii) solicit, canvass, approach, encourage, entice or induce any customer or supplier of any member of the Company Group to cease or lessen such customer's or supplier's business with any member of the Company Group; or

(iv) solicit, canvass, approach, encourage, entice or induce any employee or contractor of any member of the Company Group to terminate his, her or its employment or engagement with any member of the Company Group.

(c) Notwithstanding the foregoing, following the Termination Date, the above-referenced limitations in Sections 10(b)(i), (ii) and (iii) shall not apply in those portions of the Market Area located within the State of Oklahoma. Instead, Employee agrees that, following the Termination Date, the restrictions on Employee's activities within those portions of the Market Area located within the State of Oklahoma (in addition to those restrictions set forth in Section 10(b)(iv) above) shall be as follows: during that portion of the Prohibited Period that follows the Termination Date, Employee will not directly solicit the sale of goods, services, or a combination of goods and services from the established customers of the Company or any other member of the Company Group. Further, Employee will not be deemed to be engaging in the Business in violation of Section 10(b)(i)(B) by virtue of performing duties similar to those performed for a member of the Company Group in the course of employment with an entity whose primary business is as an operator in the oil and gas exploration and production industry (an "**Operator**"), so long as such Operator only performs the services that constitute the Business for its own operations, and such Operator does not perform such services for customers.

(d) Because of the difficulty of measuring economic losses to the Company Group as a result of a breach or threatened breach of the covenants set forth in Section 9 and in this Section 10, and because of the immediate and irreparable damage that would be caused to the members of the Company Group for which they would have no other adequate remedy, the Company and each other member of the Company Group shall be entitled to enforce the foregoing covenants, in the event of a breach or threatened breach, by injunctions and restraining orders from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's or any other member of the Company Group's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company and each other member of the Company Group at law and equity.

(e) The covenants in this Section 10, and each provision and portion hereof, are severable and separate, and the unenforceability of any specific covenant (or portion thereof) shall not affect the provisions of any other covenant (or portion thereof). Moreover, in the event any arbitrator or court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which such arbitrator or court deems reasonable, and this Agreement shall thereby be reformed.

(f) The following terms shall have the following meanings:

(i) "**Business**" shall mean the business and operations that are the same or similar to those performed by the Company and any other member of the Company Group for which Employee provides services or about which Employee obtains Confidential Information during the Employment Period, which business and operations include such businesses and operations as may be described in Parent's periodic and current reports filed with the Securities and Exchange Commission from time to time, and other services ancillary thereto, specifically as applied to any equipment, hardware, software, knowledge, processes, customers, strategies, known future plans, and vendors which are contained, classified, known or performed in connection with such services.

(ii) "**Business Opportunity**" shall mean any commercial, investment or other business opportunity relating to the Business.

(iii) "**Market Area**" shall mean: (A) the counties and parishes set forth on Exhibit A hereto; and (B) and any other geographic area or market where or with respect to which (x) Employee provides or has provided services on behalf of the Company or any other member of the Company Group during the Employment Period or (y) the Company or any other member of the Company Group has specific plans to conduct any business and Employee provides material services with respect to such plans.

(iv) "**Prohibited Period**" shall mean the period starting on the Effective Date and ending on the date that is the earlier to occur of: (A) one year following the Termination Date; or (B) the fifth (5^{th}) anniversary of the Effective Date.

