
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (date of earliest event reported): **October 22, 2018 (October 22, 2018)**

KLX Energy Services Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of incorporation)

001-38609
(Commission File Number)

36-4904146
(I.R.S. Employer
Identification No.)

1300 Corporate Center Way, Wellington, Florida
(Address of principal executive offices)

33414-2105
(Zip Code)

Registrant's telephone number, including area code: **(561) 383-5100**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Item 1.01 Entry into a Material Definitive Agreement

On October 22, 2018, KLX Energy Services Holdings, Inc. (the “Company”) entered into a Unit Purchase Agreement (the “Unit Purchase Agreement”) by and among the Company, KLX Energy Services LLC, a wholly-owned subsidiary of the Company, District 5 Investments, LP (“D5”), 3M Capital, Inc. (“3M”) and Marco D. Davis (“Davis” and, together with D5 and 3M, each individually, a “Seller” and, collectively, the “Sellers”) pursuant to which the Company agreed to acquire (the “Acquisition”) 100% of the outstanding units of Motley Services, LLC (“Motley”) from the Sellers for a purchase price of \$139.2 million in cash, subject to certain purchase price adjustments, and \$9.0 million of shares of the Company’s common stock payable to certain employees of Motley. The shares will be issued in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”). The Company intends to fund the cash consideration and other amounts payable in connection with the Acquisition with a portion of the proceeds from a debt financing.

In the Unit Purchase Agreement, KLX Energy Services LLC and the Sellers have made customary representations and warranties relating to their respective businesses and have agreed to customary covenants relating to the Acquisition. Among other things, prior to the consummation of the Acquisition, the Sellers will be subject to certain business conduct restrictions with respect to the operation of Motley’s business. In addition, KLX Energy Services LLC and the Sellers have agreed to indemnify each other for losses arising from certain breaches of the Unit Purchase Agreement and for certain other matters.

The Acquisition is expected to be consummated in late October or early November 2018. The consummation of the Acquisition is subject to certain customary closing conditions, including, among other things, (i) the absence of a material adverse effect on Motley or the ability of the Sellers to consummate the Acquisition, (ii) the expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (iii) the accuracy of the representations and warranties of the parties (generally subject to a customary material adverse effect standard (as described in the Unit Purchase Agreement) or other customary materiality qualifications), (iv) the absence of any governmental restriction on the consummation of the Acquisition and (v) material compliance by the parties with their respective covenants and agreements under the Unit Purchase Agreement. The Unit Purchase Agreement also contains certain termination rights, including the right of either party to terminate the Unit Purchase Agreement if the consummation of the Acquisition has not occurred on or before December 21, 2018, or if the Company has not obtained any portion of the proceeds expected from a debt financing by November 15, 2018.

The foregoing description of the Unit Purchase Agreement and the transactions contemplated thereby is not complete and is subject to, and qualified in its entirety by reference to, the Unit Purchase Agreement, a copy of which is filed herewith as Exhibit 2.1 and is incorporated by reference herein.

The foregoing summary has been included to provide investors and security holders with information regarding the terms of the Unit Purchase Agreement. However, it is not intended to provide any other factual information about the Company, Motley or their respective subsidiaries and affiliates. The Unit Purchase Agreement contains representations and warranties by each of the parties to the Unit Purchase Agreement, which were made only for purposes of that agreement and as of specified dates. The representations, warranties and covenants in the Unit Purchase Agreement were made solely for the benefit of the parties to the Unit Purchase Agreement, are subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the Unit Purchase Agreement instead of establishing these matters as facts, and are subject to standards of materiality applicable to the contracting parties that may differ from those applicable to investors. Investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of the Company, Motley or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Unit Purchase Agreement, which subsequent information may or may not be fully reflected in the Company’s public disclosures.

In connection with the Acquisition, the Company entered into an amendment (the “First Amendment”) to the Company’s \$100 million asset-based revolving credit facility (“Credit Facility”). Among other things, the amendment permits the incurrence of indebtedness necessary to consummate the Acquisition. A copy of the First Amendment is filed as Exhibit 10.1 to this Current Report on Form 8-K and is incorporated by reference to this Item 1.01. The description above does not provide a complete description of the Credit Facility and is qualified in its entirety by the complete text of the Credit Facility itself.

Item 2.02 Results of Operations and Financial Condition

The Company is furnishing under this Item 2.02 certain guidance regarding its financial results for the quarter ending October 31, 2018. The information set forth in the section captioned “Recent developments—KLX Energy Services third quarter financial guidance” in Exhibit 99.1 to this Current Report is incorporated herein by reference.

Item 3.02 Unregistered Sales of Equity Securities

The information set forth in Item 1.01 of this Current Report on Form 8-K is incorporated by reference into this Item 3.02. The private placement of common stock of the Company in connection with the Unit Purchase Agreement will be undertaken in reliance upon an exemption from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof.

Item 7.01 Regulation FD Disclosure

On October 22, 2018, the Company issued a press release to announce the Acquisition. A copy of the press release is attached hereto as Exhibit 99.2 and is incorporated herein by reference.

The Company is furnishing information included in Exhibit 99.1 that was delivered to potential investors to satisfy the Company’s public disclosure requirements under Regulation FD.

The information in this Item 7.01 of this Current Report on Form 8-K is being “furnished” pursuant to General Instruction B.2 of Form 8-K and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, and is not incorporated by reference into any Company filing, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Cautionary Statement Regarding Forward-Looking Statements

This communication contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Such forward-looking statements, including those regarding the timing and consummation of the transactions described herein, involve risks and uncertainties that may cause the Company’s actual future results to differ materially from those projected or contemplated in the forward-looking statements. These risks and uncertainties include, but are not limited to, the ability to complete the transaction in a timely manner or at all (which may adversely affect the Company’s business), the failure to satisfy the conditions to the consummation of the transaction (including the receipt of certain governmental and regulatory approvals), adjustments to the purchase price, the ability to achieve expected synergies, the ability to achieve accretion to the Company’s earnings, revenues or other benefits expected, disruption to business relationships, operating results, and business generally of the Company and/or Motley, the ability to retain Motley employees, and the availability of debt and equity financing. Given the risks and uncertainties inherent in forward-looking statements, any of the Company’s forward-looking statements could be incorrect and investors are cautioned not to place undue reliance on any of the Company’s forward-looking statements. The actual experience and results of the Company and of Motley may differ materially from the experience and results anticipated in such statements. Factors that might cause such a difference include those discussed in the Company’s filings with the SEC, which include the Registration Statement on Form 10, filed with the Securities and Exchange Commission (the “SEC”) on August 24, 2018, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. For more information, see the sections entitled “Risk Factors” and “Special Note About Forward-Looking Statements” contained in the Company’s Form 10 and in other filings. The forward-looking statements included in this communication are made only as of the date hereof and, except as required by federal securities laws and rules and regulations of the SEC, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 9.01. Financial Statements and Exhibits

Financial statements

The historical audited financial statements and related notes of Motley as of and for the years ended December 31, 2017 and 2016 are filed herewith as Exhibit 99.3 and incorporated herein by reference.

The historical unaudited financial statements and related notes of Motley as of and for the six months ended June 30, 2018 and 2017 are filed herewith as Exhibit 99.4 and incorporated herein by reference.

Pro forma financial information

The unaudited pro forma condensed combined financial statements and related notes of the Company, giving effect to the Acquisition and related transactions, as of and for the six and twelve months ended July 31, 2018, the year ended January 31, 2018 and the six months ended July 31, 2017, are filed herewith as Exhibit 99.5 and incorporated herein by reference.

Exhibits

The following exhibits are filed or furnished, as applicable, as part of this Current Report:

<u>Exhibit No.</u>	<u>Description</u>
2.1	<u>Unit Purchase Agreement, dated as of October 22, 2018, by and among KLX Energy Services Holdings, Inc., KLX Energy Services LLC, District 5 Investments, LP, 3M Capital, Inc. and Marco D. Davis.*</u>
10.1	<u>First Amendment, dated as of October 22, 2018, to Credit Agreement, dated as of August 10, 2018, by and among KLX Energy Services Holdings, Inc., the Subsidiary Guarantors party thereto, the several Lenders and JPMorgan Chase Bank, N.A. as Administrative Agent and Collateral Agent.</u>
23.1	<u>Consent of Johnson, Miller & Co. CPA's PC, independent registered public accounting firm to Motley Services, LLC.</u>
23.2	<u>Consent of FCA, Certified Public Accountants, PLLC, independent registered public accounting firm to Motley Services, LLC.</u>
99.1	<u>Certain excerpts from information being delivered to potential investors.**</u>
99.2	<u>Press Release of KLX Energy Services Holdings, Inc., dated as of October 22, 2018, announcing the Acquisition.**</u>
99.3	<u>The audited financial statements and related notes of Motley Services, LLC as of and for the years ended December 31, 2017 and 2016.</u>
99.4	<u>The unaudited condensed financial statements and related notes of Motley Services, LLC as of and for the six months ended June 30, 2018 and 2017.</u>
99.5	<u>Unaudited pro forma condensed combined financial statements and related notes of KLX Energy Services Holdings, Inc., giving effect to the Acquisition and related transactions, as of and for the six and twelve months ended July 31, 2018 and for the year ended January 31, 2018.</u>

* Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the SEC upon request.

** Furnished and not filed.

SIGNATURE

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

Dated: October 22, 2018

KLX ENERGY SERVICES HOLDINGS, INC.

By: /s/ Thomas P. McCaffrey
Name: Thomas P. McCaffrey
Title: Senior Vice President and Chief Financial Officer

October 22, 2018

KLX ENERGY SERVICES LLC,
KLX ENERGY SERVICES HOLDINGS, INC.,
DISTRICT 5 INVESTMENTS, LP,
3M CAPITAL, INC.,
AND
MARCO D. DAVIS
UNIT PURCHASE AGREEMENT

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UNIT PURCHASE AGREEMENT

THIS UNIT PURCHASE AGREEMENT (this *Agreement*), dated as of October 22, 2018, is entered into by and among District 5 Investments, LP, a limited partnership organized under the laws of Texas (*D5*), 3M Capital, Inc., a corporation organized under the laws of Texas (*3M*), and Marco D. Davis (*Davis*, and together with D5 and 3M, each individually a *Seller*, and collectively, the *Sellers*), KLX Energy Services LLC, a limited liability company organized under the laws of Delaware (the *Purchaser*), and KLX Energy Services Holdings, Inc., a corporation organized under the laws of Delaware (*Parent*). Each of the Sellers, the Purchaser and Parent are referred to herein individually as a *Party* and collectively as the *Parties*.

RECITALS

WHEREAS, D5 owns 9,582 of the outstanding Class A Units (the *Class A Units*) of Motley Services, LLC (the *Target Company*) and 3M owns 1,121 of the outstanding Class A Units of the Target Company, which together constitute 100% of the issued and outstanding Class A Units of the Target Company.

WHEREAS, Davis owns all of the issued and outstanding Class B Units (the *Class B Units*, together with the Class A Units, the *Units*) of the Target Company.

WHEREAS, the Purchaser desires to purchase 100% of the issued and outstanding Units pursuant to the terms and conditions of this Agreement.

WHEREAS, each of the Sellers desires to sell to the Purchaser 100% of its Units pursuant to the terms and conditions of this Agreement.

WHEREAS, concurrently with the execution and delivery of this Agreement, and as a condition and inducement to the willingness of the Purchaser to enter into this Agreement, each of the individuals set forth on Part A of Annex 1 hereto (a *Motley Perforator Class B Unitholder*) has separately entered into a redemption agreement (each, a *Motley Perforator Redemption Agreement*) with Motley Perforators, LLC (*Motley Perforator*), each dated as of the date of this Agreement, providing that, among other things, at the Closing: (i) such Motley Perforator Class B Unitholder shall tender 100% of its Class B Units held in Motley Perforator (*Motley Perforator Class B Units*) to Motley Perforator for redemption in cash, and (ii) Motley Perforator shall redeem for cash 100% of such Motley Perforator Class B Unit Holder's Motley Perforator Class B Units.

WHEREAS, concurrently with the execution and delivery of this Agreement, and as a condition and inducement to the willingness of the Purchaser to enter into this Agreement, each of the individuals set forth on Part B of Annex 1 hereto (a *Motley Coil Class B Unitholder*) has separately entered into a redemption agreement (each, a *Motley Coil Redemption Agreement*) with Motley Coil, LLC (*Motley Coil*), each dated as of the date of this Agreement, providing that, among other things, at the Closing: (i) such

Motley Coil Class B Unitholder shall tender 100% of its Class B Units held in Motley Coil (**Motley Coil Class B Units**) to Motley Coil for redemption in cash, and (ii) Motley Coil shall redeem for cash 100% of such Motley Coil Class B Unit Holder's Motley Coil Class B Units.

WHEREAS, as a condition and inducement to Purchaser's willingness to enter into this Agreement and consummate the transactions contemplated hereby, each of the Key Managers (as defined herein) has entered into an employment agreement with Purchaser (collectively, the **Employment Agreements**), and the Employment Agreements have not been terminated.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the mutual terms, conditions and other agreements set forth herein, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I DEFINITIONS AND INTERPRETATION

1.01 Definitions

As used herein, the following terms have the following meanings:

Accounting Firm means KPMG or, if such firm is unable or unwilling to so act (to the extent required under the provisions of this Agreement), such other "Big Four" firm of independent public accountants as shall be agreed upon in writing by the Purchaser and the Sellers.

Accounting Principles means GAAP as applied in connection with the preparation of the Financial Statements.

Acquisition has the meaning set forth in Section 2.01(a).

Affiliate means, with respect to any Person, any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, "control" (including, with correlative meaning, the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities or otherwise, and will be construed in accordance with the rules of the SEC promulgated under the Securities Act.

Affiliate Contract has the meaning set forth in Section 4.11(a)(xi).

Agreement has the meaning set forth in the Preamble.

Antitrust Laws means any federal, state or foreign antitrust, competition or trade regulatory Applicable Law, including the Sherman Act; the Clayton Act; the HSR Act; and the Federal Trade Commission Act; each as amended.

Applicable Law means any supra-national, federal, national, state, municipal or local statute, law, ordinance, regulation, rule, code, order (whether executive, administrative, legislative, judicial or otherwise), judgment, injunction, decree or other requirement or rule of law or legal process (including common law), or any other Order of, or agreement issued, promulgated or entered into by, any Governmental Authority, as in effect on the applicable date.

Balance Sheet Date means December 31, 2017.

Business means (i) owning and operating wireline trucks for provision of plug setting and perforation services, (ii) owning and operating coiled tubing units for provision of completions-related services, (iii) owning and operating pumps for provision of pump down services, (iv) owning and operating bottom hole assembly equipment for provision of thru tubing services, and (v) owning nitrogen handling equipment for provision of nitrogen services.

Business Day means a day, other than a Saturday or Sunday or other day on which commercial banks are authorized or required by Applicable Law to close in New York City, New York.

Business Employee means any employee of a Target Group Company.

Cap has the meaning set forth in [Section 10.04\(c\)](#).

Cash means cash and cash equivalents (including marketable securities), plus bank deposits, deposits in transit and other checks, money orders and drafts received from third parties that have cleared less any checks in transit that have not cleared.

Cash Consideration has the meaning set forth in [Section 2.01\(c\)](#).

Change of Control Bonus Plan means that certain Change of Control Bonus Plan of the Target Company, dated as of October 19, 2018.

Closing has the meaning set forth in [Section 2.02](#).

Closing Agreement means such agreement as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign law).

Closing Date means the date on which the Closing occurs.

Closing Date Cash means the aggregate amount of Cash of the Target Group Companies at the Effective Closing Time.

Closing Date Indebtedness means the aggregate amount of Indebtedness of the Target Group Companies at the Effective Closing Time.

Closing Date Net Working Capital means Net Working Capital as of the Effective Closing Time.

Code means the U.S. Internal Revenue Code of 1986, as amended.

Compliant means, with respect to the Required Information, that (a) such Required Information does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such Required Information not misleading in light of the circumstances in which it was made, (b) the financial statements included in such Required Information have been prepared in accordance with GAAP consistently applied and audited in accordance with generally accepted audited standards in the United States, (c) the independent auditors that audited the financial statements of the Target Group Companies are independent registered public accountants within the rules of the SEC and the PCAOB and have not withdrawn any audit opinion with respect to any financial statements contained in the Required Information and (d) the financial statements included in such Required Information through the Closing Date are not stale under Rule 3-12 of Regulation S-X and are prepared in a manner that is customary for placements of debt securities pursuant to Rule 144A promulgated under the Securities Act.

Confidential Information has the meaning set forth in [Section 6.03\(b\)](#).

Confidentiality Agreement means that certain Confidentiality and Nondisclosure Agreement, dated as of September 18, 2018, between the Purchaser and the Target Company.

Consideration Shares has the meaning set forth in [Section 2.01\(d\)](#).

Contract means any binding contract, agreement, instrument, lease, license or commitment, whether written or oral.

Credit Agreement means that certain Revolving Credit, Term Loan, Equipment Loan and Security Agreement, dated as of March 16, 2018, by and among the Target Group Companies, the lenders thereto, and PNC Bank, National Association, together with all agreements and other documents referenced therein or ancillary thereto (and all amendments to the Credit Agreement and such agreements and documents).

D&O Indemnified Party has the meaning set forth in [Section 6.11](#).

Data Room means the Donnelley Financial Solutions virtual data room as of 10:00 AM New York time, October 19, 2018, an index of which is attached as [Section 1.01](#) of the Sellers' Disclosure Schedule.

De Minimis Threshold has the meaning set forth in [Section 10.03\(b\)](#).

Debt Financing Documents has the meaning set forth in Section 6.05(a).

Deductible has the meaning set forth in Section 10.03(a).

Effective Closing Time means the effective time of Closing, which shall be 11:59 p.m. on the Closing Date.

Employee Benefit Plan means all “employee benefit plans” (within the meaning of Section 3(3) of ERISA), and all other material plans, agreements (including employment, consulting and collective bargaining agreements), policies, trust funds or arrangements (whether written or unwritten, insured or self-insured) (i) established, maintained, sponsored or contributed to (or with respect to which any obligation to contribute has been undertaken) by Sellers or any Target Group Company on behalf of any employee, director or other service provider of a Target Group Company (whether current, former or retired) or their beneficiaries, or (ii) with respect to which Sellers or any Target Group Company has any obligation on behalf of any such employee, director or other service provider or beneficiary.

Employment Agreements has the meaning set forth in the Recitals.

Encumbrance means any security interest, pledge, license, covenant, hypothecation, mortgage, lien or encumbrance.

Environmental Laws means all Applicable Law governing or relating to Environmental Matters.

Environmental Matters means any matters arising out of or relating to pollution, protection of the environment or natural environmental resources, or the exposure of public or workers to Hazardous Material, including any of the foregoing relating to the use, generation, transport, treatment, storage, release, migration, emission, or disposal of Hazardous Material, and any Proceeding arising out of or relating to such Hazardous Material, including for remediation, corrective action, response, personal injury, damage to or loss or impairment of the value of property, damage to natural resources, other damages, fines, penalties, recovery of costs, contribution, or other legal or equitable relief.

Equity Securities of any Person means any and all shares of capital stock, partnership interests, membership interests or other equity interests of such Person, and all warrants and options for, and other securities exchangeable for or convertible or exercisable into, any of the foregoing.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Escrow Account means the escrow account created pursuant to the Escrow Agreement.

Escrow Agent means JPMorgan Chase Bank, N.A.

Escrow Agreement means an escrow agreement by and among the Escrow Agent, the Purchaser and Seller Representative, in the form attached hereto as Exhibit B, subject to any revisions thereto proposed by the Escrow Agent and agreed to by the Purchaser and the Seller Representative.

Escrow Amount means an amount equal to five percent (5%) of the Cash Consideration.

Estimated Allocation has the meaning set forth in Section 2.05(b).

Estimated Closing Date Cash means the Sellers' good faith estimate of Closing Date Cash.

Estimated Closing Date Indebtedness means the Sellers' good faith estimate of Closing Date Indebtedness.

Estimated Closing Date Net Working Capital means the Sellers' good faith estimate of Closing Date Net Working Capital.

Exchange Act means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Final Allocation has the meaning set forth in Section 2.05(b).

Final Closing Statement means a finally determined statement listing the Closing Date Indebtedness, Closing Date Cash and Closing Date Net Working Capital, in each case, as calculated in accordance with the Accounting Principles.

Financial Statements has the meaning set forth in Section 4.06(a).

FLSA means the Fair Labor Standards Act, 29 U.S.C. § 203 *et. seq.*

Fraud means (i) a false representation of a material fact, (ii) made with knowledge or belief of its falsity, (iii) with the intent of inducing the other Person to act, or refrain from acting, and (iv) upon which the other Person acted or did not act in justifiable reliance on the representation, with resulting Losses, and which shall expressly exclude constructive fraud.

Fundamental Representations means those representations contained in Article III and Sections 4.01, 4.04 and 4.17.

GAAP shall mean United States generally accepted accounting principles.

Governing Documents means the charter, organizational and other documents by which any Person other than an individual establishes its legal existence or which govern its internal affairs, and shall include: (i) in respect of a corporation, its certificate or articles of incorporation or association and its bylaws; (ii) in respect of a partnership, its certificate of partnership and its partnership agreement; and (iii) in respect of a limited

liability company, its certificate of formation and operating or limited liability company agreement.

Governmental Authority means any (a) nation, state, county, city, town, village, district or other jurisdiction, (b) federal, state, local, municipal, foreign or other government, (c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, district, department or other entity and any court or other tribunal), (d) multinational or supra-national organization exercising judicial, legislative or regulatory power or (e) body exercising, or entitled to exercise, any administrative, executive, judicial, fiscal, legislative, police, regulatory or taxing power of any nature of any federal, state, local, municipal, foreign or other government, in each case, anywhere throughout the world.

Hazardous Material means any chemical, substance, waste, or material that (i) is defined, listed, or designated as a “hazardous substance,” “hazardous waste,” “extremely hazardous substance,” “regulated substance,” “contaminant,” “pollutant,” “hazardous material,” “toxic substance,” or “air contaminant” under any Environmental Laws; and/or (ii) is or contains petroleum, asbestos, lead, radiation, or perfluoroalkyl or polyfluoroalkyl substances and that is in a location, concentration, form or condition regulated by, or for which standards of conduct or Liability exist pursuant to, any Environmental Laws.

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Improvements has the meaning set forth in [Section 4.09\(d\)](#).

Indebtedness means, with respect to the Target Group Companies: (i) indebtedness for borrowed money or indebtedness issued or incurred in substitution or exchange for indebtedness for borrowed money; (ii) obligations (contingent or otherwise) for the deferred purchase price of assets, property or services; (iii) indebtedness evidenced by any note, bond, debenture, mortgage, other debt instrument or debt security, or other similar instruments or that otherwise reduces the ability of Target Group Companies to borrow under any credit facility; (iv) capitalized lease (as defined under GAAP) obligations; *provided, however*, no leases for vehicles shall be considered a capital lease unless specifically listed under “Long-Term Liabilities” on the Target Company’s unaudited balance sheet as of September 30, 2018; (v) indebtedness referred to in clauses (i) through (iv) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Encumbrance on assets owned by Target Group Companies, even though the Target Group Companies have not assumed or become liable for the payment of such Indebtedness; (vi) letters of credit (to the extent drawn); (vii) installment purchases of real or personal property; (viii) all obligations of the type referred to in clauses (i) through (vii) the payment of which Target Group Companies are liable as obligor, guarantor or surety; and (ix) any Seller Transaction Expenses; *provided, however*, that **Indebtedness** shall not include any amounts owed by the Target Group Companies under the Motley Perforator Redemption Agreements or the Motley Coil Redemption Agreements.

Indemnified Party has the meaning set forth in Section 10.04(a).

Indemnifying Party has the meaning set forth in Section 10.04(a).

Initial Closing Statement has the meaning set forth in Section 2.01(e).

