
**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, 2017

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
(State of incorporation)

1820 North I-35, P.O. Box 1715
(Address of principal executive offices)

81-4561945
(IRS Employer
Identification Number)
76241
(Zip Code)

(940) 668-0259

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 9, 2017, the registrant had 30,311,340 shares of Class A common stock, no shares of Class A-1 common stock and 38,462,541 shares of Class B common stock outstanding.

SELECT ENERGY SERVICES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I—FINANCIAL INFORMATION</u>	
Item 1. Financial Statements (Unaudited)	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures about Market Risk	40
Item 4. Controls and Procedures	41
<u>PART II—OTHER INFORMATION</u>	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3. Defaults upon Senior Securities	44
Item 4. Mine Safety Disclosures	44
Item 5. Other Information	44
Item 6. Exhibits	44

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 final prospectus dated April 20, 2017 and filed with the Securities and Exchange Commission (“SEC”) pursuant to Rule 424(b) under the Securities Act, on April 24, 2017 (the “Final Prospectus”). 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 by domestic oil and gas companies;
- trends and volatility in oil and gas prices;
- demand for our services;
- regional impacts to our business, including our key infrastructure assets within the Bakken;
- our level of indebtedness and our ability to comply with covenants contained in our Amended and Restated Credit Agreement with Wells Fargo Bank, National Association, as administrative agent, and various lenders, entered into on May 3, 2011 and amended most recently on June 13, 2017 (as amended, our “Credit Facility”), or future debt instruments;
- 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 safety performance;
- the impact of current and future laws, rulings and governmental regulations, including those related to hydraulic fracturing, accessing water, disposing of wastewater and various environmental matters;
- our ability to retain key management and employees;
- the impacts of competition on our operations;
- our ability to hire and retain skilled labor;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the Agreement and Plan of Merger, dated as of July 18, 2017, by and among Select Energy Services, Inc., SES Holdings, LLC, Raptor Merger Sub, Inc., Raptor Merger Sub, LLC, Rockwater Energy Solutions, Inc. and Rockwater Energy Solutions, LLC (the “Merger Agreement” and, the transactions contemplated thereby, the “Merger”);

- the outcome of any legal proceedings that may be instituted against us or Rockwater and others relating to the Merger Agreement;
- the effect of the announcement of the Merger on our customer relationships, operating results and business generally;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement;
- the amount of the costs, fees, expenses and charges related to the Merger;
- delays or restrictions in obtaining permits by us or our customers;
- constraints in supply or availability of equipment used in our business;
- the impacts of advancements in drilling and well service technologies;
- changes in global economic conditions, generally, and in the markets we serve;
- accidents, weather, seasonality or other events affecting our business; and
- the other risks described under “Risk Factors” in the Final Prospectus.

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 “Risk Factors” in the Final Prospectus and 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 statement.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 52,777	\$ 40,041
Accounts receivable trade, net of allowance for doubtful accounts of \$2,517 and \$2,144, respectively	129,539	75,892
Accounts receivable, related parties	389	135
Inventories	691	1,001
Prepaid expenses and other current assets	7,781	7,586
Total current assets	<u>191,177</u>	<u>124,655</u>
Property and equipment	789,924	739,386
Accumulated depreciation	(519,080)	(490,519)
Property and equipment, net	<u>270,844</u>	<u>248,867</u>
Goodwill	23,278	12,242
Other intangible assets, net	35,380	11,586
Other assets	7,922	7,716
Total assets	\$ 528,601	\$ 405,066
Liabilities and Equity		
Current liabilities		
Accounts payable	\$ 12,122	\$ 10,796
Accounts payable and accrued expenses, related parties	846	648
Accrued salaries and benefits	2,499	2,511
Accrued insurance	9,136	10,338
Accrued expenses and other current liabilities	30,378	22,091
Total current liabilities	<u>54,981</u>	<u>46,384</u>
Accrued lease obligations	17,029	15,946
Other long term liabilities	7,726	8,028
Long-term debt, net of current maturities	—	—
Total liabilities	<u>79,736</u>	<u>70,358</u>
Commitments and contingencies (Note 8)		
Class A-1 common stock, \$0.01 par value; 40,000,000 shares authorized; no shares issued and outstanding as of June 30, 2017; 16,100,000 shares issued and outstanding as of December 31, 2016	—	161
Class A common stock, \$0.01 par value; 250,000,000 shares authorized and 30,311,340 shares issued and outstanding as of June 30, 2017; 3,802,792 shares issued and outstanding as of December 31, 2016	303	38
Class B common stock, \$0.01 par value; 150,000,000 shares authorized and 38,462,541 shares issued and outstanding as of June 30, 2017 and December 31, 2016	385	385
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; no shares issued and outstanding as of June 30, 2017 and December 31, 2016	—	—
Additional paid-in capital	204,295	113,175
Accumulated deficit	(9,431)	(1,043)
Total stockholders' equity	<u>195,552</u>	<u>112,716</u>
Noncontrolling interests	253,313	221,992
Total equity	<u>448,865</u>	<u>334,708</u>
Total liabilities and equity	\$ 528,601	\$ 405,066

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
Water solutions	\$ 107,812	\$ 49,893	\$ 186,189	\$ 112,182
Accommodations and rentals	13,327	5,233	22,842	13,747
Wellsite completion and construction services	13,310	7,793	25,343	15,829
Total revenue	<u>134,449</u>	<u>62,919</u>	<u>234,374</u>	<u>141,758</u>
Costs of revenue				
Water solutions	78,028	43,123	138,649	94,657
Accommodations and rentals	10,799	4,320	18,722	10,558
Wellsite completion and construction services	10,848	6,656	21,267	13,518
Depreciation and amortization	22,520	26,119	43,724	52,261
Total costs of revenue	<u>122,195</u>	<u>80,218</u>	<u>222,362</u>	<u>170,994</u>
Gross profit (loss)	12,254	(17,299)	12,012	(29,236)
Operating expenses				
Selling, general and administrative	23,254	8,184	33,211	17,164
Depreciation and amortization	491	647	937	1,281
Impairment of goodwill and other intangible assets	—	138,666	—	138,666
Impairment of property and equipment	—	60,026	—	60,026
Lease abandonment costs	418	—	2,281	—
Total operating expenses	<u>24,163</u>	<u>207,523</u>	<u>36,429</u>	<u>217,137</u>
Loss from operations	(11,909)	(224,822)	(24,417)	(246,373)
Other income (expense)				
Interest expense, net	(671)	(4,082)	(1,401)	(7,449)
Other income, net	1,952	723	3,016	157
Loss before tax expense	(10,628)	(228,181)	(22,802)	(253,665)
Tax benefit (expense)	138	(57)	32	(366)
Net loss	(10,490)	(228,238)	(22,770)	(254,031)
Less: Net loss attributable to Predecessor	—	225,091	—	250,428
Less: Net loss attributable to noncontrolling interests	6,274	3,147	14,382	3,603
Net loss attributable to Select Energy Services, Inc.	<u>\$ (4,216)</u>	<u>\$ —</u>	<u>\$ (8,388)</u>	<u>\$ —</u>
Allocation of net loss attributable to:				
Class A-1 stockholders	\$ (2,032)		\$ (5,188)	
Class A stockholders	(2,184)		(3,200)	
Class B stockholders	—		—	
	<u>\$ (4,216)</u>		<u>\$ (8,388)</u>	
Weighted average shares outstanding:				
Class A-1—Basic & Diluted	13,092,308		14,587,845	
Class A—Basic & Diluted	<u>14,075,052</u>		<u>8,999,294</u>	
Class B—Basic & Diluted	<u>38,462,541</u>		<u>38,462,541</u>	
Net loss per share attributable to common stockholders:				
Class A-1—Basic & Diluted	\$ (0.16)		\$ (0.36)	
Class A—Basic & Diluted	<u>\$ (0.16)</u>		<u>\$ (0.36)</u>	
Class B—Basic & Diluted	<u>\$ —</u>		<u>\$ —</u>	

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

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net loss	\$ (10,490)	\$ (228,238)	\$ (22,770)	\$ (254,031)
Other comprehensive income (loss)				
Interest rate derivatives designated as cash flow hedges				
Unrealized holding loss arising during period	—	(26)	—	(106)
Net amount reclassified to earnings	—	28	—	113
Net change in unrealized gain (loss)	—	2	—	7
Comprehensive loss	(10,490)	(228,236)	(22,770)	(254,024)
Less: Comprehensive loss attributable to Predecessor	—	225,089	—	250,421
Less: Comprehensive loss attributable to noncontrolling interests	6,274	3,147	14,382	3,603
Comprehensive loss attributable to Select Energy Services, Inc.	<u>\$ (4,216)</u>	<u>\$ —</u>	<u>\$ (8,388)</u>	<u>\$ —</u>

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

SELECT ENERGY SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited)
(in thousands, except share data)

	Class A-1 Stockholders		Class A Stockholders		Class B Stockholders		Preferred Stockholders		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total
	Shares	Class A-1 Common Stock	Shares	Class A Common Stock	Shares	Class B Common Stock	Shares	Preferred Stock					
Balance as of December 31, 2016	16,100,000	\$ 161	3,802,972	\$ 38	38,462,541	\$ 385	—	\$ —	\$ 113,175	\$ (1,043)	\$ 112,716	\$ 221,992	\$ 334,708
Conversion of Class A-1 to Class A	(16,100,000)	(161)	16,100,000	161	—	—	—	—	—	—	—	—	—
Issuance of shares for acquisition	—	—	403,368	4	—	—	—	—	3,301	—	3,305	4,195	7,500
Issuance of shares for initial public offering	—	—	10,005,000	100	—	—	—	—	87,276	—	87,376	41,128	128,504
Equity-based compensation	—	—	—	—	—	—	—	—	543	—	543	689	1,232
Noncontrolling interest in subsidiary	—	—	—	—	—	—	—	—	—	—	—	(309)	(309)
Net loss	—	—	—	—	—	—	—	—	—	(8,388)	(8,388)	(14,382)	(22,770)
Balance as of June 30, 2017	—	\$ —	30,311,340	\$ 303	38,462,541	\$ 385	—	\$ —	\$ 204,295	\$ (9,431)	\$ 195,552	\$ 253,313	\$ 448,865

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

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	\$ (22,770)	\$ (254,031)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	44,661	53,542
(Gain) loss on disposal of property and equipment	(2,919)	462
Bad debt expense	708	345
Amortization of debt issuance costs	618	1,364
Equity-based compensation	1,232	318
Other operating items	(237)	197,887
Changes in operating assets and liabilities		
Accounts receivable	(47,998)	24,446
Prepaid expenses and other assets	(830)	(1,593)
Accounts payable and accrued liabilities	3,525	(11,763)
Net cash (used in) provided by operating activities	<u>(24,010)</u>	<u>10,977</u>
Cash flows from investing activities		
Acquisitions, net of cash received	(55,507)	—
Purchase of property, equipment, and intangible assets	(41,680)	(26,009)
Proceeds received from sale of property and equipment	5,738	6,277
Net cash used in investing activities	<u>(91,449)</u>	<u>(19,732)</u>
Cash flows from financing activities		
Proceeds from revolving line of credit	34,000	8,500
Payments on long-term debt	(34,000)	(13,250)
Payment of debt issuance costs	—	(376)
Proceeds from initial public offering	140,070	—
Payments incurred for initial public offering	(11,566)	—
Member (distributions) contributions	(309)	212
Net cash provided by (used in) financing activities	<u>128,195</u>	<u>(4,914)</u>
Net increase (decrease) in cash and cash equivalents	12,736	(13,669)
Cash and cash equivalents, beginning of period	40,041	16,305
Cash and cash equivalents, end of period	<u>\$ 52,777</u>	<u>\$ 2,636</u>
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 849	\$ 6,123
Cash paid for taxes	\$ 27	\$ 610
Supplemental disclosure of noncash investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	<u>\$ 4,961</u>	<u>\$ 69</u>

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

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

NOTE 1—BUSINESS AND BASIS OF PRESENTATION

Description of the business: Select Energy Services, Inc. (“Select Energy Services” 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 a membership interest in SES Holdings, LLC (“SES Holdings” or the “Predecessor”). SES Holdings was formed in July 2008 and in October 2008, members of Select Energy Services, LLC (“Select”), formerly known as Peak Oilfield Services, LLC (“Peak”), a Delaware limited liability company formed in December 2006, transferred all interests in Select to SES Holdings in exchange for membership interests in SES Holdings and Select became a wholly-owned subsidiary of SES Holdings.

Select Energy Services is an oilfield services company that provides water solutions to the U.S conventional oil and natural gas industry. The Company offers water-related services that support oil and gas well completion and production activities including sourcing, transfer, containment, monitoring, treatment, flowback, hauling and disposal in the U.S. shale basins. These services establish and maintain the flow of oil and natural gas throughout the productive life of a horizontal well.

The Company also operates a wellsite services group as a part of its total water solutions offering. These services include equipment rental, accommodations, crane and logistics services, wellsite and pipeline construction, and field services. The Company conducts its wellsite services activities on a third-party contractual basis unrelated to its water-related services.