11. **Ownership of Intellectual Property.** Employee agrees that the Company shall own, and Employee shall (and hereby does) assign, all right, title and interest (including patent rights, copyrights, trade secret rights, mask work rights, trademark rights, and all other intellectual and industrial property rights of any sort throughout the world) relating to any and all inventions (whether or not patentable), works of authorship, mask works, designs, know-how, ideas and information authored, created, contributed to, made or conceived or reduced to practice, in whole or in part, by Employee during the period in which Employee is or has been employed by or affiliated with the Company or any other member of the Company Group that either (a) relate, at the time of conception, reduction to practice, creation, derivation or development, to any member of the Company Group's businesses or actual or anticipated research or development, or (b) were developed on any amount of the Company's or any other member of the Company Group's time or with the use of any member of the Company Group's equipment, supplies, facilities or trade secret information (all of the foregoing collectively referred to herein as "**Company Intellectual Property**"), and Employee shall promptly disclose all Company Intellectual Property to the Company. All of Employee's works of authorship and associated copyrights created during the period in which Employee is employed by or affiliated with the Company or any other member of the Company Group and in the scope of Employee's employment or engagement shall be deemed to be "works made for hire" within the meaning of the Copyright Act. Employee shall perform, during and after the period in which Employee is or has been employed by or affiliated with the Company or any other member of the Company Group, all acts deemed necessary by the Company to assist each member of the Company Group, at the Company's expense, in obtaining and

enforcing its rights throughout the world in the Company Intellectual Property. Such acts may include execution of documents and assistance or cooperation (i) in the filing, prosecution, registration, and memorialization of assignment of any applicable patents, copyrights, mask work, or other applications, (ii) in the enforcement of any applicable patents, copyrights, mask work, moral rights, trade secrets, or other proprietary rights, and (iii) in other legal proceedings related to the Company Intellectual Property.

12. **Arbitration**.

(a) Subject to Section 12(b), any dispute, controversy or claim between Employee and any member of the Company Group arising out of or relating to this Agreement or Employee's employment or engagement with any member of the Company Group will be finally settled by arbitration in Houston, Texas in accordance with the then-existing American Arbitration Association ("**AAA**") Employment Arbitration Rules. The arbitration award, if any, shall be final and binding on both parties. Any arbitration conducted under this Section 12 shall be heard by a single arbitrator (the "**Arbitrator**") selected in accordance with the then-applicable rules of the AAA. The Arbitrator shall expeditiously hear and decide all matters concerning the dispute. Except as expressly provided to the contrary in this Agreement, the Arbitrator shall have the power to (i) gather such materials, information, testimony and evidence as the Arbitrator deems relevant to the dispute before him or her (and each party will provide such materials, information, testimony and evidence requested by the Arbitrator), and (ii) grant injunctive relief and enforce specific performance. The decision of the Arbitrator shall be reasoned, rendered in writing, be final and binding upon the disputing parties and the parties agree that judgment upon the award may be entered by any court of competent jurisdiction. The Company shall pay the applicable AAA fees (including filing and Arbitrator's fees), recognizing that each side bears its own deposition, witness, expert, attorneys' and other fees and expenses.

(b) Notwithstanding Section 12(a), either party may make a timely application for, and obtain, judicial emergency or temporary injunctive relief to enforce any of the provisions of Sections 9 through 11; *provided, however*, that the remainder of any such dispute (beyond the application for emergency or temporary injunctive relief) shall be subject to arbitration under this Section 12.

(c) By entering into this Agreement and entering into the arbitration provisions of this Section 12, THE PARTIES EXPRESSLY ACKNOWLEDGE AND AGREE THAT THEY ARE KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVING THEIR RIGHTS TO A JURY TRIAL.

(d) Nothing in this Section 12 shall prohibit a party to this Agreement from (i) instituting litigation to enforce any arbitration award, or (ii) joining the other party to this Agreement in a litigation initiated by a person or entity that is not a party to this Agreement. Further, nothing in this Section 12 precludes Employee from filing a charge or complaint with a federal, state or other governmental administrative agency.

13. **Defense of Claims**. During the Employment Period and thereafter, upon request from the Company, Employee shall cooperate with the Company Group in the defense of any claims or actions that may be made by or against any member of the Company Group that relate

to Employee's actual or prior areas of responsibility. The Company shall reimburse Employee for any reasonable out of pocket expenses incurred by Employee in providing such cooperation, so long as Employee provides documentation of such expenses in a form satisfactory to the Company.