Insurance Arrangements has the meaning set forth in Section 4.18.

Intellectual Property means all patents and patent applications; registered and unregistered trademarks and trademark applications; design rights, trade names and service marks; trade dress; phone numbers; Internet domain names and online accounts, usernames and social media handles; copyrights and similar rights whether registered or unregistered; rights in inventions; trade secrets, know-how and data; and any other intellectual property right, subsisting now or in the future, having equivalent or similar effect to the rights referred to above and all goodwill associated thereto; in each case, anywhere in the world.

IT Systems means all information technology assets, hardware, software, systems and networks (including third party provided systems and services) that are used in connection with the operation of or by the Business.

Key Customers has the meaning set forth in Section 4.19(a).

Key Managers means Marco Davis, Jeramiah Maynard and Rusty Rumbaugh.

Key Suppliers has the meaning set forth in Section 4.19(b).

Knowledge means: (i) in the case of the Sellers, the knowledge, after reasonable inquiry of those persons employed by the Target Group Companies who would reasonably be expected to have knowledge of the fact, event or circumstance in question, of Marco Davis, Jeramiah Maynard or Rusty Rumbaugh; or (ii) in the case of the Purchaser or Parent, the knowledge, after reasonable inquiry of those persons employed by the Purchaser or Parent, as applicable, who would reasonably be expected to have knowledge of the fact, event or circumstance in question, of any of Thomas McCaffrey or Gary Roberts.

Leased Real Property shall have the meaning set forth in Section 4.09(a).

Lenders has the meaning set forth in Section 2.03(a)(viii).

Liability means any liability or obligation, whether known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, due or to become due.

Losses has the meaning set forth in Section 10.02.

Managers means the Key Managers and Marlana Cabral, Joshua Ventris and Dewayne McGhee.

Material Adverse Effect means any event, change, circumstance or effect that, individually or in the aggregate, has or would reasonably be expected to have a material adverse effect on (a) the ability of the Sellers to consummate the Acquisition or the other transactions contemplated by this Agreement or (b) the business, financial condition or results of operations of the Target Group Companies, taken as a whole; *provided, however*, that, with respect to the foregoing clause (b) only, none of the following, either alone or in combination, will constitute, or be considered in determining whether there has been, a Material Adverse Effect: any event, change, circumstance or effect resulting from or related to (i) any acts of God, natural disasters, outbreak or escalation of war or major hostilities or any act of terrorism, (ii) changes in Applicable Law, GAAP or the enforcement or interpretation thereof, (iii) changes that generally affect the industries and markets in which the Target Group Companies operate, (iv) changes in financial or securities markets, general economic conditions or political or regulatory conditions in general, (v) any failure, in and of itself, of the Target Group Companies to meet any published or internally prepared projections, budgets, plans or forecasts of revenues, earnings predictions or other financial performance measures or operating statistics (it being agreed that the facts and circumstances giving rise to such failure that are not otherwise described in this proviso may be taken into account in determining whether a Material Adverse Effect has occurred), (vi) actions expressly required by this Agreement to be taken (or omitted to be taken) at the written request of Purchaser or (vii) the execution or delivery of this Agreement or the consummation of the transactions contemplated hereby; *provided, however*, that any event, change, circumstance, effect or other matter referred to in clauses (i), (ii), (iii) or (iv) immediately above will be taken into account in determining whether a Material Adverse Effect has occurred or would reasonably be expected to occur to the extent that such event, change, circumstance, effect or other matter has a disproportionate effect on the Target Group Companies taken as a whole, as compared to other participants in the industries and markets in which the Target Group Companies operate.

Material Contract has the meaning set forth in [Section 4.11\(a\)](#).

Motley Coil has the meaning set forth in the Recitals.

Motley Coil Class B Units has the meaning set forth in the Recitals.

Motley Coil Class B Unitholder has the meaning set forth in the recitals.

Motley Coil Redemption Agreement has the meaning set forth in the recitals.

Motley Perforator has the meaning set forth in the Recitals.

Motley Perforator Class B Units has the meaning set forth in the Recitals.

Motley Perforator Class B Unitholder has the meaning set forth in the recitals.

Motley Perforator Redemption Agreement has the meaning set forth in the recitals.

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Net Working Capital means an amount equal to (a) current assets, excluding cash, minus (b) current liabilities, all determined in accordance with the same accounting methods, principles and policies used in the preparation of the September 2018 monthly financial statements of the Target Company, a copy of which is attached hereto as [Exhibit D](#). Net Working Capital shall exclude (i) all liabilities included in the computation of Seller Transaction Expenses and Indebtedness as of the Closing Date, (ii) deferred Tax liabilities, including any liabilities for accruals or reserves established under GAAP methodologies that require the accrual for contingent or uncertain Tax positions and (iii) long-term deposits which have been characterized as current assets in the September 2018 monthly financial statements of the Target Company, a copy of which is attached hereto as [Exhibit D](#).

New Debt Actions has the meaning set forth in [Section 6.05\(a\)](#).

Notice of Disagreement has the meaning set forth in [Section 2.04\(b\)](#).

Order shall mean any decree, order, judgment, injunction, temporary restraining order or other order in any Proceeding.

Owned Intellectual Property means all Intellectual Property owned or purported to be owned by the Target Group Companies.

Parent has the meaning set forth in the Preamble.

Parent Common Stock has the meaning set forth in [Section 2.01\(d\)](#).

Parties has the meaning set forth in the Preamble.

Party has the meaning set forth in the Preamble.

Pay-off Amount has the meaning set forth in [Section 2.03\(a\)\(viii\)](#).

Pay-off Documents has the meaning set forth in [Section 2.03\(a\)\(viii\)](#).

Permits has the meaning set forth in [Section 4.12](#).

Permitted Encumbrance means: (i) Encumbrances for Taxes, assessments and charges or levies of any Governmental Authority not yet delinquent or that are being contested in good faith by appropriate Proceedings and for which adequate accruals or reserves have been established in accordance with GAAP; (ii) materialmen's, mechanics', carriers', workmen's and repairmen's liens, (iii) Encumbrances which are listed on [Section 1.1](#) of the Sellers' Disclosure Schedule; (iv) pledges or deposits to secure obligations under Applicable Law relating to workers' compensation or to secure public or statutory obligations; (v) liens, title retention arrangements or deposits to secure the performance of bids, trade contracts (other than for borrowed money), conditional sales contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; (vi) in respect of

real property: (A) easements, licenses, covenants, rights of way and other similar restrictions; (B) any conditions which may be shown by survey, title report or physical inspection of any such real property; (C) zoning, building and other similar restrictions; and (D) environmental restrictions and regulations; and (vii) imperfections or irregularities of title and other Encumbrances (including utility easements) that would not, in the aggregate, reasonably be expected to impair in any material respect the occupancy, use or operation of the Target Company Real Property.

Person shall mean any individual or any corporation, limited liability company, partnership, trust, association or other entity of any kind.

PII has the meaning set forth in [Section 4.20](#).

Post-Closing Tax Period has the meaning set forth in [Section 7.01\(b\)](#).

Pre-Closing Tax Period has the meaning set forth in [Section 7.01\(a\)](#).

Proceeding means any action, claim, arbitration, litigation, suit or other legal proceeding (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, and whether public or private), in each case, commenced, enforced, brought, conducted or heard by or before, or otherwise involving, any Governmental Authority or arbitrator.

Prohibited Transaction means such transaction as described in Section 4975 of the Code and Section 406 of ERISA.

Proposed Closing Statement has the meaning set forth in [Section 2.04\(a\)](#).

Purchaser has the meaning set forth in the Preamble.

Purchaser Disclosure Schedule shall mean the disclosure schedule delivered by the Purchaser to the Sellers simultaneously with the execution of this Agreement.

Purchaser Indemnitee means the Purchaser, its Affiliates (including the Target Group Companies following the Closing) and each of its and their respective officers, directors, employees and agents.

Purchaser Material Adverse Effect means any event, change, circumstance or effect that, individually or in the aggregate, has or would reasonably be expected to have a material adverse effect on the ability of the Purchaser to consummate the Acquisition or the other transactions contemplated by this Agreement.

R&W Insurance Policy has the meaning set forth in [Section 10.05](#).

Redemption Amount has the meaning set forth in [Section 2.01\(d\)](#).

Redemption Notice has the meaning set forth in [Section 2.01\(d\)](#).

Representatives means, with respect to a Person, the directors, managers, officers, employees, agents or advisors (including attorneys, accountants, consultants, bankers and financial advisors) of such Person.

Required Information means all financial, business and other pertinent information reasonably requested by the Purchaser or its financing sources in order to consummate the New Debt Actions, including annual audited consolidated financial statements of the Target Group Companies as of and for the two years ended more than ninety (90) days prior to the Closing Date and, if applicable, quarterly unaudited condensed consolidated financial statements of the Target Group Companies as of and for quarters (and the corresponding year-to-date interim period if more than one quarter) ended more than forty-five (45) days prior to the Closing Date (and the corresponding period of the prior year), management's discussion and analysis of financial condition and results of operations for annual and interim periods required to be included in the offering materials (if reasonably deemed necessary or advisable by the Purchaser's financing sources), business and other financial and other data of the type and form customarily included in offering memoranda for private placements pursuant to Rule 144A promulgated under the Securities Act (including such information and business and other financial and other data that is compliant in all material respects with all requirements of Regulation S-K and Regulation S-X under the Securities Act), all of which shall be Compliant.

Required Notification has the meaning set forth in [Section 6.04\(a\)](#).

Resolution Period has the meaning set forth in [Section 2.04\(c\)\(i\)](#).

SEC means the United States Securities and Exchange Commission.

Securities Act means the United States Securities Act of 1933, as amended.

Seller 401(k) Plan has the meaning set forth in [Section 4.15\(d\)](#).

Seller Indemnitee means the Sellers, their Affiliates and each of its and their respective general partners, limited partners, officers, directors, managers, employees and agents.

Seller Representative means D5 acting as agent for the Sellers or, if D5 notifies Purchaser in writing that it refuses to act as Seller Representative, then the Seller Representative shall be deemed to be each of the Sellers, or their respective representatives in the case of their deaths.

Seller Transaction Expenses means all fees and expenses incurred by Sellers or the Target Group Companies and their Affiliates and representatives in connection with the negotiation and execution of this Agreement and each other agreement, document and instrument contemplated by this Agreement and the consummation of the transactions contemplated hereby and thereby, or in connection with the consideration of any alternative transaction, to the extent unpaid and payable by the Target Group Companies, including (i) any discretionary, sale, change of control (including pursuant to the Change of Control Bonus Plan), retention, transaction or similar bonuses or compensatory

payments or any other payment obligation, in each case, that is or becomes payable to current or former employees of the Target Group Companies either with the execution of this Agreement or at or following the Closing as a result of the consummation of the transactions contemplated by this Agreement, and (ii) any and all fees or expenses payable by the Target Group Companies pursuant to the Simmons Engagement Letter; *provided, however*, that **Seller Transaction Expenses** shall not include any amounts owed by the Target Group Companies under the Motley Perforator Redemption Agreements or the Motley Coil Redemption Agreements.

Sellers has the meaning set forth in the Preamble.

Sellers' Disclosure Schedule shall mean the disclosure schedule delivered by the Sellers to Purchaser simultaneously with the execution of this Agreement.

Share Purchase Agreement means the Share Purchase Agreement, dated as of the Closing Date, by and among Parent and the Managers, in the form attached hereto as Exhibit C.

Simmons Engagement Letter means that certain Letter Agreement, dated March 16, 2018, between Piper Jaffray & Co. (Simmons & Company International Division) and the Target Company in connection with the transactions contemplated hereby.

Simmons Termination Agreement means that certain Termination Agreement to be entered into as of the Closing, by and between Piper Jaffray & Co. (Simmons & Company International Division) and the Target Company pursuant to which the parties thereto shall terminate the Simmons Engagement Letter; *provided, however*, that the Simmons Termination Agreement shall not include a termination of that certain Indemnification Agreement, dated March 16, 2018, by and between Piper Jaffray & Co. (Simmons & Company International Division) and the Target Company attached as Exhibit A to the Simmons Engagement Letter, which Indemnification Agreement shall continue in full force and effect after the Closing.

Straddle Period means any taxable period that begins on or before the Closing Date and ends after the Closing Date.

Target Company has the meaning set forth in the Recitals.

Target Company Real Property has the meaning set forth in Section 4.09(a).

Target Group Companies means the Target Company and Motley Coil, LLC, Motley Perforators, LLC, Motley Downhole, LLC and Motley Pressure Control, LLC

Target Net Working Capital means \$16,000,000.00.

Tax means (a) any United States federal, state or local, or any non-U.S., income, franchise, profits, gross receipts, ad valorem, net worth, transfer, VAT, sales, use, real or personal property, payroll, withholding, employment, social security, excise, stamp,

registration, alternative, add-on minimum tax, estimated tax, or other tax of whatever kind (including any fee, assessment or other charges in the nature of or in lieu of any tax) payable to any Governmental Authority and (b) any interest, fines, penalties or additions imposed with respect thereto.

Tax Return means any return, declaration, report, estimate, claim for refund, information return or statement, estimated Tax return, including any related or supporting information with respect to any of the foregoing, filed or to be filed with any Governmental Authority in connection with the determination, assessment, collection or administration of any Tax.

Terminated Documents has the meaning set forth in Section 2.03(a)(viii).

Third Party Claim has the meaning set forth in Section 10.04(a).

Treasury Regulation means a United States Treasury regulation promulgated under the Code.

Unresolved Objections has the meaning set forth in Section 2.04(c)(ii).

WARN Act has the meaning set forth in Section 4.14(f).

1.02 Interpretation

- (a) The Sellers' Disclosure Schedule and the Purchaser Disclosure Schedule shall be incorporated by reference into this Agreement and shall be deemed a part hereof.
- (b) In this Agreement, unless expressly provided otherwise:
 - (i) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined;
 - (ii) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms;
 - (iii) the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation";
 - (iv) any definition of or reference to any agreement, contract, document, instrument or other record herein shall be construed as referring to such agreement, contract, document, instrument or other record as from time to time amended, supplemented, restated or otherwise modified as of the applicable date (subject to any restrictions on such amendments, supplements or modifications set forth herein);
 - (v) any reference herein to any Person shall be construed to include such Person's successors and permitted assigns;

- (vi) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof;
 - (vii) all references herein to Articles, Sections, Exhibits, Schedules and Annexes shall be construed to refer to Articles, Sections of, Exhibits and Schedules and Annexes to, this Agreement;
 - (viii) the headings, captions and table of contents for this Agreement are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement;
 - (ix) references to sums of money are expressed in the lawful currency of the United States of America, and “\$”, “US\$” and “Dollars” refer to U.S. Dollars;
 - (x) references to “days” are to calendar days; and
 - (xi) if any period referred to herein expires on a day which is not a Business Day, or any event or condition is required by the terms of this Agreement to occur or be fulfilled (including the making of any payment required hereunder) on a day which is not a Business Day, such period shall expire on or such event or condition shall not be required to occur or be fulfilled until, as the case may be, the next succeeding Business Day.
- (c) Notwithstanding anything to the contrary contained in the Sellers’ Disclosure Schedule or the Purchaser Disclosure Schedule or elsewhere in this Agreement, every exception and disclosure set forth in the Sellers’ Disclosure Schedule or the Purchaser Disclosure Schedule, as applicable, shall be deemed to be a disclosure with respect to all Articles, Sections, sub-Sections, Schedules or Annexes of this Agreement to which it is reasonably apparent on its face that such disclosure may apply, whether or not a specific cross-reference to such Article, Section, sub-Section, Schedule or Annex is made. Inclusion of an item in the Sellers’ Disclosure Schedule or the Purchaser Disclosure Schedule shall not be deemed an indication or admission that such item is material to the Target Group Companies, or to the Purchaser or is required by this Agreement to be reflected therein (and such inclusion shall not be deemed to establish or be considered for purposes of establishing a standard of materiality or other disclosure threshold). Without limiting the foregoing, no such references to or disclosure of a possible breach or violation of any Contract, Applicable Law or Order shall be construed as an admission or indication that a breach or violation exists or has actually occurred.

ARTICLE II
PURCHASE AND SALE OF THE UNITS; CLOSING

2.01 Purchase and Sale of the Units; Redemption of the Motley Perforator Class B Units; Redemption of the Motley Coil Class B Units

- (a) On the terms and subject to the conditions of this Agreement, at the Closing:
- (i) D5 shall sell, transfer and deliver to the Purchaser, and the Purchaser shall purchase and acquire from D5, all of D5's Class A Units, free and clear of all Encumbrances other than those arising pursuant to applicable federal and state securities laws;
 - (ii) 3M shall sell, transfer and deliver to the Purchaser, and the Purchaser shall purchase and acquire from 3M, all of 3M's Class A Units, free and clear of all Encumbrances other than those arising pursuant to applicable federal and state securities laws; and
 - (iii) Davis shall sell, transfer and deliver to the Purchaser, and the Purchaser shall purchase and acquire from Davis, all of Davis's Class B Units, free and clear of all Encumbrances other than those arising pursuant to applicable federal and state securities laws.

Such sale and purchase of the Class A Units and the Class B Units is referred to in this Agreement as the **Acquisition**.

- (b) At the Closing:
- (i) on the terms and subject to the conditions of the Motley Perforator Redemption Agreements, the Sellers shall cause Motley Perforator to redeem 100% of each Motley Perforator Class B Unitholder's Motley Perforator Class B Units; and
 - (ii) on the terms and subject to the conditions of the Motley Coil Redemption Agreements, the Sellers shall cause Motley Coil to redeem 100% of each Motley Coil Class B Unitholder's Motley Coil Class B Units.
- (c) The aggregate consideration for the Units, shall be paid by Purchaser to Sellers (such amount, the **Cash Consideration**) as follows:
- (i) \$139,200,000 in aggregate cash consideration;
 - (ii) *minus* Estimated Closing Date Indebtedness;
 - (iii) *plus* Estimated Closing Date Cash; and

(iv) *plus* the amount of the difference between the Estimated Closing Date Net Working Capital and the Target Net Working Capital if the Estimated Closing Date Net Working Capital is greater than the Target Net Working Capital *or minus* the amount of such difference if the Estimated Closing Date Net Working Capital is less than the Target Net Working Capital.

(d) Subject to the provisions of this clause (d), Parent will issue to the Managers an aggregate number of shares of common stock of Parent (the **Parent Common Stock**) equal to the *quotient of* (x) \$9,000,000 *divided by* (y) the average of the volume weighted average price per share of Parent Common Stock on the NASDAQ stock exchange (as reported by Bloomberg L.P.) on each of the ten (10) consecutive trading days ending with the second complete trading date immediately prior to the applicable issuance (such shares, the **Consideration Shares**). The Consideration Shares shall be issued according to the following schedule:

- (i) on the Closing Date, one-third (1/3) of the Consideration Shares will be issued;
- (ii) on the first (1st) anniversary of the Closing Date, one-third (1/3) of the Consideration Shares will be issued; and
- (iii) on the second (2nd) anniversary of the Closing Date, one-third (1/3) of the Consideration Shares will be issued.

Within sixty (60) days of the issuance of any Consideration Shares, any Manager may request in writing (a **Redemption Notice**) for the Parent to redeem 40% of the Consideration Shares received by such Manager upon such issuance (the **Redemption Amount**). In the Redemption Notice, the Manager shall notify the Parent of the date such Manager's taxes associated with the applicable issuance are due. Upon receipt of the Redemption Notice, within a reasonable period of time, the Parent shall redeem the Redemption Amount at a price equal to the average of the volume weighted average price per share of Parent Common Stock on the NASDAQ stock exchange (as reported by Bloomberg L.P.) on each of the ten (10) consecutive trading days ending with the second complete trading date immediately prior to the date of the applicable issuance. The Parent shall pay such price in cash to such Manager as soon as reasonably practicable after the redemption of the Consideration Shares (but in no event later than three (3) Business Days prior to the date such Manager has notified the Purchaser that his or her taxes associated with the applicable issuance are due). To the extent that Parent or Purchaser pays the Redemption Amount, such payment shall be deemed to satisfy in full Parent's obligations under this Section 2.01(d) with respect to the applicable issuance, it being agreed and understood that such Manager shall have no recourse, nor shall he or she be permitted to pursue any claim, against the Purchaser, Parent or any of their Affiliates (including, from and after Closing, any

Target Group Company) in respect of the amount of the payment made by Purchaser or Parent pursuant to this Section 2.01(d).

- (e) Not later than five (5) Business Days prior to the Closing Date, the Seller Representative shall deliver to the Purchaser a statement (the **Initial Closing Statement**) containing the Sellers' good faith estimate of the Cash Consideration, showing each of Estimated Closing Date Indebtedness, Estimated Closing Date Cash, Estimated Closing Date Net Working Capital (and the calculation in Section 2.01(c)(iv)), in each case, determined in accordance with the Accounting Principles.
- (f) To the extent that the Purchaser or any of its Affiliates pays the consideration required to be paid under this Agreement, and such payment is made in accordance with the terms of this Agreement, such payment shall be deemed to satisfy in full the Purchaser's obligations in respect thereof, and no Person shall have any recourse to the Purchaser or its Affiliates (including from and after the Closing Date, the Target Group Companies) for any failure of the Sellers or the Seller Representative to distribute the aggregate amount of those payments to the other intended recipients, or for any disputes among or between the Sellers and the other intended recipients.
- (g) At its election, Parent may satisfy its obligations pursuant to Section 2.01(d)(ii) and Section 2.01(d)(iii) by paying to the Managers an amount in cash equal to the US dollar value of the Consideration Shares (calculated in accordance with Section 2.01(d)) required to be issued on the applicable Closing Date in lieu of issuing the Consideration Shares otherwise required to be issued pursuant to Section 2.01(d)(ii) and Section 2.01(d)(iii).

2.02 Closing

- (a) The closing of the Acquisition (the **Closing**) shall take place at the offices of Freshfields Bruckhaus Deringer US LLP, 601 Lexington Avenue, 31st Floor, New York, NY 10022, or remotely via the electronic exchange of counterpart signatures if the Parties so elect, at 10:00 a.m., New York City time, no later than the third (3rd) Business Day following the satisfaction or, to the extent permitted, written waiver, of the conditions set forth in Article VIII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or written waiver of those conditions at the Closing); *provided* that in no event shall the Closing occur prior to the third (3rd) Business Day following the date on which the proceeds under the transactions contemplated by the Debt Financing Documents have been made available to the Purchaser for the purpose of consummating the Closing, or at such other place, time and date as agreed in writing between the Sellers and the Purchaser. The date on which the Closing occurs is referred to in this Agreement as the **Closing Date**.