Reorganization: On December 20, 2016, Select Energy Services completed a private placement of 16,100,000 shares of Class A-1 common stock (the “144A Offering”) at an offering price of \$20.00 per share. In conjunction with the 144A Offering, SES Holdings’ then existing Class A and Class B units were converted into a single class of common units (the “SES Holdings LLC Units”) and SES Holdings effected a 10.3583 for 1 unit split. In exchange for the contribution of all net proceeds from the 144A Offering to SES Holdings, SES Holdings issued 16,100,000 SES Holdings LLC Units to Select Energy Services, and Select Energy Services became the sole managing member of SES Holdings. Select Energy Services issued 38,462,541 shares of 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. The Company also acquired 3,802,972 SES Holdings LLC Units from certain legacy owners (the “Contributing Legacy Owners”) in exchange for the issuance of 3,802,972 shares of Class A common stock. Shareholders of Class A-1, Class A, and Class B common stock vote together as a single class on all matters, subject to certain exceptions in our amended and restated certificate of incorporation. Shareholders of Class B common stock have voting rights only and are not entitled to an economic interest in Select Energy Services based on their ownership of Class B common stock. The reorganization transactions were treated as a combination of entities under common control with assets and liabilities transferred at their carrying amounts in a manner similar to a pooling of interests. Unless otherwise stated or the context otherwise indicates, all references to the “Company” or similar expressions for time periods prior to the reorganization and 144A Offering transactions refer to SES Holdings and its subsidiaries. For time periods subsequent to the reorganization and 144A Offering transactions, these terms refer to Select Energy Services, Inc. and its subsidiaries.

Initial Public Offering: On April 26, 2017, the Company completed its initial public offering (“IPO”) of 8,700,000 shares of Class A common stock at a price of \$14.00 per share. On May 10, 2017, the underwriters of the IPO exercised their over-allotment option to purchase an additional 1,305,000 shares of Class A common stock at the IPO price of \$14.00 per share. After deducting underwriting discounts and commissions and estimated offering expenses payable by us, we received approximately \$128.5 million of the aggregate net proceeds from the IPO (including the over-allotment option). We contributed all of the net proceeds received by us to SES Holdings in exchange for SES Holdings LLC Units. SES Holdings used the net proceeds in the following manner: (i) \$34.0 million was used to repay borrowings incurred under our Credit Facility to fund the cash portion of the purchase price of the GRR Acquisition, as defined below, (ii) \$7.8 million was used for the cash settlement of outstanding phantom unit awards and (iii) the

remaining net proceeds are intended to be used for general corporate purposes, including funding our 2017 budgeted capital expenditures.

Credit Facility: Concurrent with the closing of the 144A Offering, the Company repaid all of its outstanding indebtedness and amended its Credit Facility to reduce the total commitment of its revolving line of credit to \$100.0 million. See Note 7—Debt 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 has 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 the Company’s 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, the Company will have 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 the Company’s Class B common stock will be cancelled.

Registration rights: In December 2016, in connection with the closing of the 144A Offering, Select Energy Services entered into a registration rights agreement with FBR Capital Markets & Co. for the benefit of the investors in the 144A Offering. Under this registration rights agreement, the Company agreed, at its expense, to file with the SEC, in no event later than April 30, 2017, a shelf registration statement registering for resale the 16,100,000 shares of the Company’s Class A common stock issuable upon conversion of the Class A-1 common stock sold in the 144A Offering plus any additional shares of Class A-1 common stock issued in respect thereof whether by stock dividend, stock distribution, stock split, or otherwise, and to use commercially reasonable efforts to cause such registration statement to be declared effective by the SEC as soon as practicable but in any event within 60 days after the closing of the Company’s IPO. The Company filed this registration statement with the SEC on April 28, and this registration statement was declared effective by the SEC on June 13, 2017. Accordingly, each share of Class A-1 common stock outstanding automatically converted into a share of Class A common stock on a one-for-one basis at that time. In addition, Legacy Owner Holdco has the right, under certain circumstances, to cause the Company to register the shares of Class A common stock obtained pursuant to the Exchange Right.

Tax receivable agreement: Concurrent with the closing of the 144A Offering, the Company entered into two tax receivable agreements with Legacy Owner Holdco and certain legacy owners of SES Holdings. See Note 12—Related Party Transactions for further discussion.

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 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. Accordingly, the accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the Company’s consolidated financial statements for the years ended December 31, 2016 and 2015 included in the Final Prospectus. The consolidated financial statements include the accounts of Select Energy Services and all of its majority-owned or controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments which are of a normal recurring nature and considered necessary for a fair presentation of our interim financial statements have been included in these unaudited interim consolidated financial statements. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017.

The Company's historical financial statements prior to the 144A Offering and reorganization transactions are prepared using SES Holdings' historical basis in the assets and liabilities, and include all revenues, costs, assets and liabilities attributed to SES Holdings.

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 in which Select Energy Services exercises significant influence over operating and financial policies are accounted for using the equity method, and investments in entities for which the Company does not have significant control or influence are accounted for using the cost method.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies: Our significant accounting policies are disclosed in Note 2 of the consolidated financial statements for the years ended December 31, 2016 and 2015 included in the Final Prospectus. There have been no changes in such policies or the application of such policies during the quarter ended June 30, 2017.

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 recoverability of long-lived assets and intangibles, useful lives used in depreciation and amortization, uncollectible accounts receivable, income taxes, self-insurance liabilities, share-based compensation and contingent liabilities. 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.

Emerging Growth Company status: Under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), we are an "emerging growth company," which allows us to have an extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act. We intend to take advantage of all of the reduced reporting requirements and exemptions, including the longer phase-in periods for the adoption of new or revised financial accounting standards under Section 107 of the JOBS Act until we are no longer an emerging growth company. Our election to use the phase-in periods permitted by this election may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the longer phase-in periods under Section 107 of the JOBS Act and who will comply with new or revised financial accounting standards. If we were to subsequently elect instead to comply immediately with these public company effective dates, such election would be irrevocable pursuant to Section 107 of the JOBS Act.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, outlining a comprehensive new revenue recognition standard that will supersede ASC 605, Revenue Recognition. The new accounting guidance creates a framework under which an entity will allocate the transaction price to separate performance obligations and recognize revenue when each performance obligation is satisfied. Under the new standard, entities will be required to use judgment and make estimates, including identifying performance obligations in a contract, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation, and determining when an entity satisfies its performance obligations. The standard allows for either "full retrospective" adoption, meaning that the standard is applied to all of the periods presented with a cumulative catch-up as of the earliest period presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements with a cumulative catch-up

as of the current period. In August 2015, the FASB decided to defer the original effective date by one year. As long as the Company is an EGC and able to utilize the extended transition period for new accounting pronouncements, this guidance will be effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures and has not yet determined the method by which it will adopt the standard.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet. As an EGC utilizing the extended transition period for new accounting pronouncements, this pronouncement is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, and may be applied either prospectively or retrospectively. The Company prospectively adopted this guidance during the six months ended June 30, 2017. Prior periods were not retrospectively adjusted. As the Company's deferred tax assets and liabilities are all noncurrent, the adoption did not result in a change to the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in the current accounting guidance as well as the FASB's new revenue recognition standard. However, the ASU eliminates the use of bright-line tests in determining lease classification as required in the current guidance. The ASU also requires additional qualitative disclosures along with specific quantitative disclosures to better enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. As an EGC utilizing the extended transition period for new accounting pronouncements, this pronouncement is effective for annual reporting periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, using a modified retrospective approach. Early adoption is permitted. The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, that provides a new requirement to record all of the tax effects related to share-based payments at settlement (or expiration) through the income statement. As an EGC utilizing the extended transition period for new accounting pronouncements, this pronouncement is effective for annual reporting periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which addresses the classification and presentation of eight specific cash flow issues that currently result in diverse practices. The amendments provide guidance in the presentation and classification of certain cash receipts and cash payments in the statement of cash flows including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. As an EGC utilizing the extended transition period for new accounting pronouncements, this pronouncement is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The amendments in this ASU should be applied using a retrospective approach. The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*, with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. As an EGC utilizing the extended transition period for new accounting pronouncements, this pronouncement is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. This pronouncement removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This pronouncement is effective for annual reporting periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2019. The amendments in this ASU should be applied using a prospective approach. The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*. This pronouncement provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. This pronouncement is effective for annual reporting periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The pronouncement should be applied prospectively to an award modified on or after the adoption date. The Company is still evaluating the impact that the new accounting guidance will have on its consolidated financial statements and related disclosures.

NOTE 3— ACQUISITIONS

On March 10, 2017, the Company completed its acquisition (the "GRR Acquisition") of Gregory Rockhouse Ranch, Inc. and certain other affiliated entities and assets (collectively, the "GRR Entities"). The GRR Entities provide water and water-related services to E&P companies in the Permian Basin and own and have rights to a vast array of fresh, brackish and effluent water sources with access to significant volumes of water annually and water transport infrastructure, including over 900 miles of temporary and permanent pipeline infrastructure and related storage facilities and pumps, all located in the northern Delaware Basin portion of the Permian Basin.

The total consideration for the GRR Acquisition was \$56.8 million, with \$51.3 million paid in cash and \$5.5 million paid in shares of Class A common stock valued at \$20.00 per share, subject to customary post-closing adjustments. The Company funded the cash portion of the consideration for the GRR Acquisition with \$17.3 million of cash on hand and \$34.0 million of borrowings under the Company's Credit Facility. For the six months ended June 30, 2017, the Company expensed \$1.0 million of transaction-related costs. The GRR Acquisition is being accounted for as a business combination under the acquisition method of accounting. The preliminary allocation of the consideration transferred is based on management's estimates, judgments and assumptions. When determining the fair values of assets acquired and liabilities assumed, management made significant estimates, judgments, and assumptions. These estimates, judgments and assumptions are subject to change upon final valuation and should be treated as preliminary values. Management estimated that consideration paid exceeded the fair value of the net assets acquired. Therefore, goodwill of \$11.0 million was recorded. The goodwill recognized is primarily attributable to synergies related to the Company's comprehensive water solutions strategy that are expected to arise from the GRR Acquisition and is attributable to the Company's Water Solutions segment. The assets acquired and liabilities assumed and the results of operations of the acquired business are included in the Company's Water Solutions segment. The following table summarizes the

consideration transferred and the estimated fair value of identified assets acquired and liabilities assumed at the date of acquisition:

<i>Preliminary purchase price allocation</i>	Amount
<i>Consideration transferred</i>	(in thousand)
Cash paid	\$ 51,303
Class A common stock issued	5,500
Total consideration transferred	<u>56,803</u>
<i>Less: identified assets</i>	
Working capital	6,000
Fixed assets	13,225
Customer relationship intangible assets	21,392
Other intangible assets	5,150
Total identified assets	<u>45,767</u>
<i>Goodwill</i>	<u>\$ 11,036</u>

The GRR Acquisition contributed revenue and net income of \$11.1 million and \$1.7 million, respectively, to the consolidated results of the Company from the date of acquisition through June 30, 2017. The following unaudited consolidated pro forma information is presented as if the GRR Acquisition had occurred on January 1, 2016:

	Pro Forma		Pro Forma	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
	(in thousands)		(in thousands)	
Revenue	\$ 134,449	\$ 68,952	\$ 239,980	\$ 152,894
Net loss	\$ (10,082)	\$ (228,301)	\$ (22,137)	\$ (254,543)
Less: net loss attributable to noncontrolling interests ¹	6,030	150,827	13,962	168,196
Net loss attributable to Select Energy Services, Inc. ¹	<u>\$ (4,052)</u>	<u>\$ (77,474)</u>	<u>\$ (8,175)</u>	<u>\$ (86,347)</u>

¹ The allocation of net loss attributable to noncontrolling interests and Select Energy Services gives effect to the corporate reorganization as though the 144A Offering occurred as of January 1, 2016. However, the calculation of pro forma net loss does not give effect to any other pro forma adjustments for the 144A Offering or the subsequent IPO.

The unaudited pro forma amounts above have been calculated after applying the Company's accounting policies and adjusting the GRR Acquisition results to reflect the increase to depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from January 1, 2016 and other related pro forma adjustments. The pro forma amounts do not include any potential synergies, cost savings or other expected benefits of the GRR Acquisition, and are presented for illustrative purposes only and are not necessarily indicative of results that would have been achieved if the GRR Acquisition had occurred as of January 1, 2016 or of future operating performance.

On May 30, 2017 the Company completed the acquisition of automated manifold intellectual property and related assets from Data Automated Water Systems, LLC (the "DAWS Acquisition") for \$4.0 million. This acquisition was paid with \$2.0 million of cash and 128,370 shares of Class A common stock valued at approximately \$2.0 million. The DAWS Acquisition resulted in fixed assets of \$1.8 million, patents of \$1.9 million and software of \$0.3 million.

On June 21, 2017 the Company completed the acquisition of fixed assets from Tex-Star Water Services, LLC (the "TEX Acquisition") for \$4.2 million in cash.

NOTE 4—EXIT AND DISPOSAL ACTIVITIES

Due to a reduction in industry activity from 2014, the Company made the decision during the year ended December 31, 2016 to close 15 facilities and consolidate operations for the purpose of improving operating efficiencies. The Company recorded \$2.3 million of charges related to exit and disposal activities and reclassified \$0.2 million of deferred rent related to accrued lease obligations related to exited facilities during the six months ended June 30, 2017. The Company had a remaining balance of \$20.2 million, inclusive of a short-term balance of \$3.1 million in accrued expenses and other current liabilities, as of June 30, 2017 related to accrued lease obligations and terminations at exited facilities within its Water Solutions segment. As of June 30, 2017, the Company has completed its exit from underperforming facilities but will continue to make non-cancelable lease payments for related facilities through the year ended 2027. The Company's abandonment of these facilities is not a part of a formalized exit plan.