14. **Withholdings; Deductions**. The Company may withhold and deduct from any benefits and payments made or to be made pursuant to this Agreement (a) all federal, state, local and other taxes as may be required pursuant to any law or governmental regulation or ruling and (b) any deductions consented to in writing by Employee.

15. **Title and Headings; Construction**. Titles and headings to Sections hereof are for the purpose of reference only and shall in no way limit, define or otherwise affect the provisions hereof. Any and all Exhibits or Attachments referred to in this Agreement are, by such reference, incorporated herein and made a part hereof for all purposes. Unless the context requires otherwise, all references to laws, regulations, contracts, agreements and instruments refer to such laws, regulations, contracts, agreements and instruments as they may be amended from time to time, and references to particular provisions of laws or regulations include a reference to the corresponding provisions of any succeeding law or regulation. All references to "dollars" or "$" in this Agreement refer to United States dollars. The word "or" is not exclusive. The words "herein", "hereof", "hereunder" and other compounds of the word "here" shall refer to the entire Agreement, including all Exhibits attached hereto, and not to any particular provision hereof. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely. All references to "including" shall be construed as meaning "including without limitation." Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against any party hereto, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties hereto and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties hereto.

16. **Applicable Law; Submission to Jurisdiction**. This Agreement shall in all respects be construed according to the laws of the State of Texas without regard to its conflict of laws principles that would result in the application of the laws of another jurisdiction. With respect to any claim or dispute related to or arising under this Agreement, the parties hereby consent to the arbitration provisions of Section 12 and recognize and agree that should any resort to a court be necessary and permitted under this Agreement, then they consent to the jurisdiction, forum and venue of the state and federal courts (as applicable) located in Harris County, Texas.

17. **Entire Agreement and Amendment**. This Agreement, the Restricted Stock Agreement and the award agreement for each outstanding award granted to Employee under the Select Energy Services, Inc. 2016 Equity Incentive Plan contain the entire agreement of the parties with respect to the matters covered herein and supersede all prior and contemporaneous agreements and understandings, oral or written, between the parties hereto concerning the subject matter hereof. In entering into this Agreement, Employee expressly acknowledges and agrees that Employee has received all sums and compensation that Employee has been owed, is owed, or ever could be owed for services provided to any member of the Company Group through the date Employee signs this Agreement, with the exception of any unpaid Base Salary for the pay period that includes the date on which Employee signs this Agreement. This Agreement may be amended only by a written instrument executed by both parties hereto.

18. **Waiver of Breach**. Any waiver of this Agreement must be executed by the party to be bound by such waiver. No waiver by either party hereto of a breach of any provision of this Agreement by the other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any subsequent time. The failure of either party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time.

19. **Assignment**. This Agreement is personal to Employee, and neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise transferred by Employee. The Company may assign this Agreement without Employee's consent, including to any member of the Company Group and to any successor to or acquirer of (whether by merger, purchase or otherwise) all or substantially all of the equity, assets or businesses of the Company.

20. **Notices**. Notices provided for in this Agreement shall be in writing and shall be deemed to have been duly received (a) when delivered in person, (b) when sent by facsimile transmission (with confirmation of transmission) on a Business Day to the number set forth below, if applicable; *provided*, *however*, that if a notice is sent by facsimile transmission after normal business hours of the recipient or on a non-Business Day, then it shall be deemed to have been received on the next Business Day after it is sent, (c) on the first Business Day after such notice is sent by express overnight courier service, or (d) on the second Business Day following deposit with an internationally-recognized second-day courier service with proof of receipt maintained, in each case, to the following address, as applicable:

If to the Company, addressed to:

Select Energy Services, LLC
1820 N I-35
Gainesville, Texas 76240
Attn: Senior Vice President, General Counsel and Corporate Secretary

If to Employee, addressed to Employee's last known address on file with the Company

21. **Counterparts**. This Agreement may be executed in any number of counterparts, including by electronic mail or facsimile, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a copy hereof containing multiple signature pages, each signed by one party, but together signed by both parties hereto.