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2.03 Transactions to be Effected at the Closing

At the Closing:

- (a) the Sellers shall deliver to the Purchaser:
 - (i) to the extent certificated, a certificate or certificates representing the Units either in the name of the Purchaser duly endorsed, in proper form for transfer, with appropriate transfer tax stamps, if required, affixed thereto, or such other customary instrument of assignment, as applicable;
 - (ii) a copy of the Escrow Agreement, duly executed by Seller Representative;
 - (iii) the Share Purchase Agreement, duly executed by each of the Managers;
 - (iv) duly executed resignations of each member of the board of directors, managers or equivalent body of each of the Target Group Companies;
 - (v) a copy of the Simmons Termination Agreement, duly executed by Piper Jaffray & Co. (Simmons & Company International Division) and the Target Company;
 - (vi) a certificate from each Seller of non-foreign status complying with the requirements of Treasury Regulation Section 1.1445-2(b)(2);
 - (vii) a certificate of the Target Company's secretary having attached thereto (A) the Target Company's Certificate of Formation as in effect as of the Closing Date, (B) the Target Company's Operating Agreement as in effect as of the Closing Date, (C) resolutions approved by the board of managers of the Target Company authorizing the Acquisition and the transactions contemplated by this Agreement, and (D) good standing certificates with respect to the Target Company from the applicable authorities in Texas, including a certificate of good standing from the Texas Secretary of State and proof of good standing with the Texas Comptroller of Public Accounts, dated as of not more than five (5) calendar days prior to the Closing Date;
 - (viii) customary pay-off letters or purchase orders, as applicable (the **Pay-off Documents**), duly executed by the lenders, lessors or sellers, as applicable, (collectively, the **Lenders**), under each of the agreements listed on Schedule 2.03(a)(viii) of the Sellers' Disclosure Schedule (the **Terminated Documents**), which shall acknowledge (A) the aggregate principal amounts, all accrued but unpaid interest and any penalties constituting the pay-off amount under each such Terminated Document (each, a **Pay-Off Amount**), (B) that upon receipt of the Pay-Off Amount, such Terminated Document and related instruments shall be terminated or

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satisfied and discharged, (C) that guarantees in connection therewith relating to the assets and properties of any of the Target Group Companies securing such borrowings or obligations under such Terminated Document shall be, upon payment of the Pay-Off Amount, released and terminated, (D) that the liens under such Terminated Documents are authorized to be released and terminated upon the making of the appropriate filings (subject in each case to delivery of the applicable Pay-Off Amount), and (E) when applicable, that title over assets and properties under such Terminated Document has been transferred to the Target Company;

- (ix) with respect to the Leased Real Property, an estoppel certificate executed by each landlord or lessor in form and substance reasonably acceptable to Purchaser; and
- (x) such other documents and instruments as the Purchaser may reasonably request to consummate the Acquisition and the other transactions contemplated by this Agreement.

(b) the Purchaser or Parent (as applicable) shall deliver:

- (i) the Cash Consideration, which shall be paid as follows:
 - (A) to the Lenders, cash in an amount equal to the aggregate Pay-off Amount pursuant to the payment instructions set forth in the Pay-Off Documents;
 - (B) to the Motley Perforator Class B Unitholders on behalf of Motley Perforator and to the Motley Coil Class B Unitholders on behalf of Motley Coil, cash payments in accordance with their respective Motley Perforator Redemption Agreements and Motley Coil Redemption Agreements, to be paid by means of wire transfers of immediately available funds to accounts designated by Seller Representative at least three (3) Business Days prior to the Closing Date for the purpose of consummating the transactions contemplated by the Motley Perforator Redemption Agreements and the Motley Coil Redemption Agreements;
 - (C) to the Covered Employees (as defined in the Change of Control Bonus Plan), the Change of Control Payments (as defined in the Change of Control Bonus Plan), in accordance with, and pursuant to the terms and conditions of, the Change of Control Bonus Plan, to be paid by means of wire transfers of immediately available funds to accounts designated by Seller Representative at least three (3) Business Days prior to the Closing;

- (D) to each of the Sellers, cash by means of wire transfers of immediately available funds in the amounts and in accordance with the payment instructions provided by Seller Representative for each Seller at least three (3) Business Days prior to the Closing Date;
 - (E) to the Escrow Agent, an amount equal to the Escrow Amount;
 - (F) to the applicable payees, cash by means of wire transfers of immediately available funds in the amounts and in accordance with the payment instructions provided by Seller Representative for each such payee at least three (3) Business Days prior to the Closing Date;
- (ii) subject to the provisions of Section 2.01(d), to each of the Managers, the number of Consideration Shares having a US dollar value equal to the amount set forth next to such Manager's name on Exhibit A attached hereto as calculated in accordance with Section 2.01;
 - (iii) a copy of the Escrow Agreement, duly executed by the Purchaser;
 - (iv) the Share Purchase Agreement, duly executed by Parent; and
 - (v) such other documents and instruments as the Sellers may reasonably request to consummate the Acquisition and the other transactions contemplated by this Agreement.

2.04 Post-Closing Adjustment

- (a) For the purposes of finally determining Closing Date Indebtedness, Closing Date Cash and Closing Date Net Working Capital, the Purchaser shall, or shall cause the Purchaser's accountants to, after the Closing, prepare a statement (the **Proposed Closing Statement**) showing the amounts, and calculations, of Closing Date Indebtedness, Closing Date Cash and Closing Date Net Working Capital, together with reasonable supporting detail with respect to the calculations included therein. The Purchaser shall deliver the Proposed Closing Statement to the Seller Representative within ninety (90) calendar days after the Closing Date. The Purchaser shall prepare the Proposed Closing Statement in accordance with the Accounting Principles.
- (b) The Proposed Closing Statement shall become binding upon the Parties at 5:00 P.M. New York time on the thirtieth (30th) calendar day following delivery thereof (and shall be deemed the Final Closing Statement, and the determination contained therein shall be binding) unless the Seller Representative gives written notice of Seller Representative's disagreement with the Proposed Closing Statement (a **Notice of Disagreement**) to the Purchaser prior to the expiration of

such thirty (30) calendar day period. Any Notice of Disagreement shall specify those items or amounts with which the Seller Representative disagrees in the Proposed Closing Statement and contain (i) a reasonably detailed description of the reasons for its objections to each such item or amount contained therein and (ii) the Seller Representative's calculation of any amounts with which the Seller Representative disagrees in the Proposed Closing Statement, prepared in accordance with the Accounting Principles. Items not disputed in the Notice of Disagreement shall be binding upon the Parties.

- (c) The objections set forth in the Notice of Disagreement shall be resolved as follows:
- (i) During the ten (10) Business Day period following the delivery of a Notice of Disagreement (or such longer period as may be agreed in writing by the Seller Representative and the Purchaser) (such period, the **Resolution Period**) the Seller Representative and the Purchaser shall first seek in good faith to resolve such objections. If such objections are so resolved they shall be deemed binding as so resolved and, at such time, the Proposed Closing Statement, as modified to reflect such resolution, shall be deemed the Final Closing Statement.
 - (ii) If the Seller Representative and the Purchaser do not resolve all of such objections during the Resolution Period, the Seller Representative, on the one hand, and the Purchaser, on the other hand, shall make a written submission to the Accounting Firm (and substantially simultaneously to the other) for determination of any and all matters that remain in dispute (the **Unresolved Objections**) (all matters previously resolved shall become part of the Final Closing Statement as resolved) and which were included in the Notice of Disagreement; *provided* that the scope of the Unresolved Objections to be resolved by the Accounting Firm shall be limited to whether there were mathematical errors in the Proposed Closing Statement and whether the calculations of the Closing Date Indebtedness, Closing Date Cash and Closing Date Net Working Capital were accurate and performed in accordance with the applicable Accounting Principles, and the Accounting Firm shall not make any other determination. Within five (5) Business Days after the expiration of such ten (10) Business Day period, each of the Purchaser, on the one hand, and the Seller Representative, on the other hand, may deliver to the Accounting Firm its response to the other's position on each Unresolved Objection; *provided* that each delivers a copy thereof substantially simultaneously to the other. The Accounting Firm's decision with respect to any Unresolved Objection must be within the range of values assigned to each such item in the Proposed Closing Statement and the Notice of Disagreement, respectively.
 - (iii) Except as set forth in Section 2.04(c)(i), the Seller Representative and the Purchaser shall not be entitled to make submissions except as specifically

requested by the Accounting Firm. The Seller Representative and the Purchaser shall provide, as soon as reasonably practicable, all the information and explanations that the Accounting Firm may reasonably require. The precise timetable shall be as agreed with the Accounting Firm, but the Accounting Firm shall be instructed to render its determination regarding only the Unresolved Objections in accordance with Section 2.04(c)(ii) within thirty (30) Business Days following the date of such submissions.

(iv) The resolution by the Accounting Firm of the Unresolved Objections shall, absent manifest error, be binding and at such time, the Proposed Closing Statement, as modified to reflect such resolution (and any matters resolved in accordance with Section 2.04(c)(i)), shall be deemed the Final Closing Statement. The Parties agree that the procedure set forth in this Section 2.04 for resolving disputes with respect to the Proposed Closing Statement shall be the exclusive method for resolving any disputes with respect to Closing Date Indebtedness, Closing Date Cash and Closing Date Net Working Capital. The decision of the Accounting Firm shall constitute an arbitral award that is final, binding and non-appealable and upon which a judgment may be entered by a court having jurisdiction thereover.

(v) The fees and expenses of the Accounting Firm shall be borne by the Sellers, on the one hand, and the Purchaser, on the other hand, based on the following formula:

(A) The Sellers shall pay a portion of such fees and expenses equal to that fraction of such fees and expenses where (1) the numerator is the absolute value of the difference between Sellers' aggregate position with respect to the Closing Date Indebtedness, Closing Date Cash and Closing Date Net Working Capital and such amounts as recalculated based upon the Accounting Firm's final determination with respect to the Unresolved Objections and (2) the denominator is the absolute value of the difference between Sellers' aggregate position with respect to the Closing Date Indebtedness, Closing Date Cash and Closing Date Net Working Capital and Purchaser's aggregate position with respect to such amounts; and

(B) The Purchaser shall pay the remainder of such fees and expenses.

(d) No later than five (5) Business Days after the Proposed Closing Statement is deemed the Final Closing Statement pursuant to this Section 2.04:

(i) if Closing Date Indebtedness is: (A) less than Estimated Closing Date Indebtedness, the Purchaser shall deliver to the Sellers payment of the amount of such deficit; or (B) greater than the Estimated Closing Date

Indebtedness, the payment of the amount of such excess shall be made to the Purchaser from the Escrow Amount in the Escrow Account;

- (ii) if Closing Date Cash is: (A) less than Estimated Closing Date Cash, payment of the amount of such deficit shall be made to the Purchaser from the Escrow Amount in the Escrow Agreement; or (B) greater than Estimated Closing Date Cash, the Purchaser shall deliver to the Sellers payment of the amount of such excess; and
- (iii) if Closing Date Net Working Capital is: (A) less than Estimated Closing Date Net Working Capital, payment of the amount of such deficit shall be made to the Purchaser from the Escrow Amount in the Escrow Account; or (B) greater than Estimated Closing Date Net Working Capital, the Purchaser shall deliver to the Sellers payment of the amount of such excess.

Any payments made by the Purchaser pursuant to this Section 2.04(d) shall be made by wire transfer from immediately available funds to a bank account designated in writing by the Sellers (such designation to be made at least three (3) Business Days prior to such payment). In respect of any payment required to be made from the Escrow Account pursuant to this Section 2.04(d), the Seller Representative shall, together with the Purchaser, jointly instruct the Escrow Agent to remit such payment to the Purchaser not later than five (5) Business Days after the Proposed Closing Statement is deemed the Final Closing Statement pursuant to this Section 2.04(d). To the extent that the amount required to be paid to the Purchaser pursuant to this Section 2.04(d) exceeds the Escrow Amount, the Sellers shall pay such excess to the Purchaser not later than five (5) Business Days after the Proposed Closing Statement is deemed the Final Closing Statement pursuant to this Section 2.04(d). The Parties shall net the payments, if any, to be made pursuant to Section 2.04(d)(i), (ii) and (iii), such that only one Party is required to deliver or cause to be delivered amounts required to be paid under this Section 2.04(d). Notwithstanding the foregoing, no Party shall be required to make any payment pursuant to this Section 2.04(d), unless the amount of the adjustment calculated hereunder be paid by one Party to the other Party exceeds \$400,000.00.

- (e) Until the date the Proposed Closing Statement is deemed the Final Closing Statement pursuant to this Section 2.04, the Parties agree that following the Closing, each shall provide and cause to be provided to the other and its respective representatives reasonable access upon reasonable notice during normal business hours to such first Party's books, records and accounting personnel (including books, records and accounting personnel of the Target Group Companies), and shall cause such personnel to reasonably cooperate with the other Party and respond to such Party's reasonable requests for information reasonably promptly.

2.05 Intended Tax Treatment; Allocation

- (a) The Parties acknowledge and agree that, for U.S. federal (and, where applicable, state and local) income Tax purposes pursuant to Revenue Ruling 99-6, 1999-1 C.B. 432, the purchase of the Units pursuant to this Agreement shall be treated by the Purchaser as a purchase of the assets of the Target Company, subject to the liabilities of the Target Company as of the Closing Date, and by the Sellers as a sale of their respective Units. Furthermore, with the consideration for the redemption of the Motley Perforator Class B Units and the Motley Coil Class B Units under the Motley Perforator Redemption Agreements and Motley Coil Redemption Agreements effectively coming from Purchaser, the Parties acknowledge and agree that, for U.S. federal (and, where applicable, state and local) income Tax purposes, the acquisition of each of such Motley Perforator Class B Units and Motley Coil Class B Units shall also be treated as a transaction pursuant to Revenue Ruling 99-6, 1999-1 C.B. 432, whereby the redemption of such Motley Perforator Class B Units and Motley Coil Class B Units shall be treated by Purchaser as a purchase of an undivided interest in the assets of Motley Perforator or Motley Coil, subject to the liabilities thereof, as the case may, and by such Motley Perforator Class B Unitholders or Motley Coil Class B Unitholders, as a sale of their respective Motley Perforator Class B Units and/or Motley Coil Class B Units.
- (b) On, or prior to, the Closing, the Purchaser shall prepare and provide the Seller Representative with the Purchaser's best estimate of the allocation, prepared in accordance with Section 1060 of the Code, of the Cash Consideration (plus any other relevant items) and the liabilities of the Target Group Companies (plus other relevant items) to the assets of each of the Target Group Companies (the **Estimated Allocation**). Within sixty (60) days of the Closing, the Seller Representative shall provide the Purchaser with written comments on the Estimated Allocation. Within ninety (90) days of the Closing, the Purchaser shall prepare and provide to the Seller Representative, taking into account reasonable written comments of the Sellers, a final version of that allocation (the **Final Allocation**). The Seller Representative shall notify the Purchaser if the Sellers disagree with the Final Allocation within fifteen (15) days of receipt. In the event the Seller Representative notifies the Purchaser of the Sellers' disagreement with the Final Allocation, the disagreement shall be resolved by a mutually agreed upon nationally recognized accounting firm, whose determination shall be final and binding on the Parties, with fees of such accounting firm borne fifty percent (50%) by the Sellers and fifty percent (50%) by the Purchaser. The Parties and their respective Affiliates shall prepare and file all Tax Returns in a manner not inconsistent with this Section 2.05, and shall not take any position for Tax purposes (including in any audit or other examination or proceeding relating to Taxes) inconsistent with this Section 2.05 unless required to do so by Applicable Law.

**ARTICLE III
REPRESENTATIONS AND WARRANTIES RELATING TO
THE SELLERS AND THE UNITS**

Except as set forth in the Sellers' Disclosure Schedule, each Seller severally and not jointly (as to itself or himself only) hereby represents and warrants to the Purchaser, as of the date hereof and as of the Closing Date, as follows:

3.01 Authority; Execution and Delivery; Enforceability

Such Seller has all requisite power and authority to execute and deliver this Agreement. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary action on the part of such Seller. Such Seller has duly and validly executed and delivered this Agreement. This Agreement constitutes the valid and binding obligation of the Sellers enforceable against such Seller in accordance with its terms, subject to Applicable Law (a) relating to bankruptcy, insolvency and the relief of debtors and (b) governing specific performance, injunctive relief and other equitable remedies.

3.02 No Conflicts; Consents

Except for (a) filings required under, and compliance with other applicable requirements of, the Antitrust Laws and (b) as set forth on Section 3.02 of the Sellers' Disclosure Schedule, neither the execution, delivery and performance of this Agreement by, nor the consummation by such Seller of the transactions contemplated hereby, will (i) result in a material breach or material default under or create in any Person the right to terminate, cancel, accelerate or materially modify, or require any material notice, consent or waiver under, any Contract to which such Seller is a party or by which such Seller is bound, in any case with or without due notice or lapse of time or both, (ii) violate in any material manner any Applicable Law or Order applicable to such Seller or (iii) require such Seller to make any filing with any Governmental Authority.

3.03 Ownership of the Units

Such Seller owns the Units set forth next to such Seller's name on Section 3.03 of the Sellers' Disclosure Schedule free and clear of all Encumbrances other than those set forth on Section 3.03 of the Sellers' Disclosure Schedule, those arising pursuant to applicable federal and state securities laws and such restrictions as are set forth in the Governing Documents of the Target Company. Upon the transfer of the Units to the Purchaser on the Closing Date in accordance with this Agreement, the Purchaser will receive good and valid title to the Units, in each case, free and clear of all Encumbrances other than those arising pursuant to applicable federal and state securities laws.

3.04 No Proceedings

There is no Proceeding pending or, to such Seller's knowledge after reasonable inquiry, threatened against such Seller that questions or challenges the validity of this Agreement or that would reasonably be expected to prevent, delay, make illegal or otherwise interfere with the ability of such Seller to consummate the Acquisition or the other transactions contemplated hereby.

3.05 Brokers or Finders

Except as set forth on Section 3.05 of the Sellers' Disclosure Schedule, the Purchaser will not be responsible for any commission, finder's or similar fee for services rendered by any broker, finder, financial advisor or investment bank provided to any of the Target Companies or such Seller in connection with the Acquisition or any of the other transactions contemplated hereby.

ARTICLE IV REPRESENTATIONS AND WARRANTIES RELATING TO THE TARGET GROUP COMPANIES

Except as set forth in the Sellers' Disclosure Schedule, the Sellers jointly and severally hereby represent and warrant to the Purchaser as of the date hereof and as of the Closing Date as follows:

4.01 Organization and Standing of the Target Group Companies

Each Target Group Company's jurisdiction of organization is set forth on Section 4.01 of the Sellers' Disclosure Schedule. Each Target Group Company is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has all requisite limited liability company power and authority to own, lease and operate its properties and assets and to conduct its business as it is presently conducted. Each Target Group Company is duly qualified or licensed as a foreign Person to do business, and is in good standing, in each jurisdiction where the character of the properties and assets occupied, owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary (except where the failure to be so qualified, licensed or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect), and each such jurisdiction is set forth on Section 4.01 of the Sellers' Disclosure Schedule. Except as set forth on Section 4.01 of the Sellers' Disclosure Schedule, no Target Group Company has conducted any business under or otherwise used for any purpose in any jurisdiction any fictitious name, assumed name, DBA or trade name.

4.02 No Conflicts; Consents

Except for (a) filings required under, and compliance with other applicable requirements of, the Antitrust Laws and (b) as set forth on Section 4.02 of the Sellers' Disclosure Schedule, neither the execution, delivery and performance of this Agreement by the

Sellers, nor the consummation by the Sellers of the Acquisition or the other transactions contemplated hereby, will (i) conflict with or violate any of the Target Group Companies' Governing Documents; (ii) materially conflict with, result in a material breach or material default under or create in any Person the right to terminate, cancel, accelerate or materially modify, or require any material notice, consent or waiver under, any Contract to which a Target Group Company is a party or by which a Target Group Company or its assets is bound, in any case with or without due notice or lapse of time or both; (iii) violate in any material respect any Applicable Law or Order applicable to a Target Group Company; or (iv) require a Target Group Company to make any filing with any Governmental Authority.

4.03 No Judgements; Proceedings

No Target Group Company is subject to any outstanding Order. Except as set forth on Section 4.03 of the Sellers' Disclosure Schedule, (a) there is no Proceeding pending, or to the Sellers' Knowledge, threatened, against any Target Group Company; (b) there is no Proceeding by any Target Group Company pending, or which a Target Group Company intends to initiate, against any other Person; and (c) to the Sellers' Knowledge, there is no pending or threatened investigation of any Target Group Company by any Governmental Authority.

4.04 Capitalization; Subsidiaries; Compliance with Governing Documents

- (a) Section 4.04(a) of the Sellers' Disclosure Schedule sets forth the Target Company's outstanding Equity Securities (the **Transferred Units**) and the Persons who hold them. The Sellers are the sole beneficial and record owners of all of the Transferred Units. The Transferred Units are duly authorized, have been validly issued and are fully paid and non-assessable, and except as set forth on Section 4.04(a) of the Sellers' Disclosure Schedule, are owned beneficially and of record by Sellers, free and clear of any Encumbrance other than those arising pursuant to applicable federal and state securities laws and such restrictions as are set forth in the Governing Documents of the Target Company, and were issued in compliance with Applicable Law or exemptions therefrom. Except for the Transferred Units, no other Equity Securities of the Target Company have been issued, reserved for issuance or are outstanding. Other than the Amended and Restated Company Agreement of the Target Company, the Target Company does not have any outstanding Equity Securities convertible into or exchangeable or exercisable for any membership interests in it or any rights to subscribe for or to purchase, or any agreements providing for the issuance (contingent or otherwise), repurchase, redemption of, or affecting the voting rights or requiring registration of a sale of, any membership interests in it. Other than the Amended and Restated Company Agreement of the Target Company, no Seller is a party to any right of first refusal, right of first offer, proxy, voting agreement, voting trust, registration rights agreement or shareholders agreement with respect to the sale or voting of any Equity Securities, including the Units, or any securities convertible into or exchangeable or exercisable for any Equity Securities of the Target Company.

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Other than as set forth in the Governing Documents of the Target Company, there are no preemptive rights in respect of any Equity Securities in the Target Company.

- (b) Section 4.04(b) of the Sellers' Disclosure Schedule lists each Person in which the Target Company holds, beneficially or as of record, an equity ownership interest, and with respect to each such Person: (i) the jurisdiction in which it is incorporated and organized, and (ii) the names and percentage ownership of all holders of Equity Securities in such Person. Except as set forth in Section 4.04(b) of the Sellers' Disclosure Schedule, no Target Group Company owns or controls (directly or indirectly) any Equity Securities in any Person.
- (c) The Sellers have made available to the Purchaser in the Data Room a complete and correct copy of the Governing Documents of each Target Group Company. Such Governing Documents are in full force and effect.
- (d) No Target Group Company is in violation of any material provision of its Governing Documents or the Applicable Law of its jurisdiction of organization. The conversion of the Target Company into a limited liability company on October 6, 2016 was in accordance with the Texas Business Organizations Code and was conducted in accordance with the Target Company's Governing Documents in effect at such time, and all limited liability company action required to be taken by the Target Company as a condition to the conversion of the Company into a limited liability company on October 6, 2016 was taken prior to the consummation of such conversion.
- (e) No claims for indemnification have been made under the Governing Documents of any Target Group Company, nor have any requests or other notices related to capital contributions been provided by any Target Group Company to any Seller, nor are any such requests or other notices, or any future capital contributions, currently contemplated.
- (f) The payment of the consideration under this Agreement in accordance with the terms of this Agreement is in compliance with the provisions of the Governing Documents of the Target Company, Applicable Law and any Contract to which the Target Company or any Seller is a party or is otherwise bound, and shall, for the avoidance of doubt, satisfy all claims of the Sellers or any other Person to such consideration.

4.05 No Operations

No Target Group Company, except for the Target Company, has conducted any business prior to the date of this Agreement and has no, and prior to the Effective Closing Time will have no, assets, Liabilities or obligations of any nature other than those incident to its formation and pursuant to this Agreement.