	Balance as of December 31, 2016	Provision during the six months ended June 30, 2017	Usage during the six months ended June 30, 2017	Balance as of June 30, 2017
	(in thousands)			
Lease obligations and terminations	\$ 18,000	\$ 2,281	\$ 1,384	\$ 18,897
Reclassification of deferred rent	1,069			1,254
Total	<u>\$ 19,069</u>			<u>\$ 20,151</u>

NOTE 5—PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(in thousands)	
Land	\$ 7,105	\$ 8,593
Buildings and leasehold improvements	83,004	83,352
Vehicles and equipment	33,179	24,114
Machinery and equipment	551,440	534,303
Computer equipment and software	11,222	11,102
Office furniture and equipment	4,225	4,275
Disposal wells	67,566	67,566
Helicopters	497	497
Construction in progress	31,686	5,584
	<u>789,924</u>	<u>739,386</u>
Less accumulated depreciation and impairment	(519,080)	(490,519)
Total property and equipment, net	<u>\$ 270,844</u>	<u>\$ 248,867</u>

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.

The Company had no capital lease obligations as of June 30, 2017 and December 31, 2016.

NOTE 6—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. The changes in the carrying amounts of goodwill by reportable segment for the six months ended June 30, 2017 and the year ended December 31, 2016 are as follows:

	Water Solutions	Wellsite Completion and Construction Services	Accommodations and Rentals	Total
	(in thousands)			
Balance as of December 31, 2015	\$ 137,534	\$ 12,242	\$ 995	\$ 150,771
Impairment	(137,534)	—	(995)	(138,529)
Balance as of December 31, 2016	—	12,242	—	12,242
Additions	11,036	—	—	11,036
Balance as of June 30, 2017	<u>\$ 11,036</u>	<u>\$ 12,242</u>	<u>\$ —</u>	<u>\$ 23,278</u>

The components of other intangible assets are as follows:

	June 30, 2017		
	Gross Value	Accumulated Amortization	Net Value
	(in thousands)		
Customer relationships	\$ 78,218	\$ 52,249	\$ 25,969
Other	12,601	3,190	9,411
Total other intangible assets	<u>\$ 90,819</u>	<u>\$ 55,439</u>	<u>\$ 35,380</u>

	December 31, 2016		
	Gross Value	Accumulated Amortization	Net Value
	(in thousands)		
Customer relationships	\$ 56,826	\$ 48,236	\$ 8,590
Other	5,491	2,495	2,996
Total other intangible assets	<u>\$ 62,317</u>	<u>\$ 50,731</u>	<u>\$ 11,586</u>

Intangibles obtained through acquisitions are initially recorded at estimated fair value based on preliminary information which is subject to change until final valuations are obtained. Customer relationships and non-compete agreements are being amortized over estimated useful lives ranging from five to seven years and three to five years, respectively. Other intangible assets primarily relate to certain water rights that are amortized over estimated useful lives ranging from three to eight years. Intangible assets obtained in the GRR Acquisition consisted of customer relationships and non-compete agreements that will be amortized over estimated useful lives of thirteen and five years, respectively. As a result of the GRR Acquisition, the Company also obtained water rights totaling \$3.7 million that have indefinite lives and will be evaluated periodically for impairment. The Company acquired patents as part of the DAWS Acquisition, which are being amortized over the estimated useful lives of 17 years. See Note 3 – Acquisitions for further discussion.

Amortization expense was \$2.6 million and \$2.3 million for the three months ended June 30, 2017 and 2016, respectively, and \$4.8 million and \$4.6 million for the six months ended June 30, 2017 and 2016, respectively.

NOTE 7—DEBT

Credit Facility term loans and revolving line of credit

Select Energy Services' Credit Facility, originally executed in May 2011, has been amended over time. Effective December 20, 2016, the Company amended its Credit Facility to extend the maturity date from February 28, 2018 to February 28, 2020 and reduce the revolving line of credit to \$100.0 million. The agreement also amended certain financial covenants and restrictions and outlined a new pricing grid that is effective after receipt of the third quarter 2017 compliance certificate. Accrued interest is payable at the end of each quarter. The Credit Facility has a variable interest rate that ranges from either (i) the London interbank rate ("LIBOR") plus a margin for Eurodollar advances or (ii) the applicable base rate plus a margin for base rate advances based on the Company's Leverage Ratio (as defined in the Credit Facility) as outlined below. In addition, a commitment fee related to the revolving line of credit is payable at the end of each calendar quarter based on a rate of 0.500% per annum on any unused portion of the commitment under the Credit Facility. Effective June 13, 2017, the Company amended its Credit Facility to permanently waive the default associated with the DAWS Acquisition. This waiver is specifically for this acquisition and does not remedy any other present or future defaults associated with the Credit Facility.

Leverage Ratio Before Receipt of Third Quarter 2017 Compliance Certificate	Eurodollar Advances	Base Rate Advances
< 4.00	4.00 %	3.00 %
≥ 4.00	4.50 %	3.50 %

Leverage Ratio After Receipt of Third Quarter 2017 Compliance Certificate	Eurodollar Advances	Base Rate Advances
< 2.00	3.00 %	2.00 %
≥ 2.00 < 2.50	3.25 %	2.25 %
≥ 2.50 < 3.00	3.50 %	2.50 %
≥ 3.00 < 3.50	3.75 %	2.75 %
≥ 3.50 < 4.00	4.00 %	3.00 %
≥ 4.00	4.50 %	3.50 %

Select Energy Services had no debt outstanding under the revolving line of credit as of June 30, 2017 and December 31, 2016. The borrowing capacity under the revolving line of credit was reduced by outstanding letters of credit of \$14.1 million as of June 30, 2017. The Company's letters of credit have a variable interest rate between 3.00% and 4.50% based on the Company's Leverage Ratio as outlined above. The unused portion of the available borrowings under the revolving line of credit was \$85.9 million at June 30, 2017.

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, 2017 were \$3.3 million. 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 sheet.

The Company's obligations under its Credit Facility are secured by substantially all of its assets. The Credit Facility contains customary events of default and covenants and limits its ability to incur additional indebtedness, pay dividends or make other distributions, create liens and sell assets. The Company was in compliance with all debt covenants as of June 30, 2017.

NOTE 8—COMMITMENTS AND CONTINGENCIES

Litigation

The Company is named from time to time in various legal proceedings in the ordinary course of business. The legal proceedings are at different stages; however, the Company does not believe the resolution of any of these proceedings would be material to its financial position or results of operations.

General Business Risk

As discussed in Note 1, the substantial majority of Company's customers are in the oil and gas industry. The oil and gas industry is currently facing unique challenges due to the continued volatility and depressed state of oil and gas prices.

NOTE 9—EQUITY-BASED COMPENSATION

The SES Holdings 2011 Equity Incentive Plan, ("2011 Plan") was approved by the Predecessor's board of managers in April 2011. In conjunction with the 144A Offering, the Company adopted the Select Energy Services, Inc. 2016 Equity Incentive Plan (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 144A Offering were cancelled in exchange for new options granted under the 2016 Plan. The maximum number of shares that may be issued pursuant to the 2016 Plan is 5,400,400 shares of Class A common stock, subject to adjustment in the event of recapitalization or reorganization, or related to forfeitures or the expiration of awards. Stock options are granted with terms not to exceed ten years. Phantom unit awards granted under the 2011 Plan, upon vesting, entitled each participant with the right to receive an amount of cash based in part on the fair market value of a share of Class A common stock on the date of the Company's IPO. Based on the fair market value of a share of the Company's Class A common stock of \$14.00 on the date of the Company's initial public offering, each participant received a cash payment equal to \$5.53 for each phantom unit on May 5, 2017. Refer to "Phantom Unit Awards" for details related to the payments made in respect of outstanding phantom units in connection with the Company's IPO.

Stock option awards

Stock options were granted with an exercise price equal to or greater than the fair market value of a share of the Company's Class A common stock as of the date of grant. The Company historically valued its 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. The fair value measurement relies 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 that were granted during 2016 in exchange for cancelled awards were immediately vested and fully exercisable on the date of grant because they were granted in exchange for the cancellation of outstanding options granted under the 2011 Plan that were fully vested and exercisable prior to such cancellation. The Company utilizes the Black-Scholes model to determine fair value, 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. At the time of grant, there was no public market for the Company's equity. Therefore, the Company considered the historic volatility of publicly traded peer companies when determining the volatility factor. The expected life of the options was based on a formula considering the vesting period and term of the options awarded, which is generally seven to ten years.

A summary of the Company's stock option activity and related information for the six months ended June 30, 2017 is as follows:

	For the six months ended June 30, 2017	
	Equity Options	Weighted-average Exercise Price
Beginning balance	620,721	\$ 16.50
Granted	455,130	20.00
Forfeited	(70,786)	20.00
Ending balance	1,005,065	\$ 17.84

The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2017 was \$7.85. The relevant assumptions for stock options granted during the period are as follows:

	\$20.00 Strike
Underlying Equity	\$ 20.00
Strike Price	\$ 20.00
Dividend Yield (%)	0.0 %
Risk free rate (%)	1.68% - 2.00 %
Volatility (%)	46.6% - 46.8 %
Expected Term (Years)	4-6

There was no vested stock option activity, or exercise of vested stock options, during the six months ended June 30, 2017.

A summary of the Company's restricted stock unit activity and related information for the six months ended June 30, 2017 is as follows:

	For the six months ended June 30, 2017	
	Restricted Stock	Weighted-average Grant Date Fair Value
Beginning balance	—	\$ —
Granted	41,117	19.91
Forfeited	(7,904)	20.00
Ending balance	33,213	\$ 19.89

The Company recognized approximately \$0.6 million and \$0.0 million of compensation expense related to stock options and restricted stock unit awards during the three months ended June 30, 2017 and 2016, respectively. The Company recognized approximately \$1.2 million and \$0.3 million of compensation expense related to stock options and restricted stock unit awards during the six months ended June 30, 2017 and 2016, respectively.

Phantom unit awards

The Company's phantom unit awards are cash settled awards that were contingent upon meeting certain equity returns and a liquidation event. The settlement amount was based on the fair market value of a share of the Company's Class A common stock on the date of completion of the Company's IPO, which constituted a liquidation event with respect to such phantom unit awards. As a result of the cash-settlement feature of these awards, the Company considered these awards to be liability awards, which are measured at fair value at each reporting date and the pro rata vested portion of the award is recognized as a liability to the extent that the performance condition is deemed probable. On May 5, 2017, the Company settled its outstanding phantom unit awards for an aggregate amount equal to \$7.8 million as a result of the completion of its IPO, which constituted a liquidity event with respect to such phantom unit awards. Based on the fair market value of a share of the Company's Class A common stock on the date of the IPO of \$14.00, the cash payment with respect to each phantom unit was approximately \$5.53, before employer taxes. The Company recognized

compensation expense of \$7.8 million during the six months ended June 30, 2017 related to the settlement of its phantom unit awards. As of June 30, 2017 there are no phantom units outstanding.

NOTE 10—DERIVATIVE FINANCIAL INSTRUMENTS

The Company had variable rate debt outstanding which was subject to interest rate risk based on volatility in underlying interest rates. In April 2013, the Company entered into a pay fixed, receive variable interest rate swap, with an aggregate notional amount of \$125.0 million, which the Company designated as a cash flow hedge. The derivative contract matured in April 2016. The change in value and amounts reclassified to interest expense during the six months ended June 30, 2016 were nominal. There was no activity during the six months ended June 30, 2017.

Changes in the fair values of the Company's derivative instruments are presented on a net basis in the accompanying consolidated statements of operations. Changes in the fair value of the Company's interest rate swap derivative instruments are as follows:

Derivatives designated as cash flow hedges	For the Six Months Ended June 30, 2016 (in thousands)
Beginning fair value of interest rate swap derivative instruments	\$ (7)
Amount of unrealized losses recognized in OCI	(106)
Amount of gains reclassified from AOCI to earnings (effective portion)	113
Net change in fair value of interest rate swap derivative instruments	7
Ending fair value of interest rate swap derivative instruments	\$ —

NOTE 11—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, 2017 or the year ended December 31, 2016.

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 at June 30, 2017 and December 31, 2016 due to the short-term maturity of these instruments. The Company had no outstanding debt as of June 30, 2017 and December 31, 2016. 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 consideration transferred and the purchase price allocation of identified assets acquired and liabilities assumed related to the GRR Acquisition are based on the Company's estimate of fair value utilizing Level 3 inputs at the date of acquisition. Refer to Note 3 – Acquisitions for further discussion.

NOTE 12—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. The Company has entered into a significant number of transactions with related parties. 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.

During the three months ended June 30, 2017, sales to related parties were \$0.6 million and purchases from related party vendors were \$1.7 million. These purchases comprised \$0.5 million relating to purchases of property and equipment, \$0.1 million relating to inventory and consumables, \$0.4 million relating to rent of certain equipment or other services used in operations, and \$0.7 million relating to management, consulting and other services. During the three months ended June 30, 2016, sales to related parties were \$0.3 million and purchases from related party vendors were \$0.7 million. These purchases comprised less than \$0.1 million relating to purchases of property and equipment, less than \$0.1 million relating to inventory and consumables, \$0.1 million relating to rent of certain equipment or other services used in operations, and \$0.5 million relating to management, consulting and other services.

During the six months ended June 30, 2017, sales to related parties were \$1.1 million and purchases from related party vendors were \$2.9 million. These purchases comprised \$0.7 million relating to purchases of property and equipment, \$0.2 million relating to inventory and consumables, \$0.8 million relating to rent of certain equipment or other services used in operations, and \$1.2 million relating to management, consulting and other services. During the six months ended June 30, 2016, sales to related parties were \$0.6 million and purchases from related party vendors were \$1.7 million. These purchases comprised \$0.1 million relating to purchases of property and equipment, \$0.1 million relating to inventory and consumables, \$0.4 million relating to rent of certain equipment or other services used in operations, and \$1.1 million relating to management, consulting and other services.

Tax receivable agreements

In connection with the 144A Offering, the Company entered into two tax receivable agreements (the "Tax Receivable Agreements") with Legacy Owner Holdco, Crestview GP, and certain affiliates of Predecessor unitholders (collectively, the "TRA Holders").