22. **Deemed Resignations**. Except as otherwise determined by the Board or as otherwise agreed to in writing by Employee and any member of the Company Group prior to the termination of Employee's employment with the Company or any member of the Company Group, any termination of Employee's employment shall constitute, as applicable, an automatic resignation of Employee: (a) as an officer of the Company and each member of the Company Group; (b) from the Board; and (c) from the board of directors or board of managers (or similar governing body) of any member of the Company Group and from the board of directors or board

of managers (or similar governing body) of any corporation, limited liability entity, unlimited liability entity or other entity in which any member of the Company Group holds an equity interest and with respect to which board of directors or board of managers (or similar governing body) Employee serves as such Company Group member's designee or other representative.

23. **Section 409A.**

(a) Notwithstanding any provision of this Agreement to the contrary, all provisions of this Agreement are intended to comply with Section 409A of the Internal Revenue Code of 1986 (the "**Code**"), and the applicable Treasury regulations and administrative guidance issued thereunder (collectively, "**Section 409A**") or an exemption therefrom and shall be construed and administered in accordance with such intent. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of Employee's employment shall only be made if such termination of employment constitutes a "separation from service" under Section 409A.

(b) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A), (i) any such expense reimbursement shall be made by the Company no later than the last day of Employee's taxable year following the taxable year in which such expense was incurred by Employee, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period in which the arrangement is in effect.

(c) Notwithstanding any provision in this Agreement to the contrary, if any payment or benefit provided for herein would be subject to additional taxes and interest under Section 409A if Employee's receipt of such payment or benefit is not delayed until the earlier of the date of Employee's death or the date that is six (6) months after the Termination Date (such date, the "**Section 409A Payment Date**"), then such payment or benefit shall not be provided to Employee (or Employee's estate, if applicable) until the Section 409A Payment Date. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement are exempt from, or compliant with, Section 409A and in no event shall any member of the Company Group be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Employee on account of non-compliance with Section 409A.

24. **Certain Excise Taxes**. Notwithstanding anything to the contrary in this Agreement, if Employee is a "disqualified individual" (as defined in Section 280G(c) of the Code), and the payments and benefits provided for in this Agreement, together with any other payments and benefits which Employee has the right to receive from the Company or any of its affiliates,

would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the payments and benefits provided for in this Agreement shall be either (a) reduced (but not below zero) so that the present value of such total amounts and benefits received by Employee from the Company or any of its affiliates shall be one dollar ($1.00) less than three times Employee's "base amount" (as defined in Section 280G(b)(3) of the Code) and so that no portion of such amounts and benefits received by Employee shall be subject to the excise tax imposed by Section 4999 of the Code or (b) paid in full, whichever produces the better net after-tax position to Employee (taking into account any applicable excise tax under Section 4999 of the Code and any other applicable taxes). The reduction of payments and benefits hereunder, if applicable, shall be made by reducing, first, payments or benefits to be paid in cash hereunder in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in-kind hereunder in a similar order. The determination as to whether any such reduction in the amount of the payments and benefits provided hereunder is necessary shall be made by the Company in good faith. If a reduced payment or benefit is made or provided and through error or otherwise that payment or benefit, when aggregated with other payments and benefits from the Company or any of its affiliates used in determining if a "parachute payment" exists, exceeds one dollar ($1.00) less than three times Employee's base amount, then Employee shall immediately repay such excess to the Company upon notification that an overpayment has been made. Nothing in this Section 24 shall require the Company to be responsible for, or have any liability or obligation with respect to, Employee's excise tax liabilities under Section 4999 of the Code.