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4.06 Financial Statements

- (a) Section 4.06(a) of the Sellers' Disclosure Schedule sets forth a complete and correct copy of: (i) Motley Services, Inc.'s (the Target Company's predecessor entity prior to its conversion from a corporation to a limited liability company) audited balance sheet as of December 31, 2015; (ii) the Target Company's audited balance sheet as of December 31, 2016 and December 31, 2017, together with the related audited statements of operations, changes in members' equity and cash flows for the twelve (12) months ended December 31, 2015, December 31, 2016 and December 31, 2017, together with all notes thereto (the **Audited Financial Statements**); and (iii) a complete and correct copy of the Target Company's unaudited balance sheet as of September 30, 2018, together with the related unaudited statements of operations, changes in members' equity and cash flows for the nine (9) month period ending September 30, 2018 (the **Unaudited Financial Statements**, and together with the Audited Financial Statements, the **Financial Statements**). Except as set forth on Section 4.06 of the Sellers' Disclosure Schedule, the Financial Statements (i) have been prepared in accordance with GAAP applied on a consistent basis during the periods involved; (ii) were prepared using, and can be legitimately reconciled with, the books, records and accounts of the Target Group Company and (iii) fairly present, in all material respects, (A) the financial position, the members' equity, the results of operations and cash flows of the Target Group Company as of the times and for the periods referred to therein, and (B) the financial position of the Business as of the times and for the periods referred to therein. The Financial Statements reflect accurately the costs and expenses of the Business as if it were independent and not affiliated with any Seller or any other Person.
- (b) The Target Company's system of internal controls over the financial reporting of the Target Group Companies and the Business is sufficient, in all material respects, to provide reasonable assurance that (i) transactions are (A) recorded as necessary to permit preparation of financial statements in conformity with GAAP and (B) executed, and funds are expended only, in accordance with management's authorization and (ii) its accounting for assets is compared with existing assets at reasonable intervals and action is taken with respect to any differences.
- (c) All the accounts receivable of the Target Group Companies (i) represent actual indebtedness incurred by the applicable account debtors and (ii) have arisen from bona fide transactions in the ordinary course of business. Except as set forth on Section 4.06(c) of the Sellers' Disclosure Schedule, since the Balance Sheet Date, there have not been any write-offs as uncollectible of any customer accounts receivable of any Target Group Company, except for write-offs in the ordinary course of business consistent with past practice that would not, individually or in the aggregate, be material to the Business or the Target Group Companies taken as a whole.

- (d) All of the Target Group Companies' revenue for the fiscal year ended December 31, 2017 was generated by sales to Persons that were located in the United States.

4.07 No Undisclosed Liabilities

None of the Target Group Companies has any Liabilities except for Liabilities (a) reflected, reserved against or otherwise disclosed in the Financial Statements, (b) arising in the ordinary course of business since the Balance Sheet Date, (c) arising under or pursuant to Employee Benefit Plans, Contracts or Permits of the Target Group Companies (none of which results from, arises out of, relates to, is in the nature of, or was caused by any breach of any such Employee Benefit Plan, Contract or Permit), (d) which would not be material to the Business or the Target Group Companies, taken as a whole or (e) set forth on Section 4.07 of the Sellers' Disclosure Schedule.

4.08 Absence of Changes

Except as set forth on Section 4.08 of the Sellers' Disclosure Schedule, since the Balance Sheet Date: (a) the Target Group Companies have conducted the Business in the ordinary course of business consistent with past practice; (b) there has not been any (nor have any set of facts or circumstances arisen that would reasonably be expected to give rise to any) Material Adverse Effect; and (c) no Target Group Company has taken any action that, if taken after the date of this Agreement, would constitute a breach of any of the covenants set forth in Section 6.01.

4.09 Real Property; Personal Property

- (a) No Target Group Company owns fee simple title to real property.
- (b) Section 4.09(b) of the Sellers' Disclosure Schedule sets forth a complete and accurate list of each lease, sublease or license pursuant to which a Target Group Company leases, subleases or licenses an interest in real property from any other Person (whether as a tenant, subtenant or licensee) (collectively, the **Leased Real Property**, and sometimes referred to in this Agreement as the **Target Company Real Property**). Each Target Group Company has a valid and subsisting leasehold estate, sublease, or license, as applicable, in each parcel of Leased Real Property listed for such Target Group Company on Section 4.09(b) of the Seller's Disclosure Schedule for the full term of the respective lease free and clear of any Encumbrances other than Permitted Encumbrances, subject to applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws affecting creditors' rights and remedies generally and to general principles of equity. All of the leases for each parcel of Leased Real Property are in full force and effect except to the extent they have previously expired or terminated in accordance with their terms, and no Target Group Company, nor, to the Sellers' Knowledge, any third party is in default or breach under any lease for Leased Real Property. The Sellers have made available to the Purchaser in the Data Room a true and complete copy of each lease for Leased Real Property described on

Section 4.09(b) of the Seller's Disclosure Schedule. Except as set forth on Section 4.09(b) of the Seller's Disclosure Schedule, no Target Group Company is a sublessor under any sublease affecting all or any part of any Leased Real Property.

- (c) Except as set forth on Section 4.09(c) of the Sellers' Disclosure Schedule, a Target Group Company is in possession of and has good and marketable title to, or valid leasehold interests in or valid rights under Contract to use, the machinery, equipment, furniture, fixtures, and other tangible personal property and assets owned, leased or used by a Target Group Company, free and clear of all Encumbrances (other than Permitted Encumbrances). The machinery, equipment, furniture, fixtures and other tangible personal property and assets owned, leased or used by a Target Group Company have been maintained in the ordinary course of business, are adequate for the uses to which they are being put, are in good operating condition and repair (normal wear and tear excepted and consistent with age) and are sufficient to operate the Business in the ordinary course consistent with past practice.
- (d) Except as set forth on Section 4.09(d) of the Sellers' Disclosure Schedule, all buildings, structures, improvements, fixtures, building systems and equipment, and all components thereof, included in the Target Company Real Property (the **Improvements**) are in good condition and repair (normal wear and tear excepted and consistent with age) and sufficient for the operation of the Business in the ordinary course consistent with past practice.

4.10 Intellectual Property

- (a) Section 4.10(a) of the Sellers' Disclosure Schedule identifies all: (i) issued patents and pending patent applications; (ii) registered trademarks and pending applications therefor; (iii) copyright registrations and pending applications therefor; and (iv) Internet domain name registrations, in each case that are Owned Intellectual Property. With respect to each such Intellectual Property right identified on Section 4.10(a) of the Sellers' Disclosure Schedule, no Proceeding is pending or, to the Sellers' Knowledge, threatened which challenges the legality, validity, enforceability, use or ownership of any such Intellectual Property right.
- (b) A Target Group Company owns, free and clear of any Encumbrances other than Permitted Encumbrances, or has the right to use all Intellectual Property used in the operation of the Business as presently conducted.
- (c) No Target Group Company is infringing, misappropriating or otherwise violating any third party's Intellectual Property. Neither the Sellers, nor any Target Group Company, has received in the last two (2) years any written notice or written communication alleging that the conduct of the Business infringes, misappropriates or otherwise violates any third party's Intellectual Property. To the Sellers' Knowledge, no third party has infringed upon, misappropriated or

otherwise violated any Owned Intellectual Property rights. This Section 4.10(c) constitutes the sole and exclusive representations and warranties of the Sellers with respect to the non-infringement of third party Intellectual Property rights.

- (d) The Target Group Companies have taken all reasonable and practicable steps to safeguard and maintain the secrecy of any trade secrets and other confidential information owned by or in the possession of a Target Group Company. The Sellers have taken all reasonable and practicable actions to protect the integrity and security of the Target Group Companies' IT Systems and the data and other information stored or process thereon, and there has been no unauthorized access, use, intrusion, or breach of security of any of the Target Group Companies' IT Systems that has caused or would reasonably be expected to cause: (i) material disruption of or material interruption in or to the use of such IT Systems or the conduct of the Business; (ii) material loss, destruction, damage, or harm of or to the Business; or (iii) material liability to the Business.
- (e) Except as set forth on Section 4.10(e) of the Sellers' Disclosure Schedule, a Target Group Company has entered into binding, valid and enforceable written agreements with each current and former employee, officer and contractor who is or was involved in or has contributed to the invention, creation, or development of any Intellectual Property used in connection with the operation of the Business whereby such employee, officer or contractor: (i) acknowledges a Target Group Company's exclusive ownership of Intellectual Property invented, created or developed by such employee, officer or contractor within the scope of his or her employment or engagement with a Target Group Company; (ii) grants to a Target Group Company an irrevocable assignment of any ownership interest such employee, officer or contractor may have in or to such Intellectual Property; and (iii) irrevocably waives any right or interest, including any moral rights, regarding such Intellectual Property, to the extent permitted by Applicable Law.

4.11 Contracts

- (a) Except as set forth on Section 4.11(a) of the Sellers' Disclosure Schedule, no Target Group Company is party to or bound by any of the following (other than, in each case, (1) purchase orders, sales orders and invoices entered into in the ordinary course of business (which, in each case, have an aggregate dollar value of less than \$100,000) and (2) master service agreements with customers that are not Key Customers; *provided, however*, that master services agreements with customers that are not Key Customers described in clauses (vi), (vii) or (x) of this Section 4.11(a) below shall be disclosed on Section 4.11(a) of the Sellers' Disclosure Schedule):
 - (i) Contract under which a Target Group Company has incurred any indebtedness for borrowed money;
 - (ii) Contract with any Key Customer or Key Supplier;

- (iii) Contract for the sale of any material asset of any Target Group Company or the grant of any preferential rights to purchase any such material asset (including any discounted purchase price) or requiring the consent of any Person to the transfer thereof;
- (iv) Contract that includes a change of control, sale or retention bonus or similar payment, commitment or arrangement;
- (v) Collective bargaining agreement or other Contract with any labor union or other labor organization;
- (vi) Contract which grants most-favored nations pricing rights to any Person relating to any services or products of such Target Group Company;
- (vii) Contract that limits or purports to limit, in any material respect, the ability of such Target Group Company to operate its business in any geographic area or contains any other covenant not to compete;
- (viii) Contract that restricts such Target Group Company from soliciting, hiring, engaging, retaining or employing any Person's current or former employees;
- (ix) Contract concerning any partnership, joint venture, joint development or similar arrangement;
- (x) Contract constituting any settlement agreement;
- (xi) Contract between such Target Group Company, on the one hand, and any Seller or an Affiliate of a Seller or any current or former officer, manager or director of such Target Group Company, on the other hand (each, an *Affiliate Contract*);
- (xii) Contract relating to employment that is not terminable by such Target Group Company "at-will" or that would require notice or pay in lieu of notice in excess of ninety (90) days;
- (xiii) Contract which, pursuant to the terms thereof; such Target Group Company could be liable to a third party for consequential, incidental, punitive, special or exemplary damages;
- (xiv) material lease, sublease or similar Contract with any Person under which (A) such Target Group Company is lessee of, or holds or uses, any machinery, equipment, vehicle or tangible personal property owned by any Person, or (B) such Target Group Company is a lessor or sublessor of, or makes available for use by any Person, any tangible personal property owned or leased by a Target Group Company;

- (xv) license, sublicense, covenant, option, assignment or other Contract relating to Intellectual Property (whether such Target Group Company is licensee or licensor), excluding unmodified “off-the-shelf” software licensed to any Target Group Company on generally standard terms or conditions involving consideration of less than \$50,000 in the aggregate;
- (xvi) any “take-or-pay” Contract or other Contract pursuant to which such Target Group Company has guaranteed the indebtedness or Liabilities of any Person;
- (xvii) Contract providing for the indemnification of any Person by such Target Group Company;
- (xviii) Contract with any Governmental Authority; or
- (xix) Contract (other than as set forth above) that if breached, terminated or not renewed, would have a Material Adverse Effect.

The Contracts required to be disclosed at Section 4.11(a) of the Sellers’ Disclosure Schedule are referred to as the **Material Contracts**.

- (b) Each Material Contract is valid, binding and in full force and effect, subject to Applicable Law (i) relating to bankruptcy, insolvency and the relief of debtors and (ii) governing specific performance, injunctive relief and other equitable remedies. Each Target Group Company has materially performed all its obligations required to be performed by it under each Material Contract and is not (with or without the giving of notice or the lapse of time) in breach or default thereof in any material respect. To the Sellers’ Knowledge, as of the date of this Agreement, no party to any Material Contract (with or without the giving of notice or the lapse of time) is in breach or default thereof in any material respect. As of the date of this Agreement, no Sellers, nor any Target Group Company, has received written notice from any party to any Material Contract that such other party intends to terminate or not renew at the end of its term any such Material Contract, materially increase any rates, costs or fees charged under any Material Contract or materially reduce the level of any goods or services to be provided under any Material Contract. The Sellers have made available to the Purchaser in the Data Room complete and correct copies of each Material Contract, together with all modifications and amendments thereto.

4.12 Compliance with Applicable Law; Permits

Except as set forth on Section 4.12 of the Sellers’ Disclosure Schedule, each Target Group Company is and has been for the past three (3) years in compliance in all material respects with all Applicable Law. No Target Group Company has received any written notice of or been charged in writing in the last three (3) years with the material violation of any Applicable Law. Each Target Group Company is in possession of all permits,

licenses, certificates or other authorizations or consents of a Governmental Authority (each a **Permit** and collectively the **Permits**) necessary for the conduct of the Business as presently conducted or required by Applicable Law (except where the failure to possess any Permit would not be material to the Business). Each Target Group Company is in compliance in all material respects with its Permits and has not received any written notice relating to the suspension, non-renewal, revocation or modification of any of such Target Group Company's Permits. Except as set forth on Section 4.12 of the Sellers' Disclosure Schedule, none of the Target Group Companies' material Permits will be subject to suspension, adverse modification, revocation or non-renewal as a result of the consummation of the Acquisition or the other transactions contemplated by this Agreement.

4.13 Taxes

- (a) All Taxes that are required by Applicable Law to be withheld, paid or collected by each Target Group Company have been properly withheld, paid or collected and, to the extent required by Applicable Law, have been paid over to the proper Governmental Authority.
- (b) Each Target Group Company has timely filed all Tax Returns, which are required under Applicable Law to be filed by each Target Group Company, and no extensions of time to file a Tax Return have been made except in the ordinary course of business. All such Tax Returns filed have been complete and accurate in all material respects. All Taxes due and owing (whether or not shown on any Tax Return) by each Target Group Company to federal, state, local or foreign Governmental Authorities on or before the date hereof have been paid.
- (c) No Target Group Company is a party to or bound by any Tax indemnity, Tax sharing or Tax allocation agreement.
- (d) There are no Encumbrances for Taxes upon the assets or properties of the Target Group Companies, except for Permitted Encumbrances.
- (e) No Target Group Company has taken any reporting position on a Tax Return, which reporting position (i) if not sustained would be reasonably likely, absent disclosure, to give rise to a penalty for substantial understatement of federal income tax under Section 6662 of the Code (or any similar provision of state, local, or foreign tax law), and (ii) has not adequately been disclosed on such Tax Return in accordance with Section 6662(d)(2)(B) of the Code (or any similar provision of state, local, or foreign Tax law).
- (f) No Target Group Company has agreed, or is required, to make any adjustment under Section 481(a) of the Code, or any similar provision of state, local or foreign law, and no Governmental Authority has proposed any such adjustment or change in accounting method.

- (g) No Target Group Company will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (i) change in method of accounting for a taxable period ending on or prior to the Closing Date; (ii) Closing Agreement executed on or prior to the Closing Date; (iii) installment sale or open transaction disposition made on or prior to the Closing Date; (iv) election under Section 108(i) of the Code; (v) intercompany transaction or excess loss account described in the Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or foreign Tax Law) or (vi) the application of Section 965 of the Code. No power of attorney that will be in force at the Closing has been granted with respect to any matter relating to Taxes that could affect any Target Group Company.
- (h) No Target Group Company has been a member of a consolidated, combined or unitary Tax group (other than a group of the common parent of which was the Target Company), and no Target Group Company has liability for Taxes of any other Person under Treasury Regulation Section 1.1502-6 (or any similar provision of foreign, state or local law) as a transferee or successor, by Contract or otherwise.
- (i) No Target Group Company has participated in or been a party to a transaction that, as of the date of this Agreement, constitutes a “listed transaction” that is required to be reported to the U.S. Internal Revenue Service pursuant to Section 6011 of the Code and applicable Treasury Regulations thereunder.
- (j) The Target Company is, and has been since October 14, 2016, properly treated as a partnership for federal (and, where applicable, state and local) income Tax purposes and no election has been made pursuant to Treasury Regulation Section 301.7701-3(c) to treat the Target Company for federal income Tax purposes as an association taxable as a corporation.
- (k) Each Target Group Company (other than the Target Company) is, and has been since its formation, properly treated for federal (and, where applicable, state and local) income Tax purposes as either a “partnership” or a “disregarded entity” within the meaning of Treasury Regulation Section 301.7701-3(b)(1) and no election has been made pursuant to Treasury Regulation Section 301.7701-3(c) to treat any Target Group Company for federal income Tax purposes as an association taxable as a corporation.
- (l) From the date of its incorporation until October 5, 2016, the Target Company was properly treated for federal (and, where applicable, state and local) income Tax purposes as an “S corporation” within the meaning of Section 1361 of the Code and it had only one class of stock, all of which was at all times owned only by Davis. From October 6, 2016 until October 13, 2016, the Target Company was properly treated for federal (and, where applicable, state and local) income Tax

purposes as a “disregarded entity” within the meaning of Treasury Regulation Section 301.7701-3(b)(1) whose sole owner was 3M.

- (m) No Target Group Company has distributed stock of another Person, or has had its stock distributed by another Person, in a transaction that was purported or intended to be governed in whole or in part by Section 355 or Section 361 of the Code
- (n) No federal, state, local or foreign Tax Proceedings are pending or being conducted with respect to any Target Group Company. No Target Group Company has waived any statute of limitations with respect to Taxes or agreed to an extension of time with respect to a Tax assessment or deficiency, which waiver or extension of time is currently outstanding, and no Target Group Company has granted any currently effective power of attorney with respect to Tax matters. All deficiencies asserted or assessments made as a result of any examinations of Tax Returns previously filed by a Target Group Company have been fully paid, or are fully reflected as a liability in the Financial Statements, or are being contested in good faith and an adequate reserve therefor has been established and is fully reflected as a liability in the Financial Statements.

4.14 Employee and Labor Matters

- (a) Section 4.14(a) of the Sellers’ Disclosure Schedule contains a list of all Business Employees as of the date of this Agreement, including any employee who is on a leave of absence of any nature, and sets forth for each employee the following: (i) name; (ii) title or position (including whether full-time or part-time); (iii) base salary or wage rate; (iv) FLSA classification (exempt or non-exempt); and (v) 2017 and 2018 commission, bonus, or other incentive-based compensation.
- (b) Except as set forth on Section 4.14(b) of the Sellers’ Disclosure Schedule, since October 22 2015, all Business Employees and former employees of a Target Group Company classified as exempt under the FLSA and state and local wage and hour laws are and have been properly classified as exempt. Except as set forth on Section 4.14(b) of the Sellers’ Disclosure Schedule, to the Sellers’ Knowledge, as of the date of this Agreement, there are not, and since October 22, 2015, there have not been, any Proceedings pending or threatened against a Target Group Company relating to workers’ compensation, worker classification, wages and hours, minimum wage, overtime compensation, employee classification, and employee compensation, wages, commissions, bonuses, or fees.
- (c) Except as set forth on Section 4.14(c) of the Sellers’ Disclosure Schedule, to the Sellers’ Knowledge, (i) other than compensation to be paid following the date of this Agreement in the ordinary course of business consistent with past practice, all compensation, including wages, commissions, bonuses, fees, or other compensation, payable to any employee, independent contractor, or consultant of the Target Group Companies for services performed between October 22, 2015

and the date of this Agreement has been paid in full and, (ii) as of the date of this Agreement, no Target Group Company has an outstanding agreement, understanding, or commitment with respect to any compensation, wages, commissions, bonuses, or fees.

- (d) No Target Group Company is a party to or bound by any collective bargaining agreement and there are no labor unions, works councils or other organizations representing, purporting to represent or attempting to represent any individual who is a Business Employee as of the date of this Agreement. Since October 22, 2016, no strike, slowdown, picketing, work stoppage, concerted refusal to work overtime or other similar labor activity has occurred, or been threatened or, to the Sellers’ Knowledge, is currently anticipated with respect to any employee of a Target Group Company. There are no labor disputes currently subject to any grievance procedure, arbitration or litigation and there is no representation petition pending, threatened or, to the Seller’s Knowledge, anticipated with respect to any individuals who are Business Employees as of the date of this Agreement or any former employees of a Target Group Company. No Target Group Company has a duty to bargain with any labor union. Since October 22, 2016, no Target Group Company has engaged in any unfair labor practices within the meaning of the National Labor Relations Act.
- (e) Except as set forth on Section 4.14(e) of the Sellers’ Disclosure Schedule, the Target Group Companies are in compliance in all material respects with all Applicable Laws relating to employment and employment practices, workers’ compensation, terms and conditions of employment, worker classification, worker safety, wages and hours, minimum wage, overtime compensation, employee classification, civil rights, discrimination, immigration, collective bargaining, and the Worker Adjustment and Retraining Notification Act, 29 U.S.C. §2109 et seq. and the regulations promulgated thereunder.
- (f) The Target Group Companies do not have any outstanding liability under the Worker Adjustment and Retraining Notification Act, 29 U.S.C. §2109 et seq. (the **WARN Act**) or the regulations promulgated thereunder or any similar state law, and, since October 22, 2015, the Target Group Companies have not experienced a “mass layoff” or “plant closing” (within the meaning of the WARN Act) or incurred any liability under such statute.
- (g) Except as set forth on Section 4.14(g) of the Sellers’ Disclosure Schedule, as of the date of this Agreement, there are no Proceedings pending or, to the Sellers’ Knowledge, threatened against a Target Group Company by any Business Employee or former employee, or current or former director, asserting or relating to harassment, discrimination, retaliation, interference with or denial of leaves of absence, failure to accommodate, or any other similar action, and no such Proceedings have occurred or, to the Sellers’ Knowledge, been threatened against any Target Group Company since October 22, 2016 and, to the Sellers’

Knowledge, no facts exist that would reasonably be expected to give rise to such claims or actions.

- (h) The Target Group Companies are not required to have, and do not have, any affirmative action plans or programs.
- (i) To the Sellers' Knowledge, no officer or other management-level employee of any Target Group Company or Key Manager has notified any Target Group Company or Key Manager that such officer or management-level employee intends to terminate his or her employment with a Target Group Company, as applicable, in connection with the transactions contemplated by this Agreement or otherwise.

4.15 Benefit Plans

- (a) Section 4.15(a) of the Sellers' Disclosure Schedule sets forth a true and complete list of each Employee Benefit Plan.
- (b) The Sellers have made available to Purchaser: (i) copies of all material documents setting forth the terms of each Employee Benefit Plan, including all amendments thereto and all related trust documents; (ii) the three most recent annual reports (Form Series 5500), if any, required under ERISA or the Code in connection with each Employee Benefit Plan; (iii) the most recent actuarial reports (if applicable) for all Employee Benefit Plans; (iv) the most recent summary plan description if any, required under ERISA with respect to each Employee Benefit Plan; (v) all material written contracts, instruments or agreements relating to each Employee Benefit Plan, including administrative service agreements, stop loss policies and group insurance contracts; (vi) the most recent IRS determination or opinion letter issued with respect to each Employee Benefit Plans intended to be qualified under Section 401(a) of the Code; and (vii) all filings under the IRS' Employee Plans Compliance Resolution System Program or any of its predecessors or the Department of Labor Delinquent Filer Program.
- (c) None of the Company, its subsidiaries, or any entity that would be deemed a "single employer" with the Company or its subsidiaries under Section 414(b), (c), (m) or (o) of the Code has ever contributed to, contributes to, has ever been required to contribute to, or otherwise participated in or participates in or in any way, directly or indirectly, has any liability with respect to any plan subject to Section 412 of the Code, Section 302 of ERISA or Title IV of ERISA, including, without limitation, any "multiemployer plan" (within the meaning of Sections 3(37) or 4001(a)(3) of ERISA).
- (d) The Motley Services, LLC 401(k) Plan (the **Seller 401(k) Plan**) is the only Employee Benefit Plan sponsored by the Sellers or their ERISA Affiliates that is intended to qualify under Section 401(a) of the Code and neither the Sellers nor their ERISA Affiliates have previously sponsored any other such plans. The

Seller 401(k) Plan is maintained pursuant to a prototype plan document which has a current opinion letter from the IRS and, except as described in Section 4.15(d) of Sellers' Disclosure Schedule, no operational, plan document, or plan testing error has occurred that would cause the such plan to incur a qualification error or the fiduciaries of such plan to have a breach of their fiduciary duty.