The first of the Tax Receivable Agreements, which the Company entered into with Legacy Owner Holdco 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 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 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, 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 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 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.

NOTE 13—INCOME TAXES

The Company is subject to U.S. federal and state income taxes as a corporation. SES Holdings and its subsidiaries, with the exception of certain corporate subsidiaries, are treated as flow-through entities for U.S. federal income tax purposes, and as such, are generally not subject to U.S. federal income tax at the entity level. Rather, the tax liability with respect to their taxable income is passed through to their members or partners. Accordingly, prior to our reorganization in connection with the 144A Offering, the Predecessor only recorded a provision for Texas franchise tax and U.S. federal and state provisions for certain corporate subsidiaries as the Predecessor's taxable income or loss was includable in the income tax returns of the individual partners and members. However, for periods following our reorganization in connection with the 144A Offering, Select Energy Services will recognize a tax liability on its allocable share of SES Holdings' taxable income.

The Company's effective tax rates for the three months ended June 30, 2017 and 2016 was (1.3)% and 0.0%, respectively. The Company's effective tax rate for the six months ended June 30, 2017 and 2016 was (0.1)% and 0.1%, respectively. The effective tax rate for the three and six months ended June 30, 2017 differs from the statutory rate of 35% due to net income allocated to noncontrolling interests, state income taxes, other permanent differences between book and tax accounting, and valuation allowances.

The Company recorded income tax expense (benefit) of \$(0.1) million and \$0.1 million for the three months ended June 30, 2017 and 2016, respectively. The Company recorded income tax expense (benefit) of less than \$(0.1) million and \$0.4 million for the six months ended June 30, 2017 and 2016, respectively.

The tax benefits of deferred tax assets are recorded as an asset to the extent that management assesses the utilization of such assets to be more likely than not. When the future utilization of some portion of deferred tax assets is determined not to be more likely than not, a valuation allowance is provided to reduce the recorded tax benefits from such assets. As of June 30, 2017, management's assessment as to the realizability of certain deferred tax assets has resulted in the recording of a valuation allowance to reduce deferred tax assets to the amounts that are considered more likely than not to be realized. Management believes there will be sufficient future taxable income based on the reversal of temporary differences to enable utilization or sustainability of those deferred tax assets that do not have a valuation allowance recorded against them.

Separate federal and state income tax returns are filed for Select Energy Services, SES Holdings, and certain consolidated affiliates. The tax years 2012 through 2015 remain open to examination by the major taxing jurisdictions to which the Company is subject to income tax. Select Energy Services and SES Holdings are not currently under any income tax audits.

Accounting for uncertainty in income taxes prescribes a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of June 30, 2017 and December 31, 2016, there was no material liability or expense for the periods then ended recorded for payments of interest and penalties associated with uncertain tax positions or material unrecognized tax positions and the Company's unrecognized tax benefits were not material.

NOTE 14—NONCONTROLLING INTERESTS

The Company has ownership interests in multiple subsidiaries that are consolidated within the Company's financial statements but are not wholly owned. During the six months ended June 30, 2017 and 2016, the Company entered into transactions that impacted its ownership interest in certain of these subsidiaries while maintaining control over such subsidiaries. As a result of the Company's change in ownership interest in these subsidiaries, the Company reduced its noncontrolling interests and recognized an increase in equity related to transactions with holders of noncontrolling interests. The Company reports a noncontrolling interest representing the common units of SES Holdings, LLC held by Legacy Owner Holdco. Changes in Select Energy Services, Inc.'s ownership interest in SES Holdings, LLC while it retains its controlling interest are accounted for as equity transactions.

The following table summarizes the effects of changes in noncontrolling interests on equity for the six months ended June 30, 2017:

	For the six months ended June 30,	
	2017	2016
	(in thousands)	
Net loss attributable to Select Energy Services, Inc. and its Predecessor	\$ (8,388)	\$ (250,428)
Transfers from noncontrolling interests:		
Increase in additional paid-in capital as a result of the contribution of proceeds from the IPO to SEC Holdings, LLC in exchange for common units	87,276	—
Increase in additional paid-in capital as a result of the contribution of assets acquired to SES Holdings, LLC in exchange for common units	3,301	—
Change to equity from net loss attributable to Select Energy Services, Inc. and its Predecessor and transfers from noncontrolling interests	<u>\$ 82,189</u>	<u>\$ (250,428)</u>

NOTE 15—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. The Company's outstanding options are not included in the calculation of diluted weighted-average shares outstanding for the periods presented as the effect is antidilutive.

Earnings related to periods prior to the reorganization and 144A Offering are attributable to the Predecessor. The following table presents the Company's calculation of basic and diluted earnings per share for the three and six months ended June 30, 2017 and 2016 (dollars in thousands, except share and per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net loss	\$ (10,490)	\$ (228,238)	\$ (22,770)	\$ (254,031)
Net loss attributable to Predecessor	—	225,091	—	250,428
Net loss attributable to noncontrolling interests	6,274	3,147	14,382	3,603
Net loss attributable to Select Energy Services, Inc.	\$ (4,216)	\$ —	\$ (8,388)	\$ —
Allocation of net loss attributable to:				
Class A-1 stockholders	\$ (2,032)		\$ (5,188)	
Class A stockholders	(2,184)		(3,200)	
Class B stockholders	—		—	
	\$ (4,216)		\$ (8,388)	
Weighted average shares outstanding:				
Class A-1-Basic & Diluted	13,092,308		14,587,845	
Class A-Basic & Diluted	14,075,052		8,999,294	
Class B-Basic & Diluted	38,462,541		38,462,541	
Net loss per share attributable to common stockholders:				
Class A-1-Basic & Diluted	\$ (0.16)		\$ (0.36)	
Class A-Basic & Diluted	\$ (0.16)		\$ (0.36)	
Class B-Basic & Diluted	\$ —		\$ —	

NOTE 16—SEGMENT INFORMATION

Select Energy Services is an oilfield services company that provides solutions to the North American onshore oil and natural gas industry. 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 chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company's chief operating decision maker 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. Each operating segment reflects a reportable segment led by separate managers that report directly to the Company's CODM. The Company's CODM assesses performance and allocates resources on the basis of the following three reportable segments:

Water Solutions—The Water Solutions segment provides water-related services to customers that include major integrated oil companies and independent oil and natural gas producers. These services include: the sourcing of water; the transfer of the water to the wellsite through permanent pipeline infrastructure and temporary pipe; the containment of fluids off- and on-location; measuring and monitoring of water; the filtering and treatment of fluids, well testing and handling of flowback and produced formation water; and the transportation and recycling or disposal of drilling, completion and production fluids.

Accommodations and Rentals—The Accommodations and Rentals segment provides workforce accommodations and surface rental equipment supporting drilling, completion and production operations to the U.S. onshore oil and gas industry.

Wellsite Completion and Construction Services—The Wellsite Completion and Construction Services segment provides oil and natural gas operators with a variety of services, including crane and logistics services, wellsite and pipeline construction and field services. These services are performed to establish, maintain and

improve production throughout the productive life of an oil or gas well, or to otherwise facilitate other services performed on a well.

Financial information as of June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016, by segment, is as follows:

	For the three months ended June 30, 2017			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water Solutions	\$ 107,738	\$ 3,479	\$ 18,642	\$ 23,058
Accommodations and Rentals	13,539	(1,106)	2,787	4,057
Wellsite Completion and Construction Services	13,383	307	1,091	3,953
Elimination	(211)	(1)	—	—
Income from operations		2,679		
Corporate	—	(14,588)	491	—
Interest expense, net	—	(671)	—	—
Other income, net	—	1,952	—	—
	<u>\$ 134,449</u>	<u>\$ (10,628)</u>	<u>\$ 23,011</u>	<u>\$ 31,068</u>

	For the three months ended June 30, 2016			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water Solutions	\$ 49,903	\$ (218,639)	\$ 21,962	\$ 3,078
Accommodations and Rentals	5,273	(3,822)	2,724	66
Wellsite Completion and Construction Services	7,861	(1,302)	1,433	39
Elimination	(118)	—	—	—
Loss from operations		(223,763)		
Corporate	—	(1,059)	647	—
Interest expense, net	—	(4,082)	—	—
Other (expense), net	—	723	—	—
	<u>\$ 62,919</u>	<u>\$ (228,181)</u>	<u>\$ 26,766</u>	<u>\$ 3,183</u>

	For the six months ended June 30, 2017			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water Solutions	\$ 186,503	\$ (4,192)	\$ 36,190	\$ 35,013
Accommodations and Rentals	23,082	(3,509)	5,459	4,770
Wellsite Completion and Construction Services	25,650	58	2,075	5,295
Elimination	(861)	—	—	—
Loss from operations		(7,643)		
Corporate	—	(16,774)	937	—
Interest expense, net	—	(1,401)	—	—
Other income, net	—	3,016	—	—
	<u>\$ 234,374</u>	<u>\$ (22,802)</u>	<u>\$ 44,661</u>	<u>\$ 45,078</u>

	For the six months ended June 30, 2016			
	Revenue	Income (loss) before taxes	Depreciation and Amortization	Capital Expenditures
	(in thousands)			
Water Solutions	\$ 112,212	\$ (236,138)	\$ 43,884	\$ 23,865
Accommodations and Rentals	13,869	(5,517)	5,553	566
Wellsite Completion and Construction Services	15,942	(2,495)	2,824	120
Elimination	(265)	—	—	—
Loss from operations		(244,150)		
Corporate	—	(2,223)	1,281	—
Interest expense, net	—	(7,449)	—	—
Other (expense), net	—	157	—	—
	<u>\$ 141,758</u>	<u>\$ (253,665)</u>	<u>\$ 53,542</u>	<u>\$ 24,551</u>

	Total Assets	
	As of June 30, 2017	As of December 31, 2016
	(in thousands)	
Water Solutions	\$ 427,902	\$ 324,171
Accommodations and Rentals	45,139	38,874
Wellsite Completion and Construction Services	38,821	29,994
Corporate	16,739	12,027
	<u>\$ 528,601</u>	<u>\$ 405,066</u>

NOTE 17—SUBSEQUENT EVENTS

On July 18, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Rockwater Energy Solutions, Inc., a Delaware corporation (“Rockwater”), Rockwater Energy Solutions, LLC, a Delaware limited liability company and a subsidiary of Rockwater (“Rockwater LLC”), SES Holdings, Raptor Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (“Corporate Merger Sub”), Raptor Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of SES Holdings (“LLC Merger Sub”), pursuant to which the Company will combine with Rockwater in a stock-for-stock transaction (the “Merger”). The Company will issue an aggregate of approximately 38.0 million shares of Select Energy Services common stock in exchange for all outstanding shares of Rockwater common stock. Upon consummation of the Merger, the Company’s current shareholders will own approximately 64.4% of the combined company and Rockwater shareholders will own approximately 35.6%. The requisite stockholders of the Company and Rockwater have approved the Merger, and the transaction is expected to close in the third quarter of 2017, subject to customary closing conditions, including U.S. governmental approval under the Hart-Scott-Rodino Act. Following the consummation of the Merger, the Company will file a registration statement covering the Company’s newly issued Class A-2 common shares to be issued to the existing

holders of Rockwater's Class A-1 common stock. As soon as that registration statement becomes effective, such Class A-2 common shares will automatically convert to Class A common shares of the Company.

In connection with the Merger, Select entered into a financing commitment letter with Wells Fargo Bank, N.A. for a senior secured credit facility with a maximum credit amount not to exceed \$150 million for the purposes of, among other things, (i) refinancing certain of Select's and Rockwater's indebtedness, (ii) funding fees and expenses associated with the credit facility and the Merger and (iii) to pay related fees and expenses. Subject to obtaining commitments from existing or new lenders, Select shall have their option to increase the maximum amount under the senior secured credit facility by \$150,000,000 during the first three years following closing, and by an additional \$150,000,000 during the first three years following the day after closing. The credit facility will be subject to a customary borrowing base based on the receivables and inventory of Select and its subsidiaries.

The senior secured credit facility will be subject to customary representations, warranties and covenants. The funding of the senior secured credit facility is subject to Select's compliance with customary terms and conditions precedent as set forth in the commitment letter, including, among others: (i) the execution and delivery by Select of definitive documentation consistent with the commitment letter and (ii) that the mergers shall have been, or substantially simultaneously with the funding under the senior secured credit facility shall be, consummated in accordance with the terms of the merger agreement. Select expects that aggregate proceeds of the senior secured credit facility, together with the available cash of Select and borrowings under the Select senior secured credit facility will be sufficient to consummate the refinancing the indebtedness to pay all related fees and expenses payable in connection therewith.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report as well as the historical consolidated financial statements included in the Final Prospectus. 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".

Overview

We are a provider of total water solutions to the U.S. unconventional oil and gas industry. Within the major shale plays in the United States, we source and transfer water (both by permanent pipeline and temporary pipe) prior to its use in drilling and completion activities associated with hydraulic fracturing or "fracking," which we collectively refer to as "pre-frac water services." In most of our areas of operations, we provide complementary water-related services that support oil and gas well completion and production activities including containment, monitoring, treatment, flowback, hauling and disposal. Our services are necessary to establish and maintain production of oil and gas over the productive life of a horizontal well. Water and related services are increasingly important as E&P companies have increased the complexity and completion intensity of horizontal wells (including the use of longer horizontal wellbore laterals, tighter spacing of frac stages in the laterals and increased water and proppant use per foot of lateral) in order to improve production and recovery of hydrocarbons. Historically, we have generated a substantial majority of our revenues through providing total water solutions to our customers. We provide our services to major integrated and large E&P companies, who typically represent the largest producers in each of our areas of operations, as well as other independent companies operating in these regions.