25. **Clawback.** To the extent required by applicable law or any applicable securities exchange listing standards, or as otherwise determined by the Board (or a committee thereof), amounts paid or payable under this Agreement shall be subject to the provisions of any applicable clawback policies or procedures adopted by the Company, which clawback policies or procedures may provide for forfeiture and/or recoupment of amounts paid or payable under this Agreement. Notwithstanding any provision of this Agreement to the contrary, the Company reserves the right, without the consent of Employee, to adopt any such clawback policies and procedures, including such policies and procedures applicable to this Agreement with retroactive effect.

26. **Effect of Termination**. The provisions of Sections 7, 9-14 and 22 and those provisions necessary to interpret and enforce them, shall survive any termination of this Agreement and any termination of the employment relationship between Employee and the Company.

27. **Third-Party Beneficiaries**. Each member of the Company Group that is not a signatory to this Agreement shall be a third-party beneficiary of Employee's obligations under Sections 8, 9, 10, 11, 12 and 22 and shall be entitled to enforce such obligations as if a party hereto.

28. **Severability**. If an arbitrator or court of competent jurisdiction determines that any provision of this Agreement (or portion thereof) is invalid or unenforceable, then the invalidity or unenforceability of that provision (or portion thereof) shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

[Remainder of Page Intentionally Blank;
Signature Page Follows]

IN WITNESS WHEREOF, Employee and the Company each have caused this Agreement to be executed and effective as of the Effective Date.

EMPLOYEE

Mitchell Shauf

SELECT ENERGY SERVICES, LLC

By:
Name: Holli C. Ladhani
Title: President and Chief Executive Officer

Signature Page to
Employment Agreement

EXHIBIT A

MARKET AREA

STATE	COUNTY/PARISH			
COLORADO	Adams	Arapahoe	Weld	
LOUISIANA	Bossier Caddo	De Soto Jackson	Lincoln Red River	Sabine
NEW MEXICO	Chaves	Eddy	Lea	San Juan
NORTH DAKOTA	Billings Burke	Divide Dunn	Golden Valley McKenzie	Mountrail Williams
OHIO	Ashland Belmont	Guernsey Harrison	Jefferson Monroe	Summit Trumbull
OKLAHOMA	Alfalfa Beckham Blaine Canadian Carter Coal Custer	Dewey Ellis Garfield Garvin Grady Hughes Kingfisher	Lincoln Logan Love Major McClain Oklahoma	Pittsburg Roger Mills Stephens Washita Woods Woodward
PENNSYLVANIA	Armstrong Bradford Elk	Greene Lycoming Sullivan	Tioga Washington	Westmoreland Wyoming
TEXAS	Andrews Angelina Atascosa Borden Culberson DeWitt Dimmit Ector Frio Glasscock Gonzales	Hemphill Henderson Howard Irion Jackson Karnes La Salle Lavaca Live Oak Loving Martin	Maverick McMullen Midland Nacogdoches Panola Pecos Reagan Reeves Roberts Rusk San Augustine	Shelby Tarrant Tom Green Upton Ward Webb Wheeler Winkler Wise Zavala
UTAH	Duchesne			
WEST VIRGINIA	Brooke Doddridge Harrison	Marion Marshall Monongalia	Ohio Ritchie	Tyler Wetzel
WYOMING	Campbell Converse	Johnson	Laramie	Sweetwater

EXHIBIT 31.1

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

I, Holli Ladhani, certify that:

1. I have reviewed this quarterly report of Select Energy Services, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 7, 2019

/s/ Holli Ladhani

Holli Ladhani

President and Chief Executive Officer

EXHIBIT 31.2

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

I, Nick Swyka, certify that:

1. I have reviewed this quarterly report of Select Energy Services, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 7, 2019

/s/ Nick Swyka

Nick Swyka

Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

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

In connection with the quarterly report of Select Energy Services, Inc. (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Holli Ladhani, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to her 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: August 7, 2019

/s/ Holli Ladhani
Holli Ladhani
President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the quarterly report of Select Energy Services, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Nick Swyka, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his 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: August 7, 2019

/s/ Nick Swyka
Nick Swyka
Senior Vice President and Chief Financial Officer