- (e) All payments required by each Employee Benefit Plan or by Applicable Law (including, without limitation, all contributions (employer match, employer profit sharing, employee deferral, Roth, etc.), insurance premiums or intercompany charges) with respect to all prior periods have been made or provided for by a Target Group Company in accordance with the provisions of each of the Employee Benefit Plans, Applicable Law and GAAP. The Sellers have not promised, declared, committed or communicated to any Business Employees any future employer contributions to any qualified plan (e.g., employer match, employer profit-sharing).
- (f) No Proceeding has been asserted, instituted or, to Sellers' Knowledge, threatened against any of the Employee Benefit Plans (other than non-material routine claims for benefits and appeals of such claims), any trustee or fiduciaries thereof or any of the assets of any trust of any of the Employee Benefit Plans.
- (g) Each Employee Benefit Plan complies in form and has been maintained and operated in all material respects in accordance with its terms and Applicable Law, including, without limitation, ERISA and the Code.
- (h) No non-exempt Prohibited Transaction has occurred or is reasonably expected to occur with respect to the Employee Benefit Plans.
- (i) No Employee Benefit Plan is under, and no Target Group Company has received any notice of, an audit or investigation by the IRS, Department of Labor or any other Governmental Entity.
- (j) No Employee Benefit Plan provides post-retirement health and welfare benefits to any current or former employee of a Target Group Company, except as required under Section 4980B of the Code, Part 6 of Title I of ERISA or any other Applicable Law.
- (k) The consummation of the transactions contemplated by this Agreement alone, or in combination with any other event, (i) will not give rise to any liability under any Employee Benefit Plan, (ii) accelerate the time of payment or vesting or increase the amount, or require the funding, of compensation or benefits due to any employee, director or other service provider of a Target Group Company (whether current, former or retired) or their beneficiaries, or (iii) restrict the ability of a Target Group Company to amend or terminate any Employee Benefit Plan at any time.

- (l) No amount that could be received (whether in cash or property or the vesting of property), as a result of the consummation of the transactions contemplated by this Agreement by any employee, director or other service provider of a Target Group Company under any Employee Benefit Plans or otherwise would not be deductible by reason of Section 280G of the Code or would be subject to an excise tax under Section 4999 of the Code.
- (m) No Target Group Company nor any employee, director, stockholder or other service provider of a Target Group Company has made any promises or commitments, whether legally binding or not, to create any additional Employee Benefit Plan, or to modify or change in any material way any existing Employee Benefit Plan.
- (n) Any individual who performs services for a Target Group Company and who is not treated as an employee for federal income tax purposes by a Target Group Company is not an employee under Applicable Law or for any purpose including, without limitation, for Tax withholding purposes or Employee Benefit Plans participation purposes. The Target Group Companies have no liability by reason of an individual who performs or performed services for a Target Group Company in any capacity being improperly excluded from participating in an Employee Benefit Plan.
- (o) There are no outstanding loans as of the date hereof by and between any of the Sellers or the Target Group Companies and any participant in an Employee Benefit Plan.
- (p) As of the date hereof, there are no hardship distributions for any participant in an Employee Benefit Plan.
- (q) The Sellers have provided, or have caused to be provided, timely and complete IRS Forms 1094-C and 1095-C to Employee Benefit Plan participants and the IRS.
- (r) Sellers have obtained a qualified ERISA bond that satisfies Applicable Law for any and all Employee Benefit Plans intended to qualify under Section 401 of the Code.
- (s) The Target Group Companies and the Sellers have not maintained any previous Employee Benefit Plans intended to qualify under Section 401(k) of the Code and no such previous plan has been merged into or assumed under any current Employee Benefit Plans intended to qualify under Section 401(k) of the Code.

4.16 Environmental Matters

- (a) Except as set forth on Section 4.16 of the Sellers' Disclosure Schedule, each Target Group Company is, and for the last three (3) years has been, in compliance in all material respects with Environmental Laws.
- (b) There are no pending, or to the Sellers' Knowledge, threatened claims or Proceedings against a Target Group Company asserting any actual or potential material violation or breach of, or material Liability under, any Environmental Laws, and no Target Group Company has received within the preceding three (3) years any written third party demand, notice, report, order, directive or other communication or information, in each case asserting against a Target Group Company any actual or potential material violation or breach of, or material Liability under, any Environmental Laws.
- (c) Except as set forth on Section 4.16 of the Sellers' Disclosure Schedule, each Target Group Company holds, and for the last three (3) years has held, and is, and for the last three (3) years has been, in compliance in all material respects with, all Permits required to be held by it under applicable Environmental Laws for the conduct of the Business or use or occupation of its facilities or any Target Company Real Property.
- (d) No Target Group Company has treated, stored, disposed of, arranged for or permitted the disposal of, transported, manufactured, distributed, handled, released or exposed any Person to, or owned or operated any property or facility that is or has been contaminated by, Hazardous Materials, in each case as has given or would give rise to any current or future material Liability of or Proceeding against a Target Group Company under any Environmental Laws.
- (e) Except for the Material Contracts and agreements entered into in the ordinary course of business, no Target Group Company has assumed, undertaken, become subject to or provided an indemnity with respect to any Liability of any other Person under or relating to any Environmental Laws.
- (f) The Sellers have made available to Purchaser in the Data Room all material environmental audits, assessments, and reports prepared by or on behalf of a Target Group Company within the preceding three (3) years relating to Environmental Matters of each Target Group Company.
- (g) Sections 4.03 and 4.12 (as each is relevant to Environmental Laws) and Section 4.16 constitute Sellers' sole and exclusive representations and warranties relating to Environmental Laws, Hazardous Materials, Permits issued under Environmental Laws, Orders, Proceedings, or investigations relating to Environmental Laws and any other environmental, health or safety matter.

4.17 Affiliate Contracts

Except as set forth on Section 4.17 of the Sellers' Disclosure Schedule, none of the Contracts set forth on Section 4.11(a)(xi) of the Sellers' Disclosure Schedule will continue in effect after the Closing.

4.18 Insurance

Section 4.18 of the Sellers' Disclosure Schedule provides a summary of all policies of, or agreements for, insurance and interest in insurance pools and programs, in each case including self-insurance (collectively, **Insurance Arrangements**), that are held in the name of, or for the benefit of, a Target Group Company or the Business. Each such Insurance Arrangement is in full force and effect, all premiums due to date thereunder have been paid in full, and no Target Group Company is in material default with respect to any other obligations thereunder. No written notice of cancellation or nonrenewal, in whole or in part, with respect to any such Insurance Arrangement currently in force has been received by the Sellers or a Target Group Company as of the date of this Agreement.

4.19 Key Customers and Key Suppliers

- (a) Section 4.19(a) of the Sellers' Disclosure Schedule sets forth the top twenty (20) customers of the Business (by annual revenue) for the fiscal year ended December 31, 2017 and the nine (9) month period ended September 30, 2018 (each, a **Key Customer**, and collectively, the **Key Customers**); and (ii) the aggregate amount of consideration paid by each such Key Customer during such periods. Except as set forth on Section 4.19 of the Sellers' Disclosure Schedule, no Target Group Company has received any written notice that any of the Key Customers has terminated or intends to terminate or materially reduce its business with a Target Group Company or the Business.
- (b) Section 4.19(b) of the Sellers' Disclosure Schedule sets forth the top twenty (20) suppliers by total consideration paid by the Target Group Companies for goods or services for the fiscal year ended December 31, 2017 and the nine (9) month period ended September 30, 2018 (each, a **Key Customer**, and collectively, the **Key Suppliers**); and (ii) the aggregate dollar value of purchases from each Key Supplier during such periods. No Target Group Company has received any written notice that any of the Key Suppliers has ceased, or intends to cease, to supply goods or services to a Target Group Company or the Business or to otherwise terminate or materially reduce its business with a Target Group Company or the Business.

4.20 Data Security

Each Target Group Company is in material compliance with (and for the past two (2) years has been in material compliance with) all Applicable Law and Contract

requirements, such as Target Group Company's published privacy policies or statements, and any other material policies of the Target Group Companies required by Applicable Law and/or Contract requirements concerning data security requirements, privacy policy notice requirements, data security breach requirements, and requirements regarding the use, storage, disclosure, or transfer of personally identifiable information, which includes Protected Health Information, as defined in 45 C.F.R. § 160.103 (collectively, **PII**). To the Sellers' Knowledge, no investigation relating to the information privacy or data security practices (including collection, transfer, or use) of a Target Group Company is being conducted by any Governmental Authority. In the past two (2) years, there has been no material and reportable data security breach, as defined under Applicable Law, of or unauthorized use of any sensitive PII that is owned, used, stored, received, or controlled by a Target Group Company. In the past two (2) years, there has been no material actual or suspected privacy breach, as defined under Applicable Law, of any sensitive PII that is owned, used, stored, received, or controlled by a Target Group Company. No claims are pending, or, to the Sellers' Knowledge, threatened, against a Target Group Company by any Person alleging a material breach of any Applicable Law (including rights relating to privacy, PII, or any other confidentiality rights).

4.21 No Other Representations or Warranties

Except for the representations and warranties contained in Article III and this Article IV (subject to the related portions of the Sellers' Disclosure Schedule), none of Sellers nor any other Person has made or makes, and hereby expressly disclaims, any and all other express or implied representations and warranties, either written or oral, on behalf of the Sellers or the Target Group Companies.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF THE PURCHASER AND PARENT

I. Representations and Warranties of the Purchaser and Parent:

The Purchaser and Parent hereby represent and warrant as of the date hereof and as of the Closing Date to the Sellers as follows:

5.01 Organization and Standing

The Purchaser is a limited liability company, duly organized, validly existing and in good standing under the laws of the state of Delaware, and has all requisite limited liability company power and authority to conduct its business as it is presently conducted. Parent is a corporation, duly organized, validly existing and in good standing under the laws of the state of Delaware, and has all requisite corporate power and authority to conduct its business as it is presently conducted.

5.02 Authority; Execution and Delivery; and Enforceability

Each of Parent and the Purchaser have all requisite power and authority to execute and deliver this Agreement and the other agreements and documents contemplated hereby. The execution, delivery and performance of this Agreement and the other agreements and documents contemplated hereby and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of Parent and the Purchaser, as applicable. Each of Parent and the Purchaser have duly and validly executed and delivered this Agreement, and on the Closing Date will duly and validly execute and deliver the other agreements and documents contemplated hereby. This Agreement constitutes, and when duly and validly executed and delivered the other agreements and documents contemplated hereby will constitute, the valid and binding obligation of Parent and the Purchaser enforceable against Parent and the Purchaser in accordance with its terms, subject to Applicable Law (a) relating to bankruptcy, insolvency and the relief of debtors and (b) governing specific performance, injunctive relief and other equitable remedies.

5.03 No Conflicts; Consents

Except for filings required under, and compliance with other applicable requirements of, the Antitrust Laws, neither the execution, delivery and performance of this Agreement by Parent and the Purchaser, nor the consummation by Parent and the Purchaser of the Acquisition or the other transactions contemplated by this Agreement, will (a) conflict with or violate any of the Governing Documents of Parent or the Purchaser, (b) result in a material breach or material default under or create in any Person the right to terminate, cancel, accelerate or materially modify, or require any material notice, consent or waiver under, any Contract to which Parent or the Purchaser is a party or by which Parent or the Purchaser is bound, in any case with or without due notice or lapse of time or both, (c) violate in any material manner any Applicable Law or Order applicable to Parent or the Purchaser or (d) require Parent or the Purchaser to make any filing with any Governmental Authority.

5.04 No Proceedings

There is no Proceeding pending or (i) to the Purchaser's Knowledge or (ii) to the Parent's Knowledge, as applicable, threatened against Parent or the Purchaser or any of their respective Affiliates that questions or challenges the validity of this Agreement or that would reasonably be expected to prevent, delay, make illegal or otherwise have a material adverse effect on the ability of Parent or the Purchaser to consummate the Acquisition or the other transactions contemplated hereby.

II. Representations and Warranties of the Purchaser:

The Purchaser hereby represents and warrants as of the date hereof and as of the Closing Date to the Sellers as follows:

5.05 Investment Representations

The Purchaser is acquiring the Units solely for the purpose of investment and not with a view to, or for sale in connection with, any distribution thereof in violation of any Applicable Law (including the Securities Act). The Purchaser acknowledges that the Units have not been registered under the Securities Act or under other Applicable Law, and that the Units may not be transferred or sold except in accordance with the registration requirements of the Securities Act and other Applicable Law, or pursuant to an applicable exemption therefrom. The Purchaser (either alone or together with its advisors) has sufficient knowledge and experience in financial and business matters (including the industries and businesses in which the Target Group Companies operate) so as to be capable of evaluating the merits and risks of its investment in the Units and is capable of bearing the economic risks of such investment for an indefinite period of time. The Purchaser is an “accredited investor” as defined in Rule 501(a) under the Securities Act. In making the decision to enter into this Agreement and to consummate the transactions contemplated hereby, the Purchaser has relied solely on its own independent investigations, analyses and evaluations of the Target Group Companies, the Business and the assets and properties of the Target Group Companies, and the representations, warranties, covenants and agreements of Sellers set forth in this Agreement. The Purchaser acknowledges and agrees that the Sellers, the Target Group Companies and each of their respective Affiliates and Representatives have not made and are not making any representations or warranties whatsoever regarding or relating to the Target Group Companies, the Business or the assets or properties of the Target Group Companies, express or implied.

5.06 Sufficiency of Funds

Assuming the proceeds under the transactions contemplated by the Debt Financing Documents have been made available to the Purchaser for the purpose of consummating the Closing, the Purchaser has, or will have as of the Closing Date, sufficient funds available to it to enable it to pay the consideration under this Agreement and consummate the Acquisition and the other transactions contemplated by this Agreement and the other agreements and documents contemplated hereby.

5.07 Brokers or Finders

The Sellers will not be responsible for any commission or finder’s or similar fee for services rendered by any broker, finder, financial advisor or investment bank and provided to the Purchaser or any of the Purchaser’s Affiliates (including Parent) in connection with the Acquisition or any of the transactions contemplated hereby.

**ARTICLE VI
COVENANTS**

6.01 Conduct of the Target Group Companies

Between the date of this Agreement and the earlier of the Closing Date and the date, if any, on which this Agreement is terminated in accordance with Article IX, except (A) as may be required by Applicable Law, (B) as may be agreed in writing by the Purchaser (which consent shall not be unreasonably withheld, delayed or conditioned), or (C) as set forth on Section 6.01 of the Seller's Disclosure Schedule, (x) the Sellers shall use commercially reasonable efforts to, and shall use commercially reasonable efforts to cause each of the Target Group Companies to, (a) conduct the Business in the ordinary course, (b) preserve substantially intact the Target Group Companies' business organization and assets, (c) keep available the services of the current managers, officers, employees and consultants of the Target Group Companies, (d) preserve the current relationships of the Target Group Companies with customers, suppliers, distributors, regulators and business partners, and other persons with which the Target Group Companies have significant business relations, and (e) keep and maintain the assets and properties of the Target Group Companies in good repair and normal operating condition, wear and tear excepted, and (y) without limiting the generality of the foregoing, the Sellers shall not, and shall cause each of the Target Group Companies not to, directly or indirectly:

- (a) change or amend any of its Governing Documents;
- (b) grant, sell, deliver, dispose of, pledge or otherwise encumber the Units or any of the Equity Securities of the other Target Group Companies;
- (c) other than Cash distributions to the Sellers between the date hereof and the Closing Date which do not interfere with the ability of the Sellers to fully and timely pay any amounts owed by the Target Group Companies as they come due and owing, declare, set aside, authorize, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to the Units or the Transferred Units;
- (d) incur any indebtedness, issue any debt securities, or guarantee any indebtedness of any Person or make any loans, capital contributions to, or investments in, any other Person, other than borrowings under existing credit facilities which will be paid off or discharged on or prior to the Closing Date;
- (e) enter into any Contract that would, if entered into prior to the date of this Agreement, be a Material Contract, or make any material amendment to or terminate (excluding any expiration in accordance with its terms) any Material Contract;

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- (f) acquire by merger or consolidation with, or merge or consolidate with, or purchase substantially all of the assets of, any Person, joint venture or division thereof;
- (g) divest, sell or otherwise dispose of, or encumber any assets of any Target Group Company other than in the ordinary course of business;
- (h) adopt a plan or agreement of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other material reorganization of any Target Group Company;
- (i) (A) other than to replace vacant positions for which total annual hourly wages or annual base salary does not exceed \$300,000, hire any new employee, (B) terminate any Business Employee (other than for cause), (C) grant or announce any increase in compensation or benefits or make any other change in employment terms for any manager, director, officer, consultant or Business Employee or other individual service provider, or (D) adopt, amend or terminate any Employee Benefit Plan or announce or otherwise commit to any such adoption, amendment or termination, except as required by changes in Applicable Law;
- (j) change the accounting policies or procedures of any Target Group Company except to the extent required to conform with GAAP (which changes shall be notified to the Purchaser in writing prior to such changes being made);
- (k) allow any material Permits to lapse, terminate or expire, or otherwise fail to preserve any maintain any such Permits;
- (l) enter into any collective bargaining agreement or other Contract with any labor organization, union or association;
- (m) initiate or settle any Proceeding;
- (n) (A) make, rescind or change any material Tax election or change any annual Tax accounting period or method of Tax accounting; (B) file any amended Tax Return (other than the Target Company's July and August 2018 Texas Sales and Use Tax Returns); (C) settle or compromise any audit or Proceeding relating to a material amount of Taxes; (D) agree to an extension or waiver of the statute of limitations with respect to a material amount of Taxes; (E) enter into any Closing Agreement with respect to any Tax; or (G) surrender any right to claim a Tax refund;
- (o) fail to make any capital expenditures in accordance with the budget set forth on Section 6.01(o) of the Sellers' Disclosure Schedule; *provided that* such capital expenditures shall not include (i) any items related to three (3) coil tubing packages (including coil tubing units, support trailers, pumps, cranes and other equipment ancillary thereto) identified in the projections made available to the

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Purchaser in the Data Room for delivery in the third and fourth quarters of 2018 that is incremental to payments made as of the date hereof, or (ii) any equipment scheduled for delivery in 2019;

- (p) cancel, modify or fail to cause to continue in full force or fail to renew any Insurance Arrangement (except where such existing Insurance Arrangement is replaced by a substantially equivalent policy and a substantially equivalent insurer);
- (q) manage working capital in a manner detrimental to the operations of the Business or otherwise inconsistent with the historical ordinary course management of items of working capital; or
- (r) enter into any agreement to do, or adopt any resolutions in support of, any of the foregoing.

6.02 Access to Information

Until the Closing and upon reasonable advance written notice from the Purchaser, the Sellers will, and will cause the Target Companies to, allow the Purchaser and its Representatives reasonable access, at the Purchaser's expense, during normal business hours, under the supervision of personnel of the Sellers, its Affiliates or their respective Representatives, and in a manner which does not materially interfere with the normal operations of Sellers or the Target Group Companies, to (a) such materials, properties, books, Contracts, records and information of the Target Group Companies (including financial and operational data) as the Purchaser may reasonably request, and (b) specified employees of the Target Group Companies, including the Managers, as Marco D. Davis may reasonably agree. Prior to the Closing Date, the Sellers shall use commercially reasonable efforts to cause the Target Company to deliver to the Purchaser 2016 commission, bonus or other incentive-based compensation for each of the Business Employees set forth on Section 4.14(a) of the Sellers' Disclosure Schedule. Such reasonable access to a Target Group Company's property shall not include any invasive, subsurface or Hazardous Materials testing or analysis unless reasonably supported by the findings and recommendations of a Phase I environmental site assessment conducted by Purchaser with respect to such property, and only after receipt of Seller Representative's approval with respect thereto, such approval not to be unreasonably withheld, conditioned or delayed. The Purchaser will, and will cause its Representatives to, hold all information so obtained in accordance with the terms of the Confidentiality Agreement. No investigation or access permitted pursuant to this Section 6.02 shall affect or be deemed to modify any representation or warranty made by the Sellers hereunder. Notwithstanding anything to the contrary contained in the foregoing, without the express prior written consent of Seller Representative (such approval not to be unreasonably withheld, conditioned or delayed), any such access shall not entitle Purchaser or its Representatives to (x) operate equipment of any of the Target Group Companies or (y) contact any wholesalers, distributors, suppliers or customers of the Target Group Companies.

6.03 Confidentiality; Access to Books and Records

- (a) The Parties shall continue to abide by the Confidentiality Agreement, which shall continue in full force and effect until the Closing Date, at which time, the Confidentiality Agreement shall terminate. If for any reason this Agreement is terminated prior to the Closing Date, the Confidentiality Agreement shall survive such termination and shall continue in full force and effect in accordance with its terms.
- (b) From and after the Closing, each of the Sellers and their Affiliates shall keep confidential all Confidential Information; *provided* that each of the Sellers and their Affiliates shall be entitled to disclose, and shall not be liable for disclosure, of Confidential Information only if such disclosure is required (i) pursuant to any legal process (including pursuant to the assertion of rights under this Agreement), (ii) for purposes of compliance by such Seller or any of its Affiliates with Applicable Law, or (iii) in connection with carrying out such Party's obligations under this Agreement or the other agreements contemplated under this Agreement; *provided further* that, in the event of any disclosure pursuant to legal process or Applicable Law, such Seller shall exercise commercially reasonable efforts to preserve the confidentiality of the Confidential Information disclosed, including by cooperating with the Purchaser (at the Purchaser's sole expense) to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded the Confidential Information required to be disclosed. As used in this Section 6.03, **Confidential Information** means any non-public information relating to Purchaser or the Target Group Companies other than information that the applicable Seller can show (1) is generally available to or known by the public through no fault of such Seller or its Affiliates, (2) was independently developed by or on behalf of such Seller without using or referring to any Confidential Information, or (3) was acquired prior to such Seller's ownership of the Target Company on a non-confidential basis from a source that to such Seller's knowledge after reasonable inquiry was not prohibited from disclosing such information to such Seller by a contractual, legal or fiduciary duty.
- (c) Each of the Parties shall preserve, until at least the sixth (6th) anniversary of the Closing Date, all records possessed or to be possessed by such Party relating to the Business. After the Closing Date and up until at least the sixth (6th) anniversary of the Closing Date, upon any written request in connection with an audit, accounting, litigation, federal securities disclosure or other similar need or reasonable business purpose from a Party or its Representatives, the Party holding such records shall: (i) provide to the requesting Party or its Representatives reasonable access to such records during normal business hours and (ii) permit the requesting Party or its Representatives to make copies of such records, in each case at no cost to the requesting Party or its Representatives (other than for reasonable out of pocket expenses); *provided* that nothing herein shall require any Party to disclose any information to the other if such disclosure would result in

the loss of any attorney work-product protections, attorney-client privileges or similar protections and privileges, or contravene any Applicable Law.

- (d) Prior to or on the Closing Date, the Seller Representative will deliver to Purchaser one (1) or more electronic copies of the Data Room.