Our Segments

Our services are offered through three operating segments: water solutions, accommodations and rentals, and wellsite completion and construction services.

- *Water Solutions.* Our water solutions segment is operated primarily under our subsidiary Select, and provides water-related services to customers that include major integrated oil companies and independent oil and natural gas producers. These services include: the sourcing of water; the transfer of the water to the wellsite through permanent pipeline infrastructure and temporary pipe; the containment of fluids off-and on-location; measuring and monitoring of water; the filtering and treatment of fluids, well testing and handling of flowback and produced formation water; and the transportation and recycling or disposal of drilling, completion and production fluids.
- *Accommodations and Rentals.* Our accommodations and rentals segment is operated under our subsidiary Peak Oilfield Services, LLC, and provides workforce accommodations and surface rental equipment supporting drilling, completion and production operations to the U.S. onshore oil and gas industry.
- *Wellsite Completion and Construction Services.* Our wellsite completion and construction services segment is operated under our subsidiary Affirm Oilfield Services, LLC, and provides oil and natural gas operators with a variety of services, including crane and logistics services, wellsite and pipeline construction and field services. These services are performed to establish, maintain and improve production throughout the productive life of an oil or gas well, or to otherwise facilitate other services performed on a well.

How We Generate Revenue

We currently generate a significant majority of our revenue through our water solutions segment, specifically through the sourcing and transfer of water used in drilling and completion activities associated with hydraulic fracturing. We generate our revenue through customer agreements with fixed pricing terms but no guaranteed throughput amounts.

While we have some fixed price arrangements, 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 through our accommodations and rentals and wellsite completion and construction services segments which provide workforce accommodations, related rentals and a variety of wellsite completion and construction services, including wellsite construction, pipeline construction, field services and well services. We invoice the majority of our clients for these services on a per job basis 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 and maintenance and leasing costs), fuel costs and water sourcing costs. Our fixed costs are relatively low and a large portion of the costs we incur in our business are only incurred when we provide water and water-related services to our customers.

Labor costs associated with our employees represent the most significant costs of our business. We incurred labor costs of \$60.4 million and \$31.5 million for the three months ended June 30, 2017 and 2016, respectively. We incurred labor costs of \$100.8 million and \$69.6 million for the six months ended June 30, 2017 and 2016, respectively. Our labor costs for the three and six months ended June 30, 2017 included \$12.5 million of non-recurring costs related to a payout on our phantom equity units and IPO success bonuses. The majority of our recurring labor costs are variable and are incurred only while we are providing water and water-related services. We also incur costs to employ personnel to sell and supervise our services and perform maintenance on our assets which are not directly tied to our level of business activity. We also incur selling, general and administrative costs for compensation of our administrative personnel at our field sites and in our corporate headquarters.

We incur significant equipment costs in connection with the operation of our business, including depreciation, repair and maintenance and leasing costs. We incurred equipment costs of \$33.1 million and \$28.8 million for the three months ended June 30, 2017 and 2016, respectively. We incurred equipment costs of \$62.4 million and \$58.3 million for the six months ended June 30, 2017 and 2016, respectively. Our depreciation costs are expected to decline over the next few years as a result of recent impairments as well as the decline in our capital expenditures over the last three years, which will be partially offset by any future capital expenditures on depreciable assets.

Fuel costs associated with water transportation are a significant operating cost. We incurred fuel costs of \$7.2 million and \$3.6 million for the three months ended June 30, 2017 and 2016, respectively. We incurred fuel costs of \$13.3 million and \$7.5 million for the six months ended June 30, 2017 and 2016, respectively. Fuel prices impact our transportation costs, which affect the pricing and demand of our services, and have an impact on our results of operations.

We incur water sourcing costs in connection with obtaining strategic and reliable water sources to provide repeatable water volumes to our customers. We incurred water sourcing costs of \$8.8 million and \$3.0 million for the three months ended June 30, 2017 and 2016, respectively. We incurred water sourcing costs of \$14.2 million and \$8.2 million for the six months ended June 30, 2017 and 2016, respectively.

Public Company Expenses

General and administrative expenses related to being a publicly traded company include: Exchange Act reporting expenses; expenses associated with compliance with the Sarbanes-Oxley Act of 2002; expenses associated with maintaining our listing on the New York Stock Exchange; incremental independent auditor fees; incremental legal fees; investor relations expenses; registrar and transfer agent fees; incremental director and officer liability insurance costs; and director compensation. We expect that general and administrative expenses related to being a publicly traded company will increase in future periods. Costs incurred by us for corporate and other overhead expenses will be reimbursed by SES Holdings pursuant to the SES Holdings LLC Agreement.

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;
- EBITDA; and
- Adjusted EBITDA.

Revenue

We analyze our revenue and assess our performance by comparing actual monthly revenue to our internal projections. 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 expense). We believe gross profit is a meaningful metric because it provides insight on profitability and true operating performance based on the historical cost basis of our assets. We also compare gross profit to prior periods and across locations to identify underperforming locations.

EBITDA and Adjusted EBITDA

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, 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 sale of assets or subsidiaries, non-cash compensation expense, non-recurring compensation expense and nonrecurring or unusual expenses or charges, including severance expenses, transaction costs, or facilities related exit and disposal related expenditures. See "—Comparison of Non-GAAP Financial Measures" and "Note Regarding Non-GAAP Financial Measures" 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.

Results of Operations

The following tables set forth selected financial and operating data for the periods indicated (all values are net to our interest unless indicated otherwise):

Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

	Three months ended June 30,		Change	
	2017	2016	Dollars	Percentage
	(in thousands)			
Revenue				
Water solutions	\$ 107,812	\$ 49,893	\$ 57,919	116.1 %
Accommodations and rentals	13,327	5,233	8,094	154.7 %
Wellsite completion and construction services	13,310	7,793	5,517	70.8 %
Total revenue	134,449	62,919	71,530	113.7 %
Costs of revenue				
Water solutions	78,028	43,123	34,905	80.9 %
Accommodations and rentals	10,799	4,320	6,479	150.0 %
Wellsite completion and construction services	10,848	6,656	4,192	63.0 %
Depreciation and amortization	22,520	26,119	(3,599)	(13.8)%
Total costs of revenue	122,195	80,218	41,977	52.3 %
Gross profit (loss)	12,254	(17,299)	29,553	NM
Operating expenses				
Selling, general and administrative	23,254	8,184	15,070	184.1 %
Depreciation and amortization	491	647	(156)	(24.1)%
Impairment of goodwill and other intangible assets	—	138,666	(138,666)	(100.0)%
Impairment of property and equipment	—	60,026	(60,026)	(100.0)%
Lease abandonment costs	418	—	418	NM
Total operating expenses	24,163	207,523	(183,360)	(88.4)%
Loss from operations	(11,909)	(224,822)	212,913	(94.7)%
Other income (expense)				
Interest expense, net	(671)	(4,082)	3,411	(83.6)%
Other income, net	1,952	723	1,229	170.0 %
Loss before tax expense	(10,628)	(228,181)	217,553	(95.3)%
Tax benefit (expense)	138	(57)	195	NM
Net loss	\$ (10,490)	\$ (228,238)	\$ 217,748	(95.4)%

Revenue

Our revenue increased \$71.5 million, or 113.7%, to \$134.4 million for the three months ended June 30, 2017 compared to \$62.9 million for the three months ended June 30, 2016. The increase was primarily attributable to an increase in our water solutions segment revenues of \$57.9 million. For the three months ended June 30, 2017, our water solutions, accommodations and rentals, and wellsite completion and construction services segments constituted 80.2%, 9.9% and 9.9% of our total revenue, respectively, compared to 79.3%, 8.3%, and 12.4%, respectively, for the three months ended June 30, 2016. The revenue increase by operating segment was as follows:

Water Solutions. Revenue increased \$57.9 million, or 116.1%, to \$107.8 million for the three months ended June 30, 2017 compared to \$49.9 million for the three months ended June 30, 2016. The increase was primarily attributable to an increase in the demand for our services as a result of a rise completion activities and an increase in average quarterly rig count of 112% during the second quarter of 2017 compared to the second quarter of 2016.

Additionally, the GRR Acquisition, which closed March 10, 2017, contributed \$9.2 million of revenue for the three months ended June 30, 2017.

Accommodations and Rentals. Revenue increased \$8.1 million, or 154.7%, to \$13.3 million for the three months ended June 30, 2017 compared to \$5.2 million for the three months ended June 30, 2016. The revenue increase was primarily attributable to a rise in completion activities and an increase in our customers' quarterly rig count, which led to higher demand for equipment rentals.

Wellsite Completion and Construction Services. Revenue increased \$5.5 million, or 70.8%, to \$13.3 million for the three months ended June 30, 2017 compared to \$7.8 million for the three months ended June 30, 2016. The increase was primarily attributable to an increase in field services revenues of \$4.1 million in our Rockies and Permian regions and increases in construction services revenues of \$0.9 million in our South Texas region. These increases were driven by the addition of the Permian region in 2017 and by increased demand for these services resulting from several new customers resuming completion activities during 2017.

Costs of Revenue

Cost of revenue increased \$42.0 million, or 52.3%, to \$122.2 million for the three months ended June 30, 2017 compared to \$80.2 million for the three months ended June 30, 2016. The increase was largely attributable to higher salaries and wages due to an increase in employee headcount, and increased outside services, rentals and materials expense as a result of increased demand for our services resulting from the overall increase in drilling, completion and production activities, particularly in our water solutions segment. The cost of revenue increase by operating segment was as follows:

Water Solutions. Cost of revenue increased \$34.9 million, or 80.9%, to \$78.0 million for the three months ended June 30, 2017 compared to \$43.1 million for the three months ended June 30, 2016. The increase was partly attributable to an increase in salaries and wages of \$11.5 million as a result of an increase in average headcount during the three months ended June 30, 2017 as compared to the prior year period. The increase was also attributable to an increase in equipment rental and maintenance expense of \$4.2 million, contract labor expense of \$6.5 million, bulk and retail fuel expense of \$2.8 million and materials and supplies expense of \$8.8 million, offset by a decrease in allocated facility costs of \$1.5 million. The increase in fuel and maintenance related expenses were largely attributable to an increase of 14.5% in the average number of trucks and tractors in our fleet.

Accommodations and Rentals. Cost of revenue increased \$6.5 million, or 150.0%, to \$10.8 million for the three months ended June 30, 2017 compared to \$4.3 million for the three months ended June 30, 2016. The increase was partially attributable to a \$0.7 million increase in overtime wages as activity outpaced headcount growth slightly during the three months ended June 30, 2017 as compared to the prior year period. The increase was also attributable to increases in outside services, rentals and variable supplies expense totaling \$3.4 million and \$1.0 million associated with increased fuel and repair and maintenance expenses associated with the support costs of the increased labor workforce required to meet customer demand.

Wellsite Completion and Construction Services. Cost of revenue increased \$4.2 million, or 63.0%, to \$10.8 million for the three months ended June 30, 2017 compared to \$6.7 million for the three months ended June 30, 2016. The increase was primarily attributable to increased direct labor costs of \$1.5 million, contract labor expense of \$0.9 million, rental expense of \$0.9 million, and supplies and materials expense of \$0.3 million.

Depreciation and Amortization. Depreciation and amortization expense decreased \$3.6 million, or 13.8%, to \$22.5 million for the three months ended June 30, 2017 compared to \$26.1 million for the three months ended June 30, 2016. The decrease was primarily attributable to assets becoming fully depreciated or being impaired during the first half of 2016.

Gross Profit (Loss)

Gross profit (loss) improved by \$29.5 million, to a gross profit of \$12.3 million for the three months ended June 30, 2017 compared to a gross loss of \$17.3 million for the three months ended June 30, 2016 as a result of factors described above.

Selling, General and Administrative Expenses

The increase in selling, general, and administrative expenses of \$15.1 million, or 184.1%, to \$23.3 million for the three months ended June 30, 2017 compared to \$8.2 million for the three months ended June 30, 2016 was primarily due to a payout on our phantom equity units and IPO success bonuses of \$12.5 million, including associated taxes, an increase in administrative labor costs of \$1.6 million, primarily related to our new status as a public company and an increase in legal and professional fees of \$0.4 million during the three months ended June 30, 2017 as compared to the prior year period offset by lower corporate office rent of \$0.3 million.

Impairment

There were no impairment losses recorded during the three months ended June 30, 2017. Due to significant reductions in oil and gas prices and rig counts during early 2016, we determined there were triggering events requiring an assessment of the recoverability of goodwill. This assessment resulted in an impairment loss of \$137.6 million related to goodwill and \$60.0 million related to long-lived assets in our water solutions segment, \$1.0 million related to goodwill and less than \$0.1 million related to other intangible assets in our accommodations and rentals segment was recognized in the consolidated statements of operations for the three months ended June 30, 2016.

Lease Abandonment Costs

Due to depressed industry conditions and a resulting reduction in the need for facilities primarily in 2016, during the three months ended June 30, 2017, we recorded \$0.4 million of lease abandonment costs related to certain facilities that were no longer in use. No lease abandonment costs were incurred during the three months ended June 30, 2016.

Interest Expense

The decrease in interest expense of \$3.4 million, or 83.6% during the three months ended June 30, 2017 compared to the three months ended June 30, 2016 was due to the completion of the 144A Offering on December 20, 2016 and the completion of the IPO on April 26, 2017. We used the net proceeds from the 144A Offering to repay all outstanding borrowings and the IPO to repay all of our subsequent outstanding indebtedness related to the GRR Acquisition.

Net Loss

Net loss decreased by \$217.7 million, or 95.4%, to \$10.5 million for the three months ended June 30, 2017 compared to \$228.2 million for the three months ended June 30, 2016 as a result of the factors described above.

Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

	Six months ended June 30,		Change	
	2017	2016	Dollars	Percentage
	(in thousands)			
Revenue				
Water solutions	\$ 186,189	\$ 112,182	\$ 74,007	66.0 %
Accommodations and rentals	22,842	13,747	9,095	66.2 %
Wellsite completion and construction services	25,343	15,829	9,514	60.1 %
Total revenue	234,374	141,758	92,616	65.3 %
Costs of revenue				
Water solutions	138,649	94,657	43,992	46.5 %
Accommodations and rentals	18,722	10,558	8,164	77.3 %
Wellsite completion and construction services	21,267	13,518	7,749	57.3 %
Depreciation and amortization	43,724	52,261	(8,537)	(16.3)%
Total costs of revenue	222,362	170,994	51,368	30.0 %
Gross profit (loss)	12,012	(29,236)	41,248	NM
Operating expenses				
Selling, general and administrative	33,211	17,164	16,047	93.5 %
Depreciation and amortization	937	1,281	(344)	(26.9)%
Impairment of goodwill and other intangible assets	—	138,666	(138,666)	(100.0)%
Impairment of property and equipment	—	60,026	(60,026)	(100.0)%
Lease abandonment costs	2,281	—	2,281	NM
Total operating expenses	36,429	217,137	(180,708)	(83.2)%
Loss from operations	(24,417)	(246,373)	221,956	(90.1)%
Other income (expense)				
Interest expense, net	(1,401)	(7,449)	6,048	(81.2)%
Other income, net	3,016	157	2,859	1821.0 %
Loss before tax expense	(22,802)	(253,665)	230,863	(91.0)%
Tax benefit (expense)	32	(366)	398	NM
Net loss	<u>\$ (22,770)</u>	<u>\$ (254,031)</u>	\$ 231,261	(91.0)%

Revenue

Our revenue increased \$92.6 million, or 65.3%, to \$234.4 million for the six months ended June 30, 2017 compared to \$141.8 million for the six months ended June 30, 2016. The increase was primarily attributable to an increase in our water solutions segment revenues of \$74.0 million. For the six months ended June 30, 2017, our water solutions, accommodations and rentals, and wellsite completion and construction services segments constituted 79.5%, 9.7% and 10.8% of our total revenue, respectively, compared to 79.1%, 9.7%, and 11.2%, respectively, for the six months ended June 30, 2016. The revenue increase by operating segment was as follows:

Water Solutions. Revenue increased \$74.0 million, or 66.0%, to \$186.2 million for the six months ended June 30, 2017 compared to \$112.2 million for the six months ended June 30, 2016. The increase was primarily attributable to an increase in the demand for our services as a result of a rise in completion activities and an increase in average quarterly rig count of 70% during the six months ended June 30, 2017 compared to six months ended June 30, 2016. Additionally, the GRR Acquisition, which closed on March 10, 2017, contributed \$11.1 million of revenue for the six month period ending June 30, 2017.

Accommodations and Rentals. Revenue increased \$9.1 million, or 66.2%, to \$22.8 million for the six months ended June 30, 2017 compared to \$13.7 million for the six months ended June 30, 2016. The revenue increase was primarily attributable to a rise in completion activities and an increase in our customers' quarterly rig count, which led to higher demand for equipment rentals.

Wellsite Completion and Construction Services. Revenue increased \$9.5 million, or 60.1%, to \$25.3 million for the six months ended June 30, 2017 compared to \$15.8 million for the six months ended June 30, 2016. The increase was primarily attributable to an increase in field services revenues of \$7.6 million in our Rockies and Permian regions. These increases were driven by the addition of the Permian region in 2017 and by the increased demand for these services resulting from several new customers resuming completion activities during 2017.

Costs of Revenue

Cost of revenue increased \$51.4 million, or 30.0%, to \$222.4 million for the six months ended June 30, 2017 compared to \$171.0 million for the six months ended June 30, 2016. The increase was largely attributable to higher salaries and wages due to an increase in employee headcount, and increased outside services, rentals and materials as a result of increased demand for our services resulting from the overall increase in drilling, completion and production activities, particularly in our water solutions segment. The cost of revenue increase by operating segment was as follows:

Water Solutions. Cost of revenue increased \$44.0 million, or 46.5%, to \$138.7 million for the six months ended June 30, 2017 compared to \$94.7 million for the six months ended June 30, 2016. The increase was partly attributable to an increase in salaries and wages of \$13.3 million as a result of an increase in average headcount during the six months ended June 30, 2017 as compared to the prior year period. The increase was also attributable to an increase in equipment rental and maintenance expense of \$6.5 million, contract labor expense of \$8.5 million, bulk and retail fuel expense of \$4.4 million and materials and supplies expense of \$10.2 million, offset by a decrease in allocated facility costs of \$2.9 million.

Accommodations and Rentals. Cost of revenue increased \$8.2 million, or 77.3%, to \$18.7 million for the six months ended June 30, 2017 compared to \$10.6 million for the six months ended June 30, 2016. The increase was partially attributable to a \$1.2 million increase in overtime wages as activity outpaced headcount growth during the six months ended June 30, 2017 as compared to the prior year period. The increase was also attributable to increases in outside services, rentals and variable supplies expense totaling \$4.4 million and \$1.7 million associated with increased fuel and repair and maintenance expenses associated with the support costs of the increased labor workforce required to meet customer demand.

Wellsite Completion and Construction Services. Cost of revenue increased \$7.7 million, or 57.3%, to \$21.3 million for the six months ended June 30, 2017 compared to \$13.5 million for the six months ended June 30, 2016. The increase was primarily attributable to the addition of the Permian region in 2017 and new customer wins which led to higher direct and contract labor expenses of \$4.1 million. This additional labor expense during the six months ended June 30, 2017 as compared to the prior year period also included coinciding increases in fuel and repair and maintenance costs to support the increased labor force of \$0.9 million as well as an increase in supplies and materials expense of \$0.9 million.

Depreciation and Amortization. Depreciation and amortization expense decreased \$8.5 million, or 16.3%, to \$43.7 million for the six months ended June 30, 2017 compared to \$52.3 million for the six months ended June 30, 2016. The decrease was primarily attributable to assets becoming fully depreciated or being impaired during the first half of 2016.

Gross Profit (Loss)

Gross profit (loss) improved by 41.2 million, to a gross profit of \$12.0 million for the six months ended June 30, 2017 compared to gross loss of \$29.2 million for the six months ended June 30, 2016 as a result of factors described above.

Selling, General and Administrative Expenses

The increase in selling, general, and administrative expenses of \$16.0 million, or 93.5%, to \$33.2 million for the six months ended June 30, 2017 compared to \$17.2 million for the six months ended June 30, 2016 was primarily due to a payout on Select's phantom equity units and IPO success bonuses of \$12.5 million, including associated taxes, an increase in administrative labor costs of \$1.2 million, primarily related to Select's new status as a public company, legal and professional fees of \$1.5 million during the six months ended June 30, 2017 as compared to the prior year period offset by lower corporate office rent of \$0.5 million.

Impairment

There were no impairment losses recorded during the six months ended June 30, 2017. Due to significant reductions in oil and gas prices and rig counts during early 2016, we determined there were triggering events requiring an assessment of the recoverability of goodwill. This assessment resulted in an impairment loss of \$137.6 million related to goodwill and \$60.0 million related to long-lived assets in our water solutions segment, \$1.0 million related to goodwill and less than \$0.1 million related to other intangible assets in our accommodations and rentals segment was recognized in the consolidated statements of operations for the six months ended June 30, 2016.

Lease Abandonment Costs

Due to depressed industry conditions and a resulting reduction in the need for facilities, the Company decided to close certain facilities beginning in the third quarter of 2016. As a result of continuing costs related to certain facilities that are no longer in use, we recorded \$2.3 million of lease abandonment costs during the six months ended June 30, 2017. No lease abandonment costs were incurred during the six months ended June 30, 2016.

Interest Expense

The decrease in interest expense of \$6.0 million, or 81.2%, during the six months ended June 30, 2017 compared to the six months ended June 30, 2016 was due to the completion of the 144A Offering on December 20, 2016 and the completion of the IPO on April 26, 2017. We used the net proceeds from the 144A Offering to repay all outstanding borrowings and the IPO to repay all of our subsequent outstanding indebtedness related to GRR Acquisition.

Net Loss

Net loss decreased by \$231.3 million, or 91.0%, to \$22.8 million for the six months ended June 30, 2017 compared to \$254.0 million for the six months ended June 30, 2016 as a result of the factors described above.

Comparison of Non-GAAP Financial Measures

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, 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.

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 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. You 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 “Summary—Summary Consolidated Financial Data” in our Final Prospectus.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Net loss	\$ (10,490)	\$ (228,238)	\$ (22,770)	\$ (254,031)
Interest expense	671	4,082	1,401	7,449
Depreciation and amortization	23,011	26,766	44,661	53,542
Tax (benefit) expense	(138)	57	(32)	366
EBITDA	13,054	(197,333)	23,260	(192,674)
Impairment	—	198,692	—	198,692
Lease abandonment costs	418	—	2,281	—
Severance costs	122	146	122	542
Deal-related costs	332	24	1,080	(256)
Non-cash incentive compensation	589	(796)	1,232	(487)
Non-cash loss on sale of subsidiaries and other assets	198	(160)	507	462
Phantom equity and IPO-related compensation	12,537	—	12,537	—
Adjusted EBITDA	\$ 27,250	\$ 573	\$ 41,019	\$ 6,279

Liquidity and Capital Resources

Overview

Our primary sources of liquidity to date have been capital contributions from our members, the net proceeds from the 144A Offering, the net proceeds from the IPO, borrowings under our Credit Facility and cash flows from operations. Our primary uses of capital have been capital expenditures to support organic growth and fund acquisitions. Depending upon 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 from our Credit Facility. For a discussion of the Credit Facility, see “—Credit Facility” below. We believe that our operating cash flow and available borrowings under our Credit Facility will be sufficient to fund our operations for at least the next twelve months.

On April 26, 2017, we completed the IPO for net proceeds of approximately \$111.4 million, net of underwriting discounts and commissions and estimated offering expenses. We contributed all of these net proceeds to SES Holdings in exchange for SES Holdings LLC Units. SES Holdings used the net proceeds to repay borrowings incurred under our Credit Facility to fund the cash portion of the purchase price of the GRR Acquisition, for the cash settlement of outstanding phantom unit awards at SES Holdings and for 2017 budgeted capital expenditures. On May 10, 2017, we

received approximately \$17.1 million, net of underwriting discounts and commissions and estimated offering expenses, from the exercise in full by the underwriters of our IPO of their option to purchase additional shares of our Class A common stock. We intend to use the net proceeds from the underwriters' option exercise for general corporate purposes, including funding additional 2017 budgeted capital expenditures.

At June 30, 2017, cash and cash equivalents totaled \$52.8 million. In addition to cash and cash equivalents, we had approximately \$85.9 million of available borrowing capacity under our Credit Facility as of June 30, 2017.

Cash Flows

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

	Six months ended June 30,		Change
	2017	2016	
	(In thousands)		
Net cash (used in) provided by operating activities	\$ (24,010)	\$ 10,977	\$ (34,987)
Net cash used in investing activities	(91,449)	(19,732)	(71,717)
Net cash (used in) provided by financing activities	128,195	(4,914)	133,109
Net increase (decrease) in cash	\$ 12,736	\$ (13,669)	

Analysis of Cash Flow Changes between the Six Months Ended June 30, 2017 and 2016

Operating Activities. Net cash used in operating activities was \$24.0 million for the six months ended June 30, 2017, compared to net cash provided by operating activities of \$11.0 million for the six months ended June 30, 2016. The \$35.0 million decrease in net cash provided by operating activities was primarily attributable to increases in accounts receivable and working capital during the six months ended June 30, 2017 in response to growth in revenues driven by recovering demand for our services as compared to the prior year period.

Investing Activities. Net cash used in investing activities was \$91.4 million for the six months ended June 30, 2017, compared to \$19.7 million for the six months ended June 30, 2016. The \$71.7 million increase in net cash used in investing activities was primarily due to net cash used for the GRR Acquisition of \$49.0 million and by higher capital expenditures during the six months ended June 30, 2017 of \$15.7 million as compared to the six months ended June 30, 2016.

Financing Activities. Net cash from financing activities was \$128.2 million for the six months ended June 30, 2017, compared to cash used in financing activities of \$4.9 million for the six months ended June 30, 2016. The \$133.1 million increase in net cash provided by financing activities was primarily due to \$128.5 million in net proceeds received from the issuance of shares in the IPO, including exercise of the over-allotment option.

Credit Facility

On May 3, 2011, we entered into our Credit Facility, which was amended most recently on June 13, 2017. As of June 30, 2017, the total commitment under our Credit Facility was \$100.0 million in the form of a revolver. As of August 4, 2017, we had no drawn borrowings under this bank facility. However, our available borrowings are reduced by letters of credit of \$14.1 million. The revolver also has a sublimit of \$20.0 million for letters of credit and a sublimit of \$5.0 million for swing-line loans. The most recent amendment of our Credit Facility was to remove the requirement that businesses or assets acquired by us meet a positive EBITDA test (the "Positive EBITDA Test") in order to be a Permitted Acquisition (as defined in and under the Credit Agreement), as well as to waive any defaults resulting from the DAWS Acquisition not being in compliance with the Positive EBITDA Test.