6.04 Regulatory Authorizations and Consents; Reasonable Best Efforts

- (a) The Sellers and the Purchaser agree that the only notifications and approvals required to be filed and obtained under Antitrust Laws in connection with the Acquisition and the other transactions contemplated hereby are the filings and corresponding approvals under the HSR Act in the United States (the **Required Notification**).
- (b) Each of the Parties will use their respective reasonable best efforts to take, or cause to be taken, or do, or cause to be done, all things necessary, proper or advisable to satisfy, or cause to be satisfied, all conditions to the obligations of the Parties under this Agreement over which it has control or influence, and to cause the Acquisition to be consummated as promptly as practicable in accordance with the terms hereof.
- (c) The Purchaser and the Sellers shall each prepare and file the Required Notification as promptly as practicable, but in any event no later than ten (10) Business Days after the date of this Agreement. The Parties shall request early termination of the applicable waiting periods under any Antitrust Law. Notwithstanding anything to the contrary contained in this Agreement, the Purchaser, after prior, good faith consultation with the Sellers and after considering in good faith the Sellers' views and comments, shall have primary responsibility for obtaining all consents, approvals or actions of any Governmental Authority which are required in connection with the Required Notification; *provided* that the consent of each Party shall be required prior to the taking of any action (including the failure to take any such action) in connection therewith if such action (or failure to act) would be reasonably likely to materially delay, or materially impair, the likelihood of obtaining the same.
- (d) The Purchaser, on one hand, and the Sellers, on the other hand, shall each be responsible for 50% of all filing fees in connection with the Required Notification and the satisfaction of the condition set forth in Section 8.01(a).
- (e) Each Party shall promptly notify the other Parties of, and provide copies of, any material communication (including oral communications) between it or any of its Affiliates and any Governmental Authority relating exclusively to this Agreement and the transactions contemplated hereby and permit the other Parties to review and discuss in advance, and considering good faith the views of the other Parties in connection with, any proposed correspondence, filing, submission or communication to be submitted or made by such Party to any Governmental

Authority. The Parties shall consult with each other prior to taking any material substantive position with respect to the Required Notification, this Agreement or the transactions contemplated hereby, in any written submission to, or in any discussions with, any Governmental Authority. No Party shall participate in or agree to participate in any meeting with any Governmental Authority in respect of any filings, investigation (including any settlement of any such investigation), litigation or other inquiry related to the Required Notification, this Agreement or the transactions contemplated hereby or enter into any agreement with any Governmental Authority (including, without limitation, extending antitrust waiting periods) unless it consults with the other Parties in advance and, to the extent permitted by such Governmental Authority, gives the other Parties the opportunity to attend and participate at such meeting. Each Party will coordinate and cooperate with each other Parties in exchanging such information and providing such assistance as the other may reasonably request in connection with the Required Notification and in seeking early termination of any applicable waiting periods under any Antitrust Law. Subject to the confidentiality provisions of the Confidentiality Agreement, the attorney-client privilege, the work product doctrine or any other privilege or confidentiality concerns, the Parties will provide each other with copies of all correspondence, filings, submissions or communications between them or any of their Representatives, on the one hand, and any Governmental Authority or members of its staff, on the other hand, with respect to this Agreement and the transactions contemplated hereby.

6.05 Financing Cooperation

- (a) Sellers shall use commercially reasonable efforts to take (and shall cause the Target Group Companies and their respective Representatives, including legal and accounting advisors, to use commercially reasonable efforts to take) all actions reasonably requested by the Purchaser or its financing sources or that are customary, in each case, in connection with the Purchaser arranging debt financing in connection with the transactions contemplated hereby (collectively, including one or more debt facilities, loan agreements, high yield offerings or other incurrences of indebtedness, **New Debt Actions**), such debt to be arranged prior to, concurrently with or immediately following the Closing, including using reasonable best efforts with respect to: (i) cooperating with reasonable and customary due diligence by potential lenders, underwriters, initial purchasers or other financing sources, and counsel for any of the foregoing, which may include, subject to the terms and conditions in this Agreement, a reasonable number of site visits at the Target Company Real Property upon reasonable notice during normal business hours, (ii) assisting the Purchaser with the preparation of any materials for rating agency and investor presentations, bank information memoranda, confidential information memoranda, offering memoranda, private placement memoranda, registration statements, prospectuses, road show presentations, marketing materials and any other lender presentation materials, including provision of any information about the Target Group Companies for use in any

such documentation, which is reasonably requested by the Purchaser or the Purchaser's financing sources or which is deemed by the Purchaser's financing sources to be necessary or advisable in order to market and consummate the New Debt Actions, (iii) participating in a reasonable number of meetings, presentations, road shows, drafting sessions, due diligence sessions, sessions with prospective financing sources, initial purchasers, lenders or underwriters, and sessions with rating agencies, in each case at reasonable times and locations, including participation by the senior management of the Target Group Companies, (iv) causing the Target Group Companies' current and former independent auditors to provide reasonable and their customary assistance and cooperation, including (A) participating in a reasonable number of drafting sessions and accounting due diligence sessions, (B) provision of one or more comfort letters customarily provided in debt offerings pursuant to Rule 144A (including customary negative assurance on interim financial statements and the period since the most recent balance sheet included in the offering materials), and the Target Group Companies will provide customary representation letters to such accountants, and (C) providing consents or authorization for use of their reports in any filings required to be made by the Purchaser pursuant to the Securities Act or the Exchange Act, (v) facilitating as promptly as reasonably practicable the execution and delivery of any definitive finance agreements, purchase agreements, indentures, notes, guarantees, registration rights agreements, resolutions and/or any other documents related to any proposed debt financing as may be reasonably requested by the Purchaser, (vi) arranging for the preparation and timely delivery of any required legal opinions by counsel to the Target Group Companies, (vii) facilitating as promptly as reasonably practicable the pledging, preparation, execution and delivery of any customary pledge and security documents, or other customary certificates, instruments, legal opinions or documents as may be reasonably requested by the Purchaser to facilitate the pledging of collateral in connection with the New Debt Actions, (viii) providing as promptly as reasonably practicable of documentation to the Purchaser or the Purchaser's financing sources all documentation and other information requested by the Purchaser that is required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations (including the PATRIOT Act), (ix) ensuring that any syndication efforts in connection with any proposed debt financing benefit from the Target Group Companies' existing lending and investment banking relationships, (x) preparation and provision of the Required Information, (xi) assisting the Purchaser with the Purchaser's preparation of pro forma financial statements customarily included in offering documents for high yield debt securities or other information memoranda for syndicated bank financing, (xii) cooperating with the marketing efforts of the Purchaser and its financing sources for any portion of a proposed debt financing, (xiii) in the case of any proposed debt financing (or in connection with the Purchaser's current debt financing) that includes an asset-based loan facility, providing reasonable access (subject to confidentiality arrangements reasonably acceptable to the Sellers) to the Purchaser's financing sources and their

representatives to evaluate the Target Group Companies' inventory, current assets, cash management and accounting systems, and policies and procedures relating thereto for the purpose of establishing collateral arrangements (including allowing access for field exams), (xv) assisting with the pay-off of existing indebtedness of the Target Group Companies and the release of related liens and guaranties on the Closing Date (including obtaining customary pay-off letters, lien terminations and other instruments of discharge), and (xvi) updating any Required Information provided to the Purchaser or its financing sources as may be necessary for such Required Information to remain Compliant; provided, however, that notwithstanding anything in this Agreement, (x) neither the Sellers nor any of the Target Group Companies shall (A) have, prior to the Closing, any liability or obligation under any documents associated with the Purchaser's financing (collectively, the **Debt Financing Documents**), (B) be required to incur any other liability in connection with Purchaser's financing or (C) be required to take any action that would require any director, manager, officer or employee of the Target Group Companies to execute, prior to Closing, any document, agreement, certificate or instrument or agree to any change or modification of any document, agreement, certificate or instrument prior to the Closing (other than such documents, agreements, certificates or instruments the effectiveness of which is conditioned upon and will not take effect prior to the Closing) or (D) be required take any action or provide any assistance that unreasonably interferes with the ongoing operations of the Sellers or any of the Target Group Companies and (y) the board of directors, or similar governing body, of the Target Group Companies shall not be required, prior to the Closing, to adopt resolutions approving the agreements, documents and instruments pursuant to which the Purchaser's financing is obtained (other than resolutions the effectiveness of which is conditioned upon and will not take effect prior to the Closing).

- (b) The Purchaser shall indemnify and hold harmless the Sellers and the Target Group Companies, and each of their respective Representatives, from and against any and all liabilities suffered or incurred in connection with the Purchaser's financing or any assistance or activities provided in connection therewith, other than liabilities that are the result of the gross negligence or willful misconduct of or material breach of the representations, warranties, covenants or other agreements contained in this Agreement by the Sellers or any Target Group Company as finally determined by a court of competent jurisdiction. The Purchaser shall promptly reimburse the Sellers and the Target Group Companies for all reasonable and documented out-of-pocket costs (including reasonable attorney's fees) incurred by the Sellers, the Target Group Companies and each of their respective Representatives in connection with the cooperation by the Sellers and the Target Group Companies, or their respective Representatives, pursuant to this Section 6.05 or in connection with its compliance with its obligations under this Section 6.05. Notwithstanding anything herein to the contrary, none of the Sellers or the Target Group Companies shall be required to pay any commitment or other similar fee or enter into any definitive agreement (other than such

definitive agreement to which a Target Group Company (but no Seller) is a party and the effectiveness of which is conditioned upon and will not take effect prior to the Closing) or incur any other liability or obligation in connection with the Purchaser's financing prior to the occurrence of the Closing Date.

6.06 Publicity

No public release or announcement concerning the Acquisition shall be issued by any Party without the prior written consent of the other Parties (which consent shall not be unreasonably withheld, conditioned or delayed), except as such release or announcement may be required by Applicable Law or securities exchange upon which such Party's or such Party's parent company's securities are traded, in which case the Party required, or the Party whose parent company is required, to make the release or announcement shall, to the extent practicable, allow the other Parties two (2) Business Days to comment on such release or announcement in advance of such issuance.

6.07 Non-Competition; Non-Solicitation; Non-Disparagement

- (a) For a period of three (3) years commencing on the Closing Date, none of the Sellers shall, nor shall such Seller permit any of such Seller's Affiliates to, directly or indirectly, within the Midland Basin and the Delaware Basin (i) engage in the Business or have an interest, including as an owner, partner, stockholder, officer, employee, director, agent or consultant, in any Person (other than Purchaser or its Affiliates) that engages in the Business; *provided, however*, solely with respect to D5, this Section 6.07(a)(i) shall not prohibit (A) D5's ownership or operation of Hercules Equipment Management, LLC or (B) the ownership or operations of Westdale District 5, Inc., Westdale Properties America I, Ltd. or their respective subsidiaries other than D5 or D5's subsidiaries (excluding Hercules Equipment Management, LLC), or (ii) take any action intended to interfere in any respect with the business relationships (whether formed prior to or after the date of this Agreement) between the Purchaser and customers or suppliers of the Target Group Companies; *provided, however*, that this Section 6.07(a) shall not prevent a Seller from investing as a less-than-five-percent (5%) stockholder in the securities of any company listed on a national securities exchange or quoted on an automated quotation system.
- (b) For a period of two (2) years commencing on the Closing Date, no Seller shall, nor shall it/he/she permit any of its/his/her Affiliates to, directly or indirectly, hire or solicit any Business Employee or encourage any such Business Employee to leave his or her employment with a Target Group Company; *provided* that the foregoing shall not be violated by (i) general solicitations of employment not specifically targeted at any Business Employee, including responses to general advertisements, or (ii) the hiring of any Business Employee whose employment has been terminated by Purchaser or any Target Group Company or who seeks employment with a Seller or its Affiliate on an unsolicited basis or in response to any such general solicitation or advertisement.

- (c) From and after the Closing, no Seller shall, nor shall it/he/she permit any of its/his/her Affiliates to, make any statement that is intended to become public, or that should reasonably be expected to become public, and that criticizes, ridicules, disparages or is otherwise derogatory of the Purchaser, any Target Group Company or any of their respective subsidiaries, Affiliates, employees, officers, directors or stockholders.
- (d) Each Seller acknowledges that the restrictions contained in this Section 6.07 are reasonable and necessary to protect the legitimate interests of the Purchaser and constitute a material inducement to the Purchaser to consummate the Acquisition and the other transactions contemplated by this Agreement. In the event that any covenant contained in this Section 6.07 should ever be adjudicated to exceed the time, geographic, product or service, or other limitations permitted by Applicable Law in any jurisdiction, then any court is expressly empowered to reform such covenant, and such covenant shall be deemed reformed, in such jurisdiction to the maximum time, geographic, product or service, or other limitations permitted by Applicable Law. The covenants contained in this Section 6.07 and each provision hereof are severable and distinct covenants and provisions. The invalidity or unenforceability of any such covenant or provision as written shall not invalidate or render unenforceable the remaining covenants or provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such covenant or provision in any other jurisdiction.

6.08 Target Company 401(k) Plan

The Sellers shall cause the Target Company to terminate the Seller 401(k) Plan, effective not later than the day immediately preceding the Closing Date. The Sellers shall cause the Target Company to not make or not cause to be made any contributions to the Seller 401(k) Plan attributable to periods after its termination date. The Seller Representative shall provide the Purchaser with evidence that the Seller 401(k) Plan has been terminated pursuant to resolution of the Board of Managers, or equivalent body, of the Target Company (the form and substance of which shall be subject to review and approval by the Purchaser, such approval not to be unreasonably withheld or delayed, and such resolution shall provide that the Sellers will inform the participants in the Seller 401(k) Plan that their distributions may not be rolled over, directly or subsequently, to the Purchaser's plan) not later than the day immediately preceding the Closing Date. To the extent that the Business Employees satisfy the eligibility requirements under the Purchaser's plan, the Purchaser shall (i) cause Business Employees who are employed following the Closing Date to be eligible to participate in a 401(k) plan sponsored by the Purchaser or one of its Affiliates, and (ii) cause such 401(k) plan to provide credit for all periods of service to any Target Group Company to be credited for purposes of determining vesting under such 401(k) plan.

6.09 Termination of Affiliate Contracts

Prior to the Closing, the Sellers shall cause each Target Group Company to terminate each Affiliate Contract other than the Affiliate Contracts set forth on Section 6.09 of the Sellers' Disclosure Schedule, effective as of the Closing Date. The Sellers shall cause each counterparty to such Affiliate Contract to discharge each Target Group Company party thereto and its Affiliates from (a) any and all obligations to perform such Affiliate Contract and (b) any and all claims and liabilities to the extent arising from, relating to or otherwise in respect of any such Affiliate Contract.

6.10 Further Assurances

From time to time, as and when requested by one Party of any other Party, such other Party shall, as promptly as reasonably practicable and at the requesting Party's expense, (a) execute and deliver, or cause to be executed and delivered, all such documents and instruments and (b) take, or cause to be taken, all such further or other actions, in each case, as such requesting Party may reasonably deem necessary or desirable to consummate the transactions contemplated hereby as soon as reasonably practicable.

6.11 Director and Officer Indemnification

The Governing Documents of the Target Group Companies after Closing shall contain provisions no less favorable with respect to elimination or limitation of liability and indemnification in favor of current or former directors, managers or officers (the **D&O Indemnified Parties**) than are set forth in the Governing Documents of the Target Group Companies as of the date hereof, which provisions shall not be amended, repealed or otherwise modified by Purchaser or any of its Affiliates (including the Target Group Companies) for a period of six (6) years from the Closing Date in any manner that would affect adversely the rights of the D&O Indemnified Parties. In the event any Target Group Company or any of its successors or assigns (a) consolidates with or merges into any other Person and shall not be the continuing or surviving Person of such consolidation or merger, or (b) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, Purchaser agrees that proper provision shall be made so that the successors and assigns of such Target Group Company shall succeed to the obligations of Purchaser set forth in this Section 6.11. The rights of each of the D&O Indemnified Parties under this Section 6.11 shall not be deemed exclusive of any other rights to which such D&O Indemnified Party is entitled. The provisions of this Section 6.11 shall survive the Closing Date and are intended to be for the benefit of, and shall be enforceable by, each D&O Indemnified Party and their respective heirs, successors and assigns. Nothing in this Section 6.11 shall prevent the Purchaser from dissolving and winding up any Target Group Company after the Closing Date.

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ARTICLE VII TAX MATTERS

7.01 Tax Indemnification

- (a) The Sellers shall jointly and severally be responsible for and shall jointly and severally indemnify and hold the Purchaser Indemnitees harmless from and against any (i) Tax Liabilities of the Sellers, (ii) Taxes attributable to or imposed on a Target Group Company, or any precursor company, with respect to any taxable period ending on or before the Closing Date, and the portion of any Straddle Period ending on the Closing Date (a **Pre-Closing Tax Period**) except to the extent such Taxes are taken into account as liabilities in the calculation of Closing Date Net Working Capital or Closing Date Indebtedness or have been accrued as current liabilities on the Financial Statements and (iii) Losses incurred by any Purchaser Indemnitee in connection with defending Tax claims with respect to any amounts described in clauses (i) to (ii) of this Section 7.01(a).
- (b) The Purchaser shall be responsible for, and shall indemnify and hold the Seller Indemnitees harmless from and against any (i) Taxes attributable to or imposed on a Target Group Company with respect to any taxable period beginning the day after the Closing Date and the portion of any Straddle Period beginning after the Closing Date (a **Post-Closing Tax Period**) and (ii) Losses incurred by any Seller Indemnitee in connection with defending Tax claims with respect to any amounts described in clause (i) of this Section 7.01(b).
- (c) For the purposes of this Section 7.01, in the case of Taxes that are payable with respect to a Straddle Period, the portion of any such tax that is allocable to the Pre-Closing Tax Period shall be: in the cases of Taxes (i) that are either (A) based upon or related to income or receipts or (B) imposed in connection with any sale or other transfer or assignment of property (real or personal, tangible or intangible), deemed equal to the amount that would be payable if the taxable year ended on (and included) the Closing Date, provided, however, that all exemptions, allowances, or deductions for the entire Straddle Period which are calculated on an annual basis (including, but not limited to, depreciation and amortization deductions) shall be allocated between the two short periods in proportion to the number of days in each period and any credits relating to a Straddle Period shall be taken into account as though the relevant taxable period ended on the Closing Date, and (ii) imposed on periodic basis with respect to a Target Group Company, or otherwise measured by the level of any item, deemed to be the entire amount of such Taxes for the entire period, multiplied by a fraction the numerator of which it is the number of calendar days in the period ending on (and including) the Closing Date and the denominator of which is the number of calendar days in the entire period.
- (d) Neither Purchaser nor any of its Affiliates will take any action or make any election (including any election under Treasury Regulation Section 301.7701-3)

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that would have effect with respect to any of the Target Group Companies on or prior to the Closing Date, and neither Purchaser nor any of its Affiliates shall amend any Target Group Company's Tax Return for a Pre-Closing Tax Period without the consent of Sellers, which consent shall not be unreasonably withheld, conditioned or delayed. Sellers shall not be liable for any Tax imposed on any Target Group Company with respect to any sale (or other disposition) of assets outside the ordinary course of business after Closing on the Closing Date.

- (e) Whenever in accordance with this Section 7.01 the Sellers shall be required to pay a Purchaser Indemnitee an amount pursuant to Section 7.01(a) or the Purchaser shall be required to pay the a Seller Indemnitee an amount pursuant to Section 7.01(b), such payments shall be made by the later of thirty (30) days after such payments are requested or ten (10) days before the requesting party is required to pay the related Tax liability.

7.02 Tax Returns

- (a) The Seller Representative shall prepare, or cause to be prepared, and file, or cause to be filed all Tax Returns for the tax period ending on or before the Closing Date. All such Tax Returns shall be prepared, to the extent permitted by Law, in a manner consistent with past practice. To the extent any such Tax Returns are required to be filed after the Closing Date, at least fifteen (15) days prior to the due date for filing such Tax Returns, the Seller Representative shall deliver, or cause to be delivered, such Tax Returns to the Purchaser. The Purchaser shall timely file, or cause to be timely filed all Tax Returns described in the previous sentence.
- (b) The Purchaser shall prepare, or cause to be prepared, all Straddle Period Tax Returns. At least thirty (30) days prior to the due date for filing any Straddle Period Tax Returns, the Purchaser shall deliver to the Seller Representative for its review, comment and approval (which approval shall not be unreasonably withheld, conditioned or delayed) a copy of such Tax Returns (accompanied by an allocation pursuant to Section 7.01(c) between the Pre-Closing Tax Period and the Post-Closing Tax Period of the Taxes shown to be due on such Tax Return). Not later than fifteen (15) days before the due date of such Tax Returns the Purchaser shall reflect any reasonable comments received from the Seller Representative. Thereafter, the Purchaser shall timely file, or cause to be timely filed, all Straddle Period Tax Returns and pay any amounts shown as due on such Tax Returns.
- (c) The Purchaser shall prepare and file all Post-Closing Tax Period Tax Returns and pay any amounts shown as due on such Tax Returns.

7.03 Cooperation

Notwithstanding anything contained in Section 6.01 to the contrary:

- (a) Each Party shall cooperate, and shall cause its Affiliates (and its and their respective officers, directors, employees or agents) to cooperate, as reasonably required to prepare and to file all Tax Returns of a Target Group Company for a Tax period ending on or before the Closing Date or for any Tax periods which include the Closing Date and to deal with any audit, examination or other Proceedings related to such Tax Returns of such Tax periods.
- (b) The Sellers and the Purchaser shall make available to the other Party as reasonably requested personnel, information, records, and documents relating to Taxes concerning a Target Group Company and shall retain any books and records that could reasonably be expected to be necessary or useful in connection with any preparation by the other Party of any Tax Return or for any tax contest or other examination or Proceeding relating to Taxes. Such books and records will be retained until the expiration of the applicable statute of limitations (including extensions thereof). Thereafter, the Purchaser will not dispose of any such Tax Returns or books and records unless it first offers in writing such Tax Returns and books and records to the Seller Representative and the Seller Representative fails to accept such offer within 60 days of it being made.

7.04 Tax Refunds

Any refunds or credits of Tax (including interest paid thereon) that are realized by Purchaser or an Affiliate of Purchaser, including by offset against Tax for which Purchaser or an Affiliate of Purchaser would otherwise be liable, after the Closing Date that relate to any Pre-Closing Tax Periods of any Target Group Company shall be for the account of the Sellers, except to the extent such refund is specifically referenced in Net Working Capital, is shown as a current asset in the Financial Statements or is attributable to the effect of any loss, deduction, credit or other item from a Post-Closing Taxable Period. Purchaser shall pay over to the Sellers the amount of any such refund within 15 days after receipt, or in the case of an amount credited against Tax, the due date of the Tax Return claiming such credit.

7.05 Transfer Taxes

The Sellers and Purchaser shall each pay 50% of all transfer, conveyance or similar Taxes applicable to the transfer of the Units, including in respect of transfer tax stamps referred to in Section 2.03(a)(i) and all stamp duty or stamp duty reserve tax (including any interest or penalties) arising as a result of the entry into or implementation of this Agreement. Each Party shall use reasonable best efforts to claim any available exemption from such Taxes and to cooperate with the other Parties to obtain such exemption.

ARTICLE VIII
CONDITIONS PRECEDENT

8.01 Conditions to the Purchaser's, Parent's and the Sellers' Obligations

The obligation of the Purchaser, Parent and the Sellers to consummate the Acquisition is subject to the satisfaction or written waiver at or prior to the Closing of each of the following conditions:

- (a) Any waiting period (and extension thereof) applicable to the consummation of the Acquisition under the HSR Act shall have expired or shall have terminated.
- (b) No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any Applicable Law or Order that is in effect at the Closing Date and that has the effect of making the Acquisition illegal or of otherwise prohibiting the consummation of the Acquisition.

8.02 Conditions to Obligation of the Purchaser and Parent

The obligation of the Purchaser to purchase and pay for the Units and for the Purchaser and Parent to consummate the Acquisition is subject to the satisfaction (or written waiver by the Purchaser) of each of the following conditions:

- (a) (i) Each of the Fundamental Representations shall be true and correct in all respects as of the date hereof and on and as of the Closing Date as though made on and as of the Closing Date (except to the extent any such representation or warranty is expressly made as of a specific date, in which case such representation or warranty shall be true and correct only as of such date), and (ii) all other representations and warranties contained in Article III and Article IV shall be true and correct (without giving effect to any limitation as to "materiality" or "Material Adverse Effect" set forth therein) as of the Closing Date as though made on and as of the Closing Date (except to the extent any such representation or warranty is expressly made as of a specific date, in which case such representation or warranty shall be true and correct only as of such date), except in the case of this clause (ii), where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Material Adverse Effect" qualifiers set forth therein) does not constitute a Material Adverse Effect.
- (b) The covenants and agreements of the Sellers contained in this Agreement to be complied with or performed by the Sellers at or before the Closing shall have been complied with or performed in all material respects.
- (c) There shall not have occurred or be continuing a Material Adverse Effect.

- (d) Any Motley Perforator Redemption Agreement or Motley Coil Redemption Agreement shall not have been terminated and shall remain in full force and effect.
- (e) Each of the Employment Agreements shall not have been terminated and shall remain in full force and effect.
- (f) The Purchaser shall have received a certificate of the Sellers, signed by a duly authorized officer of each of the Sellers and dated as of the Closing Date, certifying the matters set forth in clauses (a), (b) and (c) of this Section 8.02.

8.03 Conditions to Obligation of the Sellers

The obligation of the Sellers to sell the Units and consummate the Acquisition is subject to the satisfaction (or written waiver by the Sellers) of the following conditions:

- (a) (i) Each of the representations contained in Sections 5.01, 5.02, 5.04, 5.05, 5.06 and 5.07 shall be true and correct in all respects as of the date hereof and on and as of the Closing Date as though made on and as of the Closing Date (except to the extent any such representation or warranty is expressly made as of a specific date, in which case such representation or warranty shall be true and correct only as of such date), and (ii) all other representations and warranties contained in Article V shall be true and correct (without giving effect to any limitation as to “materiality” or “Purchaser Material Adverse Effect” set forth therein) as of the Closing Date as though made on and as of the Closing Date (except to the extent any such representation or warranty is expressly made as of a specific date, in which case such representation or warranty shall be true and correct only as of such date), except in the case of this clause (ii), where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to “materiality” or “Purchaser Material Adverse Effect” qualifiers set forth therein) does not constitute a Purchaser Material Adverse Effect.
- (b) The covenants and agreements of the Purchaser and Parent contained in this Agreement to be complied with or performed by the Purchaser and/or Parent (as applicable) at or before the Closing shall have been complied with or performed in all material respects.
- (c) The Sellers shall have received a certificate of the Purchaser and Parent, signed by a duly authorized officer of each of the Purchaser and Parent and dated as of the Closing Date, certifying the matters set forth in clauses (a) and (b) of this Section 8.03.

ARTICLE IX
TERMINATION

9.01 Termination

- (a) This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing:
- (i) by mutual written consent of the Sellers and the Purchaser;
 - (ii) by the Sellers or the Purchaser if the Closing shall not have occurred on or before the date that is sixty (60) days from the date of this Agreement (the **Termination Date**); *provided* that the Party seeking to terminate this agreement pursuant to this Section 9.01(a)(ii) is not then in material breach of its obligations under this Agreement;
 - (iii) by the Sellers or the Purchaser in the event that any Applicable Law restraining, enjoining or otherwise prohibiting the Acquisition shall have been promulgated, or an Order of any Governmental Authority restraining, enjoining, declining to approve or otherwise prohibiting the Acquisition, and such Order shall have become final and non-appealable;
 - (iv) by the Sellers, if a breach of any representation or warranty or covenant or agreement by the Purchaser or Parent set forth in this Agreement shall have occurred that would, if occurring or continuing on the Closing Date, cause the conditions set forth in Section 8.03 not to be satisfied, and such breach is not cured (or is incapable of being cured) within thirty (30) days after receipt of written notice thereof from the Sellers; *provided* that the Sellers are not then in breach of this Agreement such that, if occurring or continuing on the Closing Date, any of the conditions set forth in Section 8.02 would not be satisfied;
 - (v) by the Purchaser, if a breach of any representation or warranty or covenant or agreement by any Seller set forth in this Agreement shall have occurred that would, if occurring or continuing on the Closing Date, cause the conditions set forth in Section 8.02 not to be satisfied, and such breach is not cured (or is incapable of being cured) within thirty (30) days after receipt of written notice thereof from the Purchaser; *provided* that the Purchaser is not then in breach of this Agreement such that, if occurring or continuing on the Closing Date, any of the conditions set forth in Section 8.03 would not be satisfied; or
 - (vi) by the Sellers or the Purchaser, if as of 5:00 p.m. New York time on November 15, 2018 the Purchaser has not obtained any portion of the proceeds under the transactions contemplated by the Debt Financing Documents, regardless of the reason therefor.

- (b) In the event of a termination of this Agreement pursuant to and in accordance with this Article IX, written notice thereof shall be given by the Party seeking termination to the other Party and the transactions contemplated hereby shall be terminated, without further action by any Party. If the transactions contemplated hereby are terminated as provided herein:
- (i) the Purchaser and Parent (and each of their respective Representatives and Affiliates) shall return all documents and other material received from the Sellers, any Target Group Company or any of their respective Representatives relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the Seller Representative; and
 - (ii) all confidential information received by the Purchaser, Parent or any of their respective Representatives or Affiliates with respect to the Sellers or any Target Group Company or relating to the provisions of or negotiations leading to this Agreement or the other transactions contemplated hereby shall be treated in accordance with the terms of the Confidentiality Agreement, which shall remain in full force and effect notwithstanding the termination of this Agreement and any other provision hereof to the contrary.

9.02 Effect of Termination

If this Agreement is terminated and the transactions contemplated hereby are abandoned as described in Section 9.01, this Agreement shall become null and void and of no further force and effect and there shall be no further liability on the part of any Party, except that the following provisions shall survive any such termination:

- (i) Section 6.06 relating to publicity;
- (ii) this Section 9.02; and
- (iii) Article I relating to Definitions and Interpretation and Article XI relating to Miscellaneous Provisions, in each case to the extent applicable.

ARTICLE X INDEMNIFICATION

10.01 Survival

The representations and warranties contained in Article III and Article IV and related claims for indemnification of breaches thereof shall survive for twelve (12) months after the Closing Date; *provided* that the Fundamental Representations and related claims for indemnification or breaches thereof shall survive for sixty (60) days after the expiration of the applicable statute of limitations; and *provided further* that the Sellers'

representations and warranties relating to a Target Group Company contained in Section 4.13 and, solely to the extent involving tax matters, Section 4.15 (together with related claims for indemnification hereunder), shall survive for sixty (60) days after the expiration of the applicable statute of limitations in respect of the Tax giving rise to the relevant indemnification claim. The representations and warranties in Article V and related claims for indemnification of breaches thereof shall survive for sixty (60) days after the expiration of the applicable statute of limitations. The covenants and other agreements of the Parties contained in this Agreement and related claims for indemnification of breaches thereof shall survive until the full performance thereof. The Sellers' indemnification obligations pursuant to Section 10.02(b)(iii) shall survive for thirty (30) months after the Closing Date. The Sellers' indemnification obligations pursuant to Section 10.02(b)(iv) shall survive for twelve (12) months after the Closing Date. Notwithstanding the foregoing, in the event notice of any claim for indemnification under Section 10.02 has been given (within the meaning of Section 11.05) within the applicable survival period, the representations, warranties, covenants or agreements that are the subject of such indemnification claim shall survive with respect to such claim until such time as such claim is finally resolved.

10.02 Indemnification

- (a) Subject to the provisions of this Article X, from and after the Closing, each Seller shall, severally (and not jointly), indemnify each Purchaser Indemnatee against, hold it harmless from and compensate and reimburse each Purchaser Indemnatee for, any damages, losses, charges, Liabilities, claims, demands, Proceedings, payments, judgments, settlements, assessments, deficiencies, interest, penalties, costs and expenses (including any reasonable expenses of enforcement of obligations under this Agreement, and all reasonable legal fees and any out-of-pocket third party expenses incurred in connection with the investigation, defense and settlement thereof) (collectively, **Losses**) suffered or incurred by such Purchaser Indemnatee to the extent arising out of, resulting from or constituting:
- (i) a breach of any representation or warranty made by such Seller in Article III; *provided* that for purposes of this Section 10.02(a)(i), any qualification or exception as to "materiality", "Material Adverse Effect" or similar qualification or exception contained in any such representation or warranty shall be disregarded for purposes of (A) determining whether there has been a breach thereof and (B) determining the amount of any Losses arising from a breach thereof; or
 - (ii) a breach by such Seller of, or failure by such Seller to timely and duly perform, any covenant or agreement contained in Section 6.03(a), (b) or (c) or Section 6.07.
- (b) Subject to the provisions of this Article X, from and after the Closing, the Sellers shall, jointly and severally, indemnify each Purchaser Indemnatee against, hold it harmless from and compensate and reimburse each Purchaser Indemnatee for, any

Losses suffered or incurred by such Purchaser Indemnitee to the extent arising out of, resulting from or constituting:

- (i) a breach of any representation or warranty made by the Sellers in Article IV; provided that for purposes of this Section 10.02(b)(i) (other than with respect to breaches of the representations and warranties set forth in Section 4.08 and Section 4.11 (for purposes of defining a “Material Contract”)), any qualification or exception as to “materiality”, “Material Adverse Effect” or similar qualification or exception contained in any such representation or warranty shall be disregarded for purposes of (A) determining whether there has been a breach thereof and (B) determining the amount of any Losses arising from a breach thereof;
 - (ii) a breach of, or failure to timely and duly perform, any covenant or agreement to be performed by the Sellers contained in this Agreement (other than the covenants and agreements contained in Section 6.03(a), (b) and (c) and Section 6.07, to which this Section 10.02(b)(ii) shall not apply);
 - (iii) the matters set forth on Schedule 10.02(b)(iii);
 - (iv) the matters set forth on Schedule 10.02(b)(iv); or
 - (v) any payment required to be paid by any Target Group Company pursuant to the Simmons Engagement Letter.
- (c) Subject to the provisions of this Article X, from and after the Closing, the Purchaser shall indemnify each Seller Indemnitee against, hold it harmless from and compensate and reimburse each Seller Indemnitee for, any Losses suffered or incurred by such Seller Indemnitee to the extent arising out of, resulting from or constituting:
- (i) a breach of any representation or warranty made by the Purchaser in Part I or Part II of Article V; or
 - (ii) a breach of, or failure to timely and duly perform, any covenant or agreement to be performed by the Purchaser contained in this Agreement.
- (d) Subject to the provisions of this Article X, from and after the Closing, Parent shall indemnify each Seller Indemnitee against, hold it harmless from and compensate and reimburse each Seller Indemnitee for, any Losses suffered or incurred by such Seller Indemnitee to the extent arising out of, resulting from or constituting:
- (i) a breach of any representation or warranty made by Parent in Part I of Article V; or

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- (ii) a breach of, or failure to timely and duly perform, any covenant or agreement to be performed by Parent contained in this Agreement.

10.03 Limitations on Indemnification Obligations

Notwithstanding anything to the contrary contained in this Agreement (but except as set forth in the proviso in this Section 10.03):

- (a) no Purchaser Indemnitee shall be entitled to recover under Section 10.02(a)(i) or Section 10.02(b)(i) unless and until the aggregate amount of Losses (after giving effect to the De Minimis Threshold) suffered by Purchaser Indemnitees thereunder exceeds one percent (1%) of the Cash Consideration (the **Deductible**), whereupon such Purchaser Indemnitee shall be entitled to recover only such Losses in excess of the Deductible;
- (b) no Purchaser Indemnitee shall be entitled to recover under Section 10.02(a)(i) or Section 10.02(b)(i) with respect to any single claim or series of related claims unless and until the amount of Losses suffered by such Purchaser Indemnitee in respect of such claim or series of related claims exceeds \$50,000 (the **De Minimis Threshold**); and
- (c) the Sellers’ maximum aggregate liability pursuant to Section 10.02(a)(i) and Section 10.02(b)(i) shall not exceed an amount equal to five percent (5%) of the Cash Consideration (the **Cap**);

provided that the limitations in clauses (a), (b) and (c) above shall not apply with respect to any claim for indemnification under Article VII or in respect of Losses to the extent arising from a breach of a Fundamental Representation or Fraud on the part of any Seller, and in such event, other than with respect to the Fundamental Representations contained in Article III for which each Seller shall be severally, and not jointly, liable for the full amount of such Losses, the Sellers shall be jointly and severally liable to the Purchaser Indemnitees for the full amount of such Losses. Notwithstanding the foregoing and anything contained in this Agreement to the contrary, (1) each Seller’s maximum aggregate liability pursuant to Section 10.02(a) and (b) shall not exceed the portion of the Cash Consideration actually received by such Seller; and (2) the Sellers’ combined maximum aggregate liability under this Agreement shall not exceed an amount equal to the Cash Consideration plus the value of the Consideration Shares (calculated in accordance with Section 2.01(d)).

10.04 Third Party Claims; Notice of Direct Claims

- (a) In order for a Person to be entitled to any indemnification provided for under this Agreement (such Person entitled to indemnification hereunder, an **Indemnified Party**; and a Party against whom indemnification is sought hereunder, an **Indemnifying Party**), in respect of, arising out of or involving a claim made by any Person (other than a Party hereto) against an Indemnified Party (a **Third Party**

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Claim), such Indemnified Party shall provide written notice to the Indemnifying Party (such notice to include a description of the nature of the Third Party Claim, a good faith estimate of the Losses associated therewith and copies of all written notices and documents (including any court papers) received by such Indemnified Party relating to the Third Party Claim) during the applicable survival period in Section 10.01 and within ten (10) Business Days after receipt by such Indemnified Party of written notice of the Third Party Claim; *provided* that failure to give such prompt notice shall not affect the right to indemnification provided hereunder except to the extent the Indemnifying Party shall have been prejudiced as a result of such failure.

- (b) Except as set forth in this Section 10.04, the Indemnifying Party shall be entitled (at its election) to assume the defense of a Third Party Claim within ten (10) Business Days after receiving the notice specified in Section 10.04(a) with counsel selected by the Indemnifying Party that is reasonably satisfactory to the Indemnified Party; *provided* that (i) the Indemnifying Party may only assume control of such defense if (A) it acknowledges in writing to the Indemnified Party that any damages, fines, costs or other liabilities that may be assessed against the Indemnified Party in connection with such Third Party Claim constitute Losses for which the Indemnified Party may be indemnified pursuant to this Article X and (B) an adverse resolution of the Third Party Claim would not have a material adverse effect on the goodwill or reputation of the Indemnified Party or the business, operations or future conduct of the Indemnified Party, and (ii) the Indemnifying Party may not assume control of the defense of any Third Party Claim involving any Governmental Authority or criminal liability or in which equitable relief is sought against the Indemnified Party. If the Indemnifying Party does not, or is not permitted under the terms hereof to, assume control of the defense of a Third Party Claim, the Indemnified Party shall control such defense. If the Indemnifying Party assumes such defense, the Indemnified Party shall nonetheless have the right to employ counsel separate from the counsel employed by the Indemnifying Party; *provided* that the Indemnifying Party shall not be liable to such Indemnified Party for any fees of such separate counsel with respect to the defense of such Third Party Claim, unless, in the reasonable opinion of the Indemnifying Party's legal counsel, a conflict of interest exists between such Indemnified Party and the Indemnifying Party that would make such separate representation advisable. If the Indemnifying Party does not assume such defense, and for any period during which the Indemnifying Party has not assumed such defense, the Indemnifying Party shall be liable for the reasonable fees and expenses of one single counsel employed by such Indemnified Party (which reasonable fees and expenses shall be considered Losses for purposes of this Agreement). If the Indemnifying Party chooses to defend a Third Party Claim or prosecute a claim in connection therewith, each Indemnified Party shall provide all reasonable cooperation in such defense or prosecution.

- (c) If the Indemnifying Party assumes the defense of a Third Party Claim, the Indemnifying Party may not settle, compromise or discharge such Third Party Claim without the prior written consent of the Indemnified Party, unless (i) the Indemnifying Party agrees in writing to pay or cause to be paid all amounts arising out of such proposed settlement, and (ii) the proposed settlement (A) does not include an admission of wrongdoing by the Indemnified Party, (B) includes a complete release of the Indemnified Party from further Liability, and (C) does not impose any injunctive relief or other equitable obligations on the Indemnified Party.
- (d) In the event a Seller Indemnitee has a claim against the Purchaser or Parent (as applicable) under Section 10.02 that does not involve a Third Party Claim, such Seller Indemnitee shall deliver written notice of such claim to the Purchaser or Parent (as applicable) stating the amount of the Loss, if known, and method of computation thereof, and containing a reference to the provisions of this Agreement in respect of which such right of indemnification is claimed or arises, during the applicable survival period in Section 10.01 and within twenty (20) Business Days of becoming aware of the facts or circumstances giving rise to such claim; *provided* that failure to give such notice shall not affect the indemnification provided hereunder except to the extent the Purchaser or Parent (as applicable) shall have been prejudiced as a result of such failure. The Seller Indemnitee and the Purchaser or Parent (as applicable) shall, for a period of not less than twenty (20) Business Days following receipt by the Purchaser or Parent (as applicable) of the notice of such claim, negotiate in good faith to resolve the claim, and such Seller Indemnitee shall not commence Proceedings with respect to such claim prior to the end of such period.
- (e) In the event a Purchaser Indemnitee has a claim against one or more Sellers under Section 10.02 that does not involve a Third Party Claim, such Purchaser Indemnitee shall deliver written notice of such claim to such Seller(s) stating the amount of the Loss, if known, and method of computation thereof, and containing a reference to the provisions of this Agreement in respect of which such right of indemnification is claimed or arises, during the applicable survival period in Section 10.01 and within twenty (20) Business Days of becoming aware of the facts or circumstances giving rise to such claim; *provided* that failure to give such notice shall not affect the indemnification provided hereunder except to the extent such Seller(s) shall have been prejudiced as a result of such failure. The Purchaser Indemnitee and the Seller(s) shall, for a period of not less than twenty (20) Business Days following receipt by such Seller(s) of the notice of such claim, negotiate in good faith to resolve the claim, and such Purchaser Indemnitee shall not commence Proceedings with respect to such claim prior to the end of such period.

10.05 Representations and Warranties Insurance Policy

- (a) The Purchaser has purchased for its benefit a representations and warranties insurance policy (the ***R&W Insurance Policy***), and except as otherwise set forth in this Article X, the R&W Insurance Policy shall provide Purchaser's sole and exclusive recourse with respect to Losses suffered or incurred from claims of breaches of representations and warranties arising under this Agreement. All premiums and underwriting and due diligence fees for the R&W Insurance Policy shall be borne by the Purchaser.
- (b) The Purchaser shall cause the R&W Insurance Policy to provide that the insurer with respect to such R&W Insurance Policy will not, other than in instances of Fraud by the Sellers, be entitled to subrogation or assignment of rights of recovery against the Sellers, and the Purchaser shall not cause or permit the R&W Insurance Policy to be amended or modified such that the insurer with respect to such R&W Insurance Policy would be entitled to subrogation or assignment of rights of recovery against the Sellers, other than in instances of Fraud. The Purchaser shall not subrogate or assign rights of recovery against the Sellers to such insurer and shall use its commercially reasonable efforts to cause such insurer to waive all rights of recovery from or subrogation against the Sellers, other than in instances of Fraud by the Sellers. The R&W Insurance Policy shall be specifically endorsed to provide such waiver.

10.06 Double Recovery

No Indemnified Party shall be entitled to recover any amount pursuant to any provision of this Agreement in respect of any claim to the extent that such Indemnified Party has already recovered any amount in respect of such claim.

10.07 Recovery; Other Limitations

- (a) In the event that any Purchaser Indemnitee sustains or incurs Losses for which the Sellers are obligated to indemnify such Purchaser Indemnitee pursuant to Section 10.02(b) (except with respect to breaches of Fundamental Representations), the payments of Sellers to such Purchaser Indemnitee shall be made (and the Purchaser Indemnitee shall only recover such payments as set forth under this Article X) as follows:
 - (i) First, subject in every respect to the limitations contained in this Article X, from the Escrow Account pursuant to the terms of the Escrow Agreement until such Losses are paid in full or until the Escrow Amount (and all income earned thereon) is extinguished; and
 - (ii) then, directly from the Sellers in accordance with the terms of, and subject in every respect to the limitations contained in, this Article X.

Notwithstanding anything to the contrary contained in this Agreement, after the one (1) year anniversary of the Closing Date, Purchaser's sole and exclusive remedy under Section 10.02(b)(i) (other than with respect to breaches of the Fundamental Representations and the representations contained in Sections 4.13 and 4.15) shall be against the R&W Insurance Policy.

- (b) Losses suffered by a Party in connection with any claim hereunder shall be limited to the amount of any liability or damage that remains after deducting therefrom any insurance proceeds and any indemnity, contribution, or other similar payment actually received by any Party in respect of any such claim.
- (c) Each Party acknowledges and agrees that, from and after the Closing (except as provided in Section 6.05(b), Article VII and Section 11.13), its sole and exclusive remedy with respect to any and all Losses relating to this Agreement, the transactions contemplated hereby, the Target Group Companies, the Business, and/or the personal or real property of the Target Group Companies shall be pursuant to the indemnification provisions set forth in this Article X.

ARTICLE XI MISCELLANEOUS PROVISIONS

11.01 Amendments and Waivers

This Agreement may not be amended or modified except by an instrument in writing signed on behalf of each of the Parties. Each Party may (a) extend the time for performance of any of the obligations or other acts of the other Party, (b) waive any inaccuracies in the representations and warranties of the other Party contained in this Agreement or (c) waive compliance with any of the covenants or conditions for the benefit of such Party contained in this Agreement; *provided* that (i) any such extension or waiver by a Party will be valid only if set forth in a written document signed on behalf of the Party against whom such extension or waiver is to be effective; (ii) no extension or waiver will apply to any time for performance, inaccuracy in any representation or warranty or noncompliance with any covenant or condition, as the case may be, other than that which is specified in the written extension or waiver and (iii) no failure or delay by a Party in exercising any right or remedy under this Agreement or any of the documents delivered pursuant to this Agreement, and no course of dealing between the Parties, operates as a waiver of such right or remedy, and no single or partial exercise of any such right or remedy precludes any other or further exercise of such right or remedy or the exercise of any other right or remedy.

11.02 Assignment

This Agreement and the rights and obligations hereunder may not be assigned, delegated or otherwise transferred by any Party without the prior written consent of the other Parties; *provided* that the Purchaser may assign its rights to purchase the Units pursuant to this Agreement to an Affiliate of the Purchaser; *provided, further, however*, that the

Purchaser shall nevertheless remain responsible for its obligations hereunder. Any attempted assignment in violation of this Section 11.02 shall be null and void and of no effect.

11.03 No Third-Party Beneficiaries

This Agreement shall be binding upon and inure solely and exclusively to the benefit of the Parties and their successors and permitted assigns, and except as set forth in Section 6.05(b) and Section 6.11, nothing herein expressed or implied shall give, or be construed to give, to any Person, other than the Parties and such successors and permitted assigns, any legal or equitable right, remedies or claims under or with respect to this Agreement or any provisions hereof.

11.04 Expenses

Whether or not the Closing takes place, and except as otherwise set forth in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such expense *provided that* (a) the Sellers shall bear all costs and expenses incurred by the Target Group Companies in connection with the negotiation, execution and delivery of this Agreement and the other documents contemplated hereby and the transactions contemplated hereby and thereby that are to be performed prior to the Closing Date and (b) all fees of the Escrow Agent shall be borne 50% by the Sellers, on the one hand, and 50% by the Purchaser, on the other hand.