Our Credit Facility contains certain financial covenants, including (i) the maintenance of an Interest Coverage Ratio (as defined in the Credit Facility) of not less than (a) 1.25 to 1.0 for the quarter ending on March 31, 2017, (b) 1.50 to 1.0 for the quarter ending on June 30, 2017, (c) 2.50 to 1.0 for the quarter ending on September 30, 2017 and (d) 3.00 to 1.0 for each fiscal quarter ending on or after December 31, 2017 and (ii) the maintenance of a Leverage Ratio of not

greater than (a) 4.00 to 1.0 for the quarter ending on September 30, 2017, (b) 3.50 to 1.0 for the quarter ending on December 31, 2017, (c) 3.25 to 1.0 for the quarters ending on March 31, 2018, June 30, 2018 and September 30, 2018, (d) 3.00 to 1.0 for the quarter ending December 31, 2018 and (e) 2.75 to 1.0 for each fiscal quarter ending on or after March 31, 2019.

Our scheduled maturity date is February 28, 2020 and the per annum interest rate on our loans is LIBOR plus an applicable margin that ranges between 3.00% and 4.50%, based on our Leverage Ratio. Our capacity to make capital expenditures is \$35 million for the fiscal year ending December 31, 2017 and for each year thereafter is the greater of (i) \$35 million or (ii) 50% of our EBITDA for the prior twelve months; but this restriction is not applicable for any quarter if our Leverage Ratio as of the end of the preceding fiscal quarter was less than 3.00 to 1.0. Our Leverage Ratio was less than 3.00 to 1.0 as of March 31, 2017. In addition, our Credit Facility contains an anti-cash hoarding provision that restricts us from making any borrowing, if after giving effect to such borrowing, we would have in excess of \$20 million in cash and cash equivalents at the end of the week such borrowing is made.

As of June 30, 2017, we were in compliance with all restrictive covenants under our Credit Facility.

Contractual Obligations

Our contractual obligations include, among other things, our Credit Facility and operating leases. Refer to Note 7—Debt and Note 8—Commitments and Contingencies in Part I, Item 1 of this Quarterly Report for an update to our contractual obligations as of June 30, 2017.

Critical Accounting Policies and Estimates

There were no changes to our critical accounting policies from those disclosed in our Final Prospectus filed on April 24, 2017.

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, which is incorporated herein by reference.

Off Balance Sheet Arrangements

Currently, we have no material off balance sheet arrangements, except for operating leases. As such, we are not materially exposed to any 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; the level of prices, and expectations about future prices of oil and gas; the cost of exploring for, developing, producing and delivering oil and gas; the expected rates of declining 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 production levels 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

At June 30, 2017, we had no outstanding debt under our Credit Facility. Interest is calculated under the terms of our Credit Facility 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. Assuming our indebtedness remained constant throughout the period, there would not be an impact on interest expense as a result of a 1% increase or decrease in the interest rate on this amount of debt for the six months ended June 30, 2017. 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. As of August 4, 2017, we had no debt outstanding and approximately \$85.9 million of available borrowing capacity under our Credit Facility.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of 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 on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 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.

Item 1A. Risk Factors

The following risk factors update the risk factors described under “Risk Factors” in the Final Prospectus. Except as set forth below, there have been no material changes to the Risk Factors disclosed in the Final Prospectus.

The pending Merger may not be completed as anticipated, or if completed, may not be beneficial to us.

The closing of the Merger is subject to satisfaction of closing conditions. If any of these conditions are not satisfied or waived, the transactions will not be consummated. There is no assurance that the Merger will close on or before that time, or at all. If we were unable to consummate the Merger, we would not realize the expected benefits of the Merger.

The consummation of the Merger involves potential risks, including, without limitation, the failure to realize expected profitability, growth or accretion; the incurrence of liabilities or other compliance costs related to environmental or regulatory matters, including potential liabilities that may be imposed without regard to fault or the legality of conduct; and the incurrence of unanticipated liabilities and costs for which indemnification is unavailable or inadequate. If we consummate the Merger and if these risks or other unanticipated liabilities were to materialize, any desired benefits of the Merger may not be fully realized, if at all, and our future financial performance and results of operations could be negatively impacted.

The Merger is subject to conditions, including some conditions that may not be satisfied on a timely basis, if at all. Failure to complete the Merger, or significant delays in completing the Merger, could negatively affect our future business and financial results and the trading prices of our shares.

The completion of the Merger is subject to a number of conditions. The completion of the Merger is not assured and is subject to risks. Further, the Merger may not be consummated even though stockholder approval has been obtained. The Merger Agreement contains conditions, some of which are beyond the parties’ control, that, if not satisfied or waived, may prevent, delay or otherwise result in the Merger not occurring.

If the Merger is not completed, or if there are significant delays in completing the Merger, our future business and financial results and the trading prices of our shares could be negatively affected, and each of the parties will be subject to several risks, including the following:

- the parties may be liable for damages to one another under the terms and conditions of the Merger Agreement;
- there may be negative reactions from the financial markets due to the fact that current prices of our shares may reflect a market assumption that the Merger will be completed; and
- the attention of management will have been diverted to the Merger rather than their own operations and pursuit of other opportunities that could have been beneficial to our business.

Failure to successfully combine our business with the business from Rockwater may adversely affect our future results.

The consummation of the Merger involves potential risks, including:

- the failure to realize expected profitability, growth or accretion;
- environmental or regulatory compliance matters or liabilities;
- diversion of management's attention from our existing businesses; and
- the incurrence of unanticipated liabilities and costs for which indemnification is unavailable or inadequate.

If we consummate the Merger and if these risks or other anticipated or unanticipated liabilities were to materialize, any desired benefits of the Merger may not be fully realized, if at all, and our future business operations and our cash available for distribution could be negatively impacted.

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

Unregistered Sales of Equity Securities

On May 30, 2017, we issued 128,370 shares of Class A common stock to the former shareholders of Data Automated Water Systems, LLC as partial consideration for the DAWS Acquisition. This issuance of Class A common stock did not involve any underwriters, underwriting discounts or commissions or a public offering, and such issuance was exempt from registration requirements pursuant to Section 4(a)(2) of the Securities Act.

Use of Proceeds

On April 26, 2017, we completed our IPO of 8,700,000 shares of Class A common stock at a price of \$14.00 per share pursuant to our registration statement on Form S-1 (File 333-216404), as amended and declared effective by the SEC on April 20, 2017 (the "Registration Statement"). Credit Suisse Securities (USA) LLC, FBR Capital Markets & Co. and Wells Fargo Securities, LLC acted as joint book-running managers and representatives of the underwriters in the offering.

The aggregate proceeds of our IPO were \$121.8 million. We incurred expenses in connection with our IPO of approximately \$2.8 million as of June 30, 2017. After subtracting underwriting discounts and commissions of \$7.6 million and the estimated offering expenses, we received net proceeds of approximately \$111.4 million from the sale of 8,700,000 shares of Class A Common Stock. On May 10, 2017, the underwriters of our IPO exercised their over-allotment option to purchase an additional 1,305,000 shares of Class A common stock at the IPO price of \$14.00 per share. The aggregate proceeds from the exercise of the over-allotment option were approximately \$18.3 million. After subtracting underwriting discounts and commissions of approximately \$1.1 million and the estimated offering expenses, we received net proceeds of approximately \$17.1 million from the sale of 1,305,000 shares of Class A common stock. We contributed all of these net proceeds to SES Holdings in exchange for SES Holdings LLC Units. SES Holdings used \$34.0 million to repay all of its outstanding indebtedness under its credit facility, \$7.8 million for the cash settlement of outstanding phantom units and \$69.6 million for 2017 budgeted capital expenditures. We intend to use the net proceeds from the underwriters' option exercise for general corporate purposes, including funding additional 2017 budgeted capital expenditures. No payments, fees or expenses have been paid, directly or indirectly, to any officer, director, or 10% stockholder or other affiliate.

Issuer Purchases of Equity Securities

Neither we nor any affiliated purchaser repurchased any of our equity securities during the period covered by this Quarterly Report on Form 10-Q.

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 part of this report, and such Exhibit Index is incorporated herein by reference.

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.

Date: August 11, 2017

SELECT ENERGY SERVICES, INC.

By: /s/ John D. Schmitz

John D. Schmitz
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2017

By: /s/ Gary Gillette

Gary Gillette
Chief Financial Officer and Senior Vice President
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of July 18, 2017, by and among Select Energy Services, Inc., SES Holdings, LLC, Raptor Merger Sub, Inc., Raptor Merger Sub, LLC, Rockwater Energy Solutions, Inc. and Rockwater Energy Solutions, LLC (incorporated by reference herein to Exhibit 2.1 to Select Energy Services, Inc.'s Current Report on Form 8-K, filed on July 19, 2017).
3.1	Second Amended and Restated Certificate of Incorporation of Select Energy Services, Inc. (incorporated by reference herein to Exhibit 3.1 to Amendment No. 2 to Select Energy Services, Inc.'s Registration Statement on Form S-1/A, filed on April 10, 2017 (Registration No. 333-216404)).
3.2	Amended and Restated Bylaws of Select Energy Services, Inc. (incorporated by reference herein to Exhibit 3.2 to Select Energy Services, Inc.'s Registration Statement on Form S-1, filed on March 2, 2017 (Registration No. 333-216404)).
4.1	Form of Stock Certificate (incorporated by reference herein to Exhibit 4.1 to Select Energy Services, Inc.'s Registration Statement on Form S-1, filed on March 2, 2017 (Registration No. 333-216404)).
4.2	Amended and Restated Registration Rights Agreement, dated as of July 18, 2017, by and among Select Energy Services, Inc., SES Legacy Holdings, LLC, Crestview Partners II SES Investment B, LLC, SCF-VI, L.P., SCF-VII, L.P., SCF-VII(A), L.P. and WDC Aggregate LLC (incorporated by reference herein to Exhibit 4.1 to Select Energy Services, Inc.'s Current Report on Form 8-K, filed on July 19, 2017).
4.3	Registration Rights Agreement, dated December 20, 2016, by and between Select Energy Services, Inc. and FBR Capital Markets & Co. (incorporated by reference herein to Exhibit 4.3 to Select Energy Services, Inc.'s Registration Statement on Form S-1, filed on March 2, 2017 (Registration No. 333-216404)).
10.1	Waiver and Amendment No. 16 to Amended and Restated Revolving Credit Agreement, dated June 13, 2017 (incorporated by reference herein to Exhibit 10.1 to Select Energy Services, Inc.'s Current Report on Form 8-K, filed on June 16, 2017).
10.2	First Amendment to Select Energy Services, Inc. 2016 Equity Incentive Plan.
10.3	Amendment No. 1 to Tax Receivable Agreement, dated July 18, 2017, by and among Select Energy Services, Inc., SES Legacy Holdings, LLC and Crestview Partners II GP, L.P.
10.4	Amendment No. 1 to Tax Receivable Agreement, dated July 18, 2017, by and among Select Energy Services, Inc., Crestview Partners II SES Investment B, LLC and Crestview Partners II GP, L.P.
31.1	Certification of Chief Executive Officer required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer required by Rules 13a-14 and 15d-14 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

**FIRST AMENDMENT TO THE
SELECT ENERGY SERVICES, INC.
2016 EQUITY INCENTIVE PLAN**

WHEREAS, Select Energy Services, Inc. (the “*Company*”) maintains the Select Energy Services, Inc. 2016 Equity Incentive Plan (the “*Plan*”); and

WHEREAS, the Company desires to amend the Plan in certain respects.

NOW, THEREFORE, subject to approval by the Company’s stockholders and the consummation of the transactions contemplated by that certain Agreement and Plan of Merger by and among the Company, Rockwater Energy Solutions, Inc., Rockwater Energy Solutions, LLC, SES Holdings, LLC Rockwater Merger Sub, Inc. and Rockwater Merger Sub, LLC, dated as of July 18, 2017 (the “*Merger Agreement*”), the Plan shall be amended as follows effective as of the Closing Date (as defined in the Merger Agreement):

1. The following two sentences shall be added to the end of Section 4(a) of the Plan:

“Notwithstanding any provision herein, subject to the listing rules of the stock exchange, if any, on which the Stock is listed, shares of Stock delivered with respect to Substitute Awards granted in assumption of, or in substitution for, awards held by individuals who become Eligible Persons as a result of a merger, consolidation or acquisition of another entity or the assets of another entity by or with the Company or an Affiliate shall not reduce the number of shares of Stock in the Share Pool; provided, however, that such Substitute Awards issued in connection with the assumption of, or in substitution for, outstanding options intended to qualify as ISOs shall count against the limitation with respect to shares that may be issued upon the exercise of ISOs provided in Section 4(a). Subject to the listing rules of the stock exchange, if any, on which the Stock is listed, a number of shares under a pre-existing shareholder-approved plan of an entity directly or indirectly acquired by the Company or any Affiliate as a result of a merger, consolidation or acquisition equal to the shares remaining available for delivery under such pre-existing shareholder-approved plan as of the date of the consummation of such transaction (as appropriately adjusted to reflect such transaction) may, if and to the extent permitted by the Board, be delivered with respect to Awards under the Plan and such shares shall not reduce the number of shares of Stock in the Share Pool; provided, however, that such Awards shall not be made after the date awards or grants could have otherwise been made under the terms of such pre-existing shareholder-approved plan, absent the transaction.”

2. Except as amended hereby, the Plan is specifically ratified and reaffirmed.

[Remainder of Page Intentionally Left Blank]

**AMENDMENT NO. 1 TO
TAX RECEIVABLE AGREEMENT**

This AMENDMENT NO. 1 (this "Amendment"), dated as of July 18, 2017, to that certain Tax Receivable Agreement, dated as of December 19, 2016 (the "Agreement"), by and among Select Energy Services, Inc., a Delaware corporation (the "Corporate Taxpayer"), the TRA Holders and the Agents. Capitalized terms used but not defined herein have the meanings given such terms in the Agreement.

WHEREAS, the Corporate Taxpayer, the TRA Holders and the Agents are parties to the Agreement;

WHEREAS, concurrently with the execution and delivery of this Amendment, the Corporate Taxpayer has entered into an Agreement and Plan of Merger (the "Merger Agreement") with Rockwater Energy Solutions, Inc., a Delaware corporation, Raptor Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Corporate Taxpayer, SES Holdings, LLC, a Delaware limited liability company ("SES LLC"), Raptor Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of SES LLC, and Rockwater Energy Solutions, LLC, a Delaware limited liability company;

WHEREAS, pursuant to Section 7.7 of the Agreement, the Agreement may be amended in writing by each of the Corporate Taxpayer and by TRA Holders who would be entitled to receive more than fifty percent (50%) of the aggregate amount of the Early Termination Payments payable to all TRA Holders if the Corporate Taxpayer had exercised its right of early termination on the date of the most recent Exchange prior to such amendment; and

WHEREAS, in connection with the Merger Agreement, the Corporate Taxpayer and the TRA Holders desire to amend the Agreement as set forth in this Amendment.

NOW THEREFORE, in consideration of the foregoing and the covenants and agreements set forth herein and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. The definition of "Change of Control" in Section 1.1 of the Agreement is hereby amended and restated in its entirety as follows:

“Change of Control” means the occurrence of any of the following events after the 144A Date:

- (i) any Person or any group of Persons acting together which would constitute a “group” for purposes of Section 13(d) of the Securities and Exchange Act of 1934, or any successor provisions thereto (excluding (i) one or more members of the Legacy Group, whether individually or as a group, (ii) any “group” which includes any one or more members of the Legacy Group (the members of the Legacy Group in such “group”, the "Group Members") if such Group Members collectively are the record holders of more than 50% of the Corporate Taxpayer’s outstanding voting securities that are Beneficially Owned by such “group”; or (iii) a corporation or other entity owned, directly or indirectly, by the stockholders of the Corporate
-

Taxpayer in substantially the same proportions as their ownership of stock in the Corporate Taxpayer), is or becomes the Beneficial Owner, directly or indirectly, of securities of the Corporate Taxpayer representing more than 50% of the combined voting power of the Corporate Taxpayer's then outstanding voting securities; or

- (ii) the following individuals cease for any reason to constitute a majority of the number of directors of the Corporate Taxpayer then serving: individuals who, on the 144A Date, constitute the Board and any new director whose appointment or election by the Board or nomination for election by the Corporate Taxpayer's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the 144A Date or whose appointment, election or nomination for election was previously so approved or recommended by the directors referred to in this clause (ii); or
- (iii) there is consummated a merger or consolidation of the Corporate Taxpayer with any other corporation or other entity, and, immediately after the consummation of such merger or consolidation, either (A) the members of the Board immediately prior to the merger or consolidation does not constitute at least a majority of the members of the board of directors of the company surviving the merger or, if the surviving company is a Subsidiary, the ultimate parent thereof, or (B) the voting securities of the Corporate Taxpayer immediately prior to such merger or consolidation do not continue to represent or are not converted into more than 50% of the combined voting power of the then-outstanding voting securities of the Person resulting from such merger or consolidation or, if the surviving company is a Subsidiary, the ultimate parent thereof; or
- (iv) the stockholders of the Corporate Taxpayer approve a plan of complete liquidation or dissolution of the Corporate Taxpayer or there is consummated an agreement or series of related agreements for the sale or other disposition, directly or indirectly, by the Corporate Taxpayer of all or substantially all of the Corporate Taxpayer's assets, other than such sale or other disposition by the Corporate Taxpayer of all or substantially all of the Corporate Taxpayer's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Corporate Taxpayer in substantially the same proportions as their ownership of the Corporate Taxpayer immediately prior to such sale; or
- (v) the Corporate Taxpayer ceases to be the sole managing member of SES LLC.

Notwithstanding the foregoing, except with respect to clause (ii) and clause (iii)(A) above, a "Change of Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the shares of the Corporate Taxpayer immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in, and own substantially all of the shares of, an entity which owns, either directly or through a Subsidiary, all or substantially all of the assets of the Corporate Taxpayer immediately following such transaction or series of transactions."

2. The parties acknowledge and agree that a “Change of Control” under the Agreement shall not be deemed to have occurred by virtue of the consummation of the transactions contemplated by the Merger Agreement and, for purposes of the Agreement, any individual who is appointed or elected as a director of the Corporate Taxpayer in connection with the Merger Agreement and the transactions contemplated thereby shall be deemed to have been approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the 144A Date or whose appointment, election or nomination for election was previously so approved or recommended by directors referred to in clause (ii) of the definition of “Change of Control” in the Agreement.

3. This Amendment shall not be effective unless and until the Closing (as defined in the Merger Agreement) occurs under the Merger Agreement, whereupon it shall become effective automatically. In the event that the Merger Agreement is terminated pursuant to its terms, on the date of such termination, this Amendment automatically shall terminate and shall be of no further force or effect.

4. Except as expressly amended hereby, the Agreement remains unmodified and in full force and effect as originally executed without waiver of any provision thereof. Whenever the Agreement is referred to in any agreement, document or other instrument, such reference will be to the Agreement as amended hereby. In the event of any conflict between the terms of this Amendment and the Agreement, the terms of this Amendment shall prevail.

5. This Amendment shall be binding upon the Corporate Taxpayer and the TRA Holders and each of their respective successors and permitted assigns, and nothing in this Amendment, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Amendment.

6. This Amendment shall be governed by, and construed in accordance with, the law of the State of Delaware, without regard to the conflicts of laws principles thereof that would mandate the application of the laws of another jurisdiction.

7. This Amendment may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart. Delivery of an executed signature page to this Amendment by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Amendment.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, the Corporate Taxpayer and the TRA Holders have duly executed this Amendment as of the date first written above.

CORPORATE TAXPAYER:

SELECT ENERGY SERVICES, INC.

By: /s/ John D. Schmitz

Name: John D. Schmitz

Title: Chairman and Chief Executive Officer

TRA HOLDER:

SES LEGACY HOLDINGS, LLC

By: /s/ John D. Schmitz

Name: John D. Schmitz

Title: President

Signature Page to Amendment No. 1 to Tax Receivable Agreement

**AMENDMENT NO. 1 TO
TAX RECEIVABLE AGREEMENT**

This AMENDMENT NO. 1 (this "Amendment"), dated as of July 18, 2017, to that certain Tax Receivable Agreement, dated as of December 19, 2016 (the "Agreement"), by and among Select Energy Services, Inc., a Delaware corporation (the "Corporate Taxpayer"), the TRA Holders and the Agent. Capitalized terms used but not defined herein have the meanings given such terms in the Agreement.

WHEREAS, the Corporate Taxpayer, the TRA Holders and the Agent are parties to the Agreement;

WHEREAS, concurrently with the execution and delivery of this Amendment, the Corporate Taxpayer has entered into an Agreement and Plan of Merger (the "Merger Agreement") with Rockwater Energy Solutions, Inc., a Delaware corporation, Raptor Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Corporate Taxpayer, SES Holdings, LLC, a Delaware limited liability company ("SES LLC"), Raptor Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of SES LLC, and Rockwater Energy Solutions, LLC, a Delaware limited liability company;

WHEREAS, pursuant to Section 7.7 of the Agreement, the Agreement may be amended in writing by each of the Corporate Taxpayer and by TRA Holders who would be entitled to receive more than fifty percent (50%) of the aggregate amount of the Early Termination Payments payable to all TRA Holders if the Corporate Taxpayer had exercised its right of early termination on the date of the Reorganization Transactions; and

WHEREAS, in connection with the Merger Agreement, the Corporate Taxpayer and the TRA Holders desire to amend the Agreement as set forth in this Amendment.

NOW THEREFORE, in consideration of the foregoing and the covenants and agreements set forth herein and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. The definition of "Change of Control" in Section 1.1 of the Agreement is hereby amended and restated in its entirety as follows:

“Change of Control” means the occurrence of any of the following events after the 144A Date:

- (i) any Person or any group of Persons acting together which would constitute a “group” for purposes of Section 13(d) of the Securities and Exchange Act of 1934, or any successor provisions thereto (excluding (i) one or more members of the Legacy Group, whether individually or as a group, (ii) any “group” which includes any one or more members of the Legacy Group (the members of the Legacy Group in such “group”, the "Group Members") if such Group Members collectively are the record holders of more than 50% of the Corporate Taxpayer’s outstanding voting securities that are Beneficially Owned by such “group”; or (iii) a corporation or other entity owned,
-

directly or indirectly, by the stockholders of the Corporate Taxpayer in substantially the same proportions as their ownership of stock in the Corporate Taxpayer), is or becomes the Beneficial Owner, directly or indirectly, of securities of the Corporate Taxpayer representing more than 50% of the combined voting power of the Corporate Taxpayer's then outstanding voting securities; or

- (ii) the following individuals cease for any reason to constitute a majority of the number of directors of the Corporate Taxpayer then serving: individuals who, on the 144A Date, constitute the Board and any new director whose appointment or election by the Board or nomination for election by the Corporate Taxpayer's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the 144A Date or whose appointment, election or nomination for election was previously so approved or recommended by the directors referred to in this clause (ii); or
- (iii) there is consummated a merger or consolidation of the Corporate Taxpayer with any other corporation or other entity, and, immediately after the consummation of such merger or consolidation, either (A) the members of the Board immediately prior to the merger or consolidation does not constitute at least a majority of the members of the board of directors of the company surviving the merger or, if the surviving company is a Subsidiary, the ultimate parent thereof, or (B) the voting securities of the Corporate Taxpayer immediately prior to such merger or consolidation do not continue to represent or are not converted into more than 50% of the combined voting power of the then-outstanding voting securities of the Person resulting from such merger or consolidation or, if the surviving company is a Subsidiary, the ultimate parent thereof; or
- (iv) the stockholders of the Corporate Taxpayer approve a plan of complete liquidation or dissolution of the Corporate Taxpayer or there is consummated an agreement or series of related agreements for the sale or other disposition, directly or indirectly, by the Corporate Taxpayer of all or substantially all of the Corporate Taxpayer's assets, other than such sale or other disposition by the Corporate Taxpayer of all or substantially all of the Corporate Taxpayer's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Corporate Taxpayer in substantially the same proportions as their ownership of the Corporate Taxpayer immediately prior to such sale; or
- (v) the Corporate Taxpayer ceases to be the sole managing member of SES LLC.

Notwithstanding the foregoing, except with respect to clause (ii) and clause (iii)(A) above, a "Change of Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the shares of the Corporate Taxpayer immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in, and own substantially all of the shares of, an entity which owns, either directly or through a Subsidiary, all or substantially all of the assets of the Corporate Taxpayer immediately following such transaction or series of transactions."

2. The parties acknowledge and agree that a “Change of Control” under the Agreement shall not be deemed to have occurred by virtue of the consummation of the transactions contemplated by the Merger Agreement and, for purposes of the Agreement, any individual who is appointed or elected as a director of the Corporate Taxpayer in connection with the Merger Agreement and the transactions contemplated thereby shall be deemed to have been approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the 144A Date or whose appointment, election or nomination for election was previously so approved or recommended by directors referred to in clause (ii) of the definition of “Change of Control” in the Agreement.

3. This Amendment shall not be effective unless and until the Closing (as defined in the Merger Agreement) occurs under the Merger Agreement, whereupon it shall become effective automatically. In the event that the Merger Agreement is terminated pursuant to its terms, on the date of such termination, this Amendment automatically shall terminate and shall be of no further force or effect.

4. Except as expressly amended hereby, the Agreement remains unmodified and in full force and effect as originally executed without waiver of any provision thereof. Whenever the Agreement is referred to in any agreement, document or other instrument, such reference will be to the Agreement as amended hereby. In the event of any conflict between the terms of this Amendment and the Agreement, the terms of this Amendment shall prevail.

5. This Amendment shall be binding upon the Corporate Taxpayer and the TRA Holders and each of their respective successors and permitted assigns, and nothing in this Amendment, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Amendment.

6. This Amendment shall be governed by, and construed in accordance with, the law of the State of Delaware, without regard to the conflicts of laws principles thereof that would mandate the application of the laws of another jurisdiction.

7. This Amendment may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart. Delivery of an executed signature page to this Amendment by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Amendment.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, the Corporate Taxpayer and the TRA Holders have duly executed this Amendment as of the date first written above.

CORPORATE TAXPAYER:

SELECT ENERGY SERVICES, INC.

By: /s/ John D. Schmitz
Name: John D. Schmitz
Title: Chairman and Chief Executive Officer

TRA HOLDER:

CRESTVIEW PARTNERS II SES INVESTMENT B, LLC

By: /s/ Ross A. Oliver
Name: Ross A. Oliver
Title: General Counsel

Signature page to Amendment No. 1 to Tax Receivable Agreement

**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, John D. Schmitz, 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)) 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. 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
 - c. 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 11, 2017

/s/ John D. Schmitz

John D. Schmitz
Chairman and Chief Executive Officer
(Principal Executive Officer)

**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, Gary Gillette, 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)) 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. 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
 - c. 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 11, 2017

/s/ Gary Gillette

Gary Gillette

Chief Financial Officer and Senior Vice President

(Principal Financial Officer and Principal Accounting Officer)

**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"), John D. Schmitz, 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 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 11, 2017

/s/ John D. Schmitz

John D. Schmitz
Chairman and Chief Executive Officer
(Principal Executive Officer)

**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"), Gary Gillette, 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 11, 2017

/s/ Gary Gillette

Gary Gillette
Chief Financial Officer and Senior Vice President
(Principal Financial Officer and Principal
Accounting Officer)