11.05 Notices

All notices, consents, and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt), (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested), (c) on the date sent by e-mail or facsimile of a PDF document (with confirmation of transmission by the transmitting equipment) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient, or (d) on the third (3rd) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective Parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 11.05):

(a) if to the Purchaser, to:

KLX Energy Services LLC
1300 Corporate Center Way
Wellington, FL 33414
Attention: Jonathan L. Mann, Esq.
Facsimile: (561) 791-5419

Email: Jonathan.Mann@klxenergy.com;

with a copy (which shall not constitute notice) to:

Freshfields Bruckhaus Deringer US LLP
601 Lexington Avenue, 31st Floor
New York, NY 10022
Attention: Valerie Ford Jacob, Esq.
Paul Humphreys, Esq.
Facsimile: (212) 277-4001
Email: Valerie.Jacob@freshfields.com
Paul.Humphreys@freshfields.com;

(b) if to Parent, to:

KLX Energy Services Holdings, Inc.
1300 Corporate Center Way
Wellington, FL 33414
Attention: Jonathan L. Mann, Esq.
Facsimile: (561) 791-5419
Email: Jonathan.Mann@klxenergy.com;

with a copy (which shall not constitute notice) to:

Freshfields Bruckhaus Deringer US LLP
601 Lexington Avenue, 31st Floor
New York, NY 10022
Attention: Valerie Ford Jacob, Esq.
Facsimile: (212) 277-4001
Email: Valerie.Jacob@freshfields.com;

(c) if to D5 as a Seller or as Seller Representative to:

District 5 Investments, LP
100 E. Royal Lane
Irving, TX 75039
Attention: Ali H. Mirza
Email: ali@d5inv.com;

with a copy (which shall not constitute notice) to:

Locke Lord LLP
600 Travis Street, Suite 2800
Houston, TX 77002
Attention: Joe Perillo

Facsimile: (713) 229-2610
Email: jperillo@lockelord.com;

(d) if to 3M to:

3M Capital, Inc.
Post Office Box 13415
Odessa, Texas 79768
Attention: Marco D. Davis
Email: marco@motley-services.com;

with a copy (which shall not constitute notice) to:

Cotton, Bledsoe, Tighe & Dawson, P.C.
500 W. Illinois, Suite 300
Midland, TX 79701
Attention: Zachary J. Brandl
Facsimile: (432) 684-3159
Email: zbrandl@cbtd.com;

(e) if to Davis to:

Marco D. Davis
Post Office Box 13415
Odessa, Texas 79768
Email: marco@motley-services.com;

with a copy (which shall not constitute notice) to:

Cotton, Bledsoe, Tighe & Dawson, P.C.
500 W. Illinois, Suite 300
Midland, TX 79701
Attention: Zachary J. Brandl
Facsimile: (432) 684-3159
Email: zbrandl@cbtd.com

11.06 Counterpart Execution and Facsimile Delivery

This Agreement may be executed and delivered (including by facsimile or portable document format (PDF) transmission) in any number of counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same instrument.

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11.07 Entire Agreement

This Agreement and all exhibits, annexes and schedules hereto (including the Sellers Disclosure Schedule and any schedule or annex thereto) and the Confidentiality Agreement (and any schedules or annexes thereto), contain the entire agreement and understanding among the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings (whether oral or written) relating to such subject matter. None of the Parties shall be liable or bound to any other Party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein or therein.

11.08 Severability

If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any Person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other Persons or circumstances.

11.09 Governing Law

This Agreement and all Proceedings (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the Sellers, the Purchaser, Parent or the Target Group Companies in the negotiation, administration, performance and enforcement thereof, shall be governed by, and construed in accordance with, the Applicable Law of the State of Delaware, without giving effect to any choice or conflict of laws provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Applicable Law or any jurisdiction other than the State of Delaware.

11.10 Consent to Jurisdiction

(a) Each of the Parties hereby, with respect to any legal claim or Proceeding arising out of this Agreement or the other transactions contemplated hereby, (i) expressly and irrevocably submits, for itself and with respect to its property, generally and unconditionally, to the exclusive jurisdiction of the Delaware Court of Chancery and any appellate court therefrom within the State of Delaware (or, if the Delaware Court of Chancery declines to accept jurisdiction over a particular matter, any state or federal court within the State of Delaware), (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such courts, (iii) agrees that it will not bring any claim or Proceeding relating to this Agreement or the other transactions contemplated hereby except in such courts and (iv) waives, to the fullest extent it may legally and

effectively do so, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, any objection which it may now or hereafter have to

the laying of venue of any claim or Proceeding arising out of or relating to this Agreement. Notwithstanding the foregoing, each of the Sellers, the Purchaser and the Target Company agrees that a final and nonappealable judgment in any Proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law.

- (b) Each Party irrevocably consents to the service of process in any claim or Proceeding with respect to this Agreement or the other transactions contemplated hereby or for recognition and enforcement of any judgment in respect hereof brought by any other Party may be made by mailing copies thereof by registered or certified United States mail, postage prepaid, return receipt requested, to its address as specified in or pursuant to Section 11.05 and such service of process shall be sufficient to confer personal jurisdiction over such Party in such claim or Proceeding and shall otherwise constitute effective and binding service in every respect.

11.11 Waiver of Jury Trial

EACH PARTY HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION CONTEMPLATED BY THIS AGREEMENT. EACH PARTY: (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER; AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11.11.

11.12 Appointment of Seller Representative

- (a) Each Seller hereby irrevocably appoints the Seller Representative as its sole, exclusive, true and lawful representative and attorney-in-fact, agent and proxy, with full power of substitution to act in its name, place and stead for all purposes under, and in respect of all transactions contemplated by, this Agreement, including, (i) consummating the Acquisition, (ii) paying all expenses (whether incurred on or after the date hereof) incurred in connection with the negotiation and performance of this Agreement, (iii) accepting and disbursing any funds received hereunder to such Seller and each other Seller, (iv) on behalf of each Seller, determining the satisfaction of, or otherwise waiving, any closing condition contained in Article VIII, and giving or agreeing to, on behalf of such Seller, any and all consents, waivers, amendments, or modifications, deemed by the Seller Representative, in its sole discretion, to be necessary or appropriate,

under this Agreement, and, in each case, executing and delivering any documents that may be necessary or appropriate in connection therewith, and to effect the Closing on behalf of Sellers, (v) negotiating, settling, compromising and otherwise handling any claims for indemnification or other claims made pursuant this Agreement to the extent that each of the Sellers is equally affected (on a pro rata basis) with respect to such claims for indemnification, and (vi) generally doing each and every other act and exercise any and all other rights which such Seller is, or Sellers collectively are, permitted or required to do or exercise under this Agreement. In addition, if one or more of the Sellers are an Indemnifying Party with respect to a Third Party Claim, then Purchaser and each of the Sellers hereby agree that the Seller Representative shall have the authorization, power and authority to take any and all action and to make and agree to any agreement for all such Sellers with respect to such Third Party Claim and that such determination shall be binding upon such Sellers. Notwithstanding anything to the contrary in this Agreement or any of the agreements, conveyances, documents, instruments and certificates delivered at the Closing pursuant to this Agreement, each Seller hereby agrees to indemnify and hold harmless the Seller Representative and any Affiliate of the Seller Representative with respect to any claim asserted against or damages incurred by or on behalf of the Seller Representative or such Affiliate of the Seller Representative as a result of the Seller Representative carrying out his, her or its duties and obligations as the Seller Representative as contemplated by this Agreement.

- (b) The Seller Representative and each other Seller shall be and are bound by all decisions, actions, inactions, consents or instructions taken by the Seller Representative pursuant to this Section 11.12 on behalf of the Sellers. The Seller Representative will not be liable to any Seller for any act taken or omitted by it as permitted under this Agreement, except if taken or omitted in bad faith or by willful misconduct. The Seller Representative will also be fully protected in relying upon any written notice, demand, certificate or document that it in good faith believes to be genuine (including facsimiles thereof).
- (c) The Sellers understand and agree that the Seller Representative may have various actual, perceived or potential conflicts of interest and hereby waive and agree to waive any and all such conflicts of interest, not to assert any claim on the basis thereof, and not to seek to disqualify the Seller Representative due to any and all such conflicts of interest or potential conflicts of interest or appearances of impropriety.
- (d) None of the Purchaser, Parent or any of their Affiliates (including, from and after the Closing, the Target Group Companies) shall have any Liability to any of Sellers or the Seller Representative arising out of the acts or omissions of the Seller Representative or any disputes among Sellers or any other Person who may own (or who may purport to own) an interest in a Seller or between Sellers and the Seller Representative. From and after the Closing, to the extent that the Purchaser or Parent or any of their Affiliates (including, from and after the

Closing, any Target Group Company) makes any payment hereunder to the Seller Representative, such payment shall be deemed to satisfy in full the payor's obligations in respect of the amount of the payment made by such payor (subject to delivery of the payment in accordance with the terms of this Agreement), it being agreed and understood that such applicable Sellers and their respective Affiliates shall have no recourse, nor shall they be permitted to pursue any claim, against the Purchaser, Parent any of their Affiliates (including, from and after the Closing, any Target Group Company) in respect of the amount of the payment made by the payor (whether such payment was not paid over by the Seller Representative or for any other reason).

11.13 Specific Performance

Each Party agrees that irreparable damage may occur if any provision of this Agreement is not performed in accordance with its terms, and the Parties shall be entitled (without the requirement to post a bond) to seek specific performance of the terms hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the Sellers, the Purchaser and Parent have duly executed this Agreement as of the date first written above.

DISTRICT 5 INVESTMENTS, LP

By: /s/ Casey M. Friedel
Name: Casey M. Friedel
Title: Authorized Representative

3M CAPITAL, INC.

By: /s/ Marco D. Davis
Name: Marco D. Davis
Title: Chief Executive Officer

/s/ Marco D. Davis
MARCO D. DAVIS

KLX ENERGY SERVICES LLC

By: /s/ Thomas P. McCaffrey
Name: Thomas P. McCaffrey
Title: President

KLX ENERGY SERVICES HOLDINGS, INC.

By: /s/ Thomas P. McCaffrey
Name: Thomas P. McCaffrey
Title: Senior Vice President & Chief Financial Officer

FIRST AMENDMENT TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") dated as of October 22, 2018, is among KLX ENERGY SERVICES HOLDINGS, INC. a Delaware corporation (the "Company"), each Guarantor that is a signatory hereto, JPMORGAN CHASE BANK, N.A., as administrative agent for the Lenders (in such capacity, together with its successors, the "Administrative Agent"), the Issuing Lenders and the Lenders.

Recitals

A. The Company, the Administrative Agent, the Issuing Lenders and the Lenders are parties to that certain Credit Agreement dated as of August 10, 2018 (as amended, modified, supplemented, restated or amended and restated prior to the date hereof, the "Credit Agreement"), pursuant to which the Lenders have agreed to make certain loans to, and extensions of credit on behalf of, the Company on and after the Funding Date, subject to the terms and conditions of the Credit Agreement.

B. The Company, the Administrative Agent and the Lenders party hereto have agreed, subject to the terms and conditions herein, to amend certain provisions of the Credit Agreement to, among other things, permit the Company to issue certain senior secured notes as described herein.

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

Section 1. Defined Terms. Each capitalized term used herein but not otherwise defined herein has the meaning given to such term in the Credit Agreement.

Section 2. Amendments to Credit Agreement.

2.1 Amendments to Section 1.2.

(a) The following term is hereby added to Section 1.2 of the Credit Agreement in the appropriate alphabetical order:

"*Motley Acquisition*" means the acquisition of 100% of the outstanding unit rights of Motley Services, LLC and its subsidiaries pursuant to that certain Unit Purchase Agreement dated as of October 22, 2018 (the "Motley Acquisition Agreement"), without giving effect to any amendments thereto, by and among District 5 Investments, LP, a limited partnership organized under the laws of Texas, 3M Capital, Inc. a corporation organized under the laws of Texas, and Marco D. Davis, as the sellers, KLX Energy Services LLC, a limited liability company organized under the laws of Delaware, as buyer, and the Borrower, as parent.

“**Motley Acquisition Agreement**” has the meaning specified in the definition of “Motley Acquisition”.

“**Motley Tax Redemption**” means any redemption of Equity Interests of the Company (that have been issued as consideration in connection with the Motley Acquisition) in accordance with the Motley Acquisition Agreement and related share purchase agreements in order to pay the recipient’s income tax liability with respect to the issuance of such Equity Interests.

“**Specified Secured Senior Notes**” means senior secured notes in an aggregate principal amount not to exceed \$300,000,000, a portion of which will be used to consummate the Motley Acquisition.

“**Specified Secured Senior Notes Redemption**” means the redemption in full of the Specified Secured Senior Notes at 100.0% of the principal amount thereof, together with accrued interest thereon in accordance with the terms of the Specified Secured Senior Notes in the event that (i) the Motley Acquisition is not consummated on or prior to November 30, 2018 or (ii) at any time prior to November 30, 2018, the Unit Purchase Agreement relating to the Motley Acquisition is terminated without the Motley Acquisition being consummated.

“**Unrestricted Cash**” means, as of any date of determination, the aggregate amount of cash and Cash Equivalents on the consolidated balance sheet of the Company and its Restricted Subsidiaries that are deposited in or credited to deposit accounts or securities accounts subject to Liens in favor of the Administrative Agent and that are not “restricted” for purposes of GAAP.

(b) The following terms in Section 1.2 of the Credit Agreement are hereby amended and restated in their entirety:

“**Capital Lease**” means, of any Person, any lease of (or other arrangement conveying the right to use) property (whether real, personal or mixed) by such Person as lessee which would, in accordance with GAAP, be required to be accounted for as a capital lease on the balance sheet of such Person; *provided*, that notwithstanding the foregoing, in no event will any lease that would have been categorized as an operating lease as determined in accordance with GAAP as of the Funding Date, be considered a “Capital Lease” as a result of any changes in GAAP that take effect subsequent to the Funding Date.

“**Fixed Charge Coverage Ratio**” means, on any date for the applicable Measurement Period, the ratio of (i) Consolidated EBITDA minus Unfinanced Capital Expenditures to (ii) the sum of Fixed Charges.

“Measurement Period” has the meaning specified in the definition of “Required Ratio”.

“Required Ratio” means, on any date of determination with respect to any incurrence of Indebtedness under Sections 9.2(f), 9.2(g) (except for the Specified Secured Senior Notes), 9.2(i) and 9.2(l), for the applicable Measurement Period, the ratio of (x) Consolidated Total Indebtedness (net of Unrestricted Cash, only in the event that the aggregate principal amount of Loans outstanding on such date does not exceed \$10,000,000) as of the end of such period to (y) Consolidated EBITDA for the applicable Measurement Period shall: (1)(i) with respect to incurrence of Indebtedness under Sections 9.2(f), 9.2(g) (except for the Specified Secured Senior Notes) and 9.2(l), not exceed 2.0 to 1.0 and (ii) with respect to incurrence of Indebtedness under Section 9.2(i), not exceed 3.0 to 1.0 or (2) with respect to any such Indebtedness incurred in connection with a Permitted Acquisition or any other Investment permitted under this Agreement, not exceed (A) such ratio existing immediately prior to the incurrence of such Indebtedness and the consummation of such Permitted Acquisition or Investment permitted under this Agreement or (B) 3.0 to 1.0;

provided that, in each case, (A) all pro forma calculations of such ratio within this definition shall include only those adjustments that are based on reasonably detailed written assumptions reasonably acceptable to the Administrative Agent and (B) for any Indebtedness incurred in connection with Sections 9.2(f) or 9.2(i) or a Permitted Acquisition or Investment, pro forma calculations of such ratio shall be accompanied by a certificate from a Responsible Officer on behalf of the Company delivered to the Administrative Agent no less than fifteen (15) days prior to the incurrence of any such Indebtedness, certifying that such calculation has been prepared in good faith based upon reasonable assumptions and giving effect to such incurrence on a pro forma basis, the Company is in compliance with the Required Ratio.

Commencing with the fiscal quarter of the Company ended as of April 30, 2018 (which shall constitute the ‘first fiscal quarter’ of the Company for the purpose of this annualization), for the purpose of calculating the Required Ratio, Consolidated EBITDA shall be annualized in the following manner for the first three fiscal quarters of the Company: (i) for the first fiscal quarter of the Company ended as of April 30, 2018, Consolidated EBITDA for such fiscal quarter shall be multiplied by 4, (ii) for the second fiscal quarter of the Company ending as of July 31, 2018, Consolidated EBITDA for the first two fiscal quarters of the Company shall be multiplied by 2, and (iii) for the third fiscal quarter of the Company ending as of October 31, 2018, Consolidated EBITDA for the first three fiscal quarters of the Company shall be multiplied by 4/3. From the fourth fiscal quarter of the Company ending as of January 31, 2019

and thereafter, the Required Ratio shall be calculated based on the results for the immediately preceding four fiscal quarter period for which financial statements have been delivered to the Administrative Agent or are available on EDGAR, or otherwise publicly filed.

'Measurement Period' means the most recent period of four consecutive fiscal quarters (or with respect to the quarters described in this paragraph, the period described in this paragraph) of the Company for which financial statements have been or are required to be delivered pursuant to this Agreement.

(c) The term "Borrower" in the definitions of "Borrowing Base" and "Plan" is hereby deleted and replaced with the term "Company".

(d) The definition of "Consolidated EBITDA" is hereby amended by (i) replacing the words "period of four consecutive fiscal quarters (each a 'Measurement Period')" with the words "Measurement Period" and (ii) adding the words "Required Ratio or ratio of Consolidated Total Indebtedness to Consolidated EBITDA" immediately following the words "Fixed Charge Coverage Ratio" in the last paragraph of such definition.

2.2 Amendment to Section 8.2. Section 8.2 of the Credit Agreement is hereby amended by adding a new Section 8.2(j) as follows:

"(j) *Corporate Information.* The Company shall deliver to the Administrative Agent and Collateral Agent, with respect to any Credit Party, promptly (and in any event within no more than thirty (30) days following such change) written notice of any change in such Person's (1) legal name, (2) jurisdiction of organization or formation, (3) identity or corporate structure or (4) legal identification number. The Company shall take all necessary action so that the Lien in favor of the Collateral Agent pursuant to this Agreement and/or the Security Documents is perfected with the same priority as immediately prior to such change to the extent required by the Credit Documents. The Company also agrees promptly to notify the Collateral Agent if any material portion of the Collateral is damaged, destroyed or condemned."

2.3 Amendments to Section 9.2. Section 9.2 of the Credit Agreement is hereby amended as follows:

(a) Section 9.2(e) is hereby amended by: deleting sub-clause (C) of Section 9.2(e) in its entirety; and replacing "\$20,000,000" with "\$40,000,000" in sub-clause (B) of Section 9.2(e).

(b) Section 9.2(f) is hereby amended by replacing the "and" prior to sub-clause (B) with "," and adding the following new sub-clause (C):

"and (C) owed under Section 2.01(d) of the Motley Acquisition Agreement."

(c) Section 9.2(g) is hereby amended by: deleting the "(x)" before the words "any financial covenant"; deleting the "or" after the words "in this Agreement" in sub-clause (A) of Section 9.2(g)(iv); deleting paragraph (y) of sub-clause (A) of Section 9.2(g)(iv) in its entirety; and deleting sub-clause (E) of Section 9.2(g)(iv) in its entirety.

(d) The “and” at the end of Section 9.2(j)(vii) shall be deleted, the period at the end of Section 9.2(k) shall be deleted and replaced with “; and” and the following new Section 9.2(l) shall be added:

“(l) the Specified Secured Senior Notes to the extent such notes are issued on or prior to November 30, 2018 and (i) remain outstanding pursuant to the terms thereof as a result of the consummation of the Motley Acquisition or (ii) are redeemed pursuant to the Specified Secured Senior Notes Redemption.”

2.4 Amendments to Section 9.3. Section 9.3 of the Credit Agreement is hereby amended as follows:

(a) Section 9.3(i) of the Credit Agreement is hereby amended by adding the words “the Motley Acquisition,” immediately following the words “Liens on assets acquired in connection with”.

(b) Section 9.3(r) of the Credit Agreement is hereby amended by adding the words “and Section 9.2(l)” immediately following the words “Liens to secure Indebtedness permitted under Section 9.2(g)”.

(c) The final sentence of Section 9.3 is hereby amended and replaced in its entirety with the following:

“No Liens shall be permitted to exist, directly or indirectly, (i) on the Collateral (as defined in the Pledge and Security Agreements), other than Liens permitted under paragraphs (a) to (s) of this Section 9.3, or (ii) on any Real Property owned by the Company or any Subsidiaries, other than Liens created under paragraphs (d), (e) and (r) of this Section 9.3 and which, in the case of paragraph (r) of this Section 9.3, may be senior to any Liens on such Real Property securing the Finance Obligations; provided that none of the Liens permitted pursuant to this Section 9.3 may at any time attach to any Credit Party’s (1) Accounts, other than those permitted under paragraph (a), (n) and (r) above or created pursuant to any Credit Document and (2) Inventory, other than those permitted under paragraphs (a), (b), (n) and (r) above or created pursuant to any Credit Document.”

2.5 Amendment to Section 9.7. Section 9.7 of the Credit Agreement is hereby amended by deleting the “and” at the end of Section 9.7(l), deleting the period at the end of Section 9.2(m) and replacing it with “; and” and adding the following new Section 9.7(n):

“(n) the Motley Acquisition.”

2.6 Amendment to Section 9.9. Section 9.9 of the Credit Agreement is hereby amended by deleting the “and” at the end of Section 9.9(c), deleting the period at the end of Section 9.9(d) and replacing it with “; and” and adding the following new Section 9.9(e):

“(e) The Company and its Restricted Subsidiaries may effect the Motley Tax Redemption; provided that the aggregate amount of such payments with respect to the Motley Tax Redemption shall not exceed \$5,000,000.”

2.7 Amendment to Section 9.12. Section 9.12 of the Credit Agreement is hereby amended by adding the following Section 9.12(c):

“(c) Notwithstanding Sections 9.12(a) and (b), the Specified Secured Senior Notes may be mandatorily redeemed pursuant to the Specified Secured Senior Notes Redemption in accordance with Section 9.2(l)”

2.8 Amendment to Section 9.14. Clause (iv) of Section 9.14 of the Credit Agreement is hereby amended by deleting the words “paragraph (a)” and “secured” therefrom.

Section 3. Form of Intercreditor Agreement. The Lenders hereby approve the Intercreditor Agreement in substantially the form attached as Annex A hereto, or with such modifications thereto as may be agreed by the Required Lenders, and the subordination of liens on the Collateral as specified therein, to the Specified Secured Senior Notes as set forth therein. Furthermore, each party hereto hereby agrees that the Collateral Agent and the Company may agree such amendments, supplements or other modifications to the Security Documents to reflect the relative priorities of the Liens on the Collateral as set forth in the Intercreditor Agreement and the other terms set forth therein.

Section 4. Conditions Precedent. This Amendment shall become effective on the date (such date, the “Amendment Effective Date”) when each of the following conditions is satisfied (or waived in accordance with Section 12.1 of the Credit Agreement):

4.1 The Administrative Agent and the Lenders shall have received all fees and other amounts due and payable in connection with this Amendment or any other Credit Document on or prior to the Amendment Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Company pursuant to this Amendment or any other Credit Document.

4.2 The Administrative Agent shall have received a counterpart of this Amendment signed by the Company and Lenders constituting the Required Lenders.

4.3 The Administrative Agent shall have received a certificate from a Responsible Officer of the Company certifying that:

(a) The representations and warranties contained in the Credit Agreement are true and correct in all material respects (unless already qualified by materiality, in which case such applicable representation and warranty is true and correct) as of the Amendment Effective Date (or as of such earlier date if the representation or warranty specifically relates to an earlier date); and

(b) No Default or Event of Default has occurred and is continuing.

The Administrative Agent is hereby authorized and directed to declare this Amendment to be effective (and the Amendment Effective Date shall occur) when it has received documents confirming or certifying, to the satisfaction of the Administrative Agent, compliance with the conditions set forth in this Section 4 (or the waiver of such conditions as permitted in Section

12.1 of the Credit Agreement). Such declaration shall be final, conclusive and binding upon all parties to the Credit Agreement for all purposes.

Section 5. Miscellaneous.

5.1 Confirmation. All of the terms and provisions of the Credit Agreement, as amended by this Amendment, are, and shall remain, in full force and effect following the effectiveness of this Amendment.

5.2 Ratification and Affirmation; Representations and Warranties. The Company hereby (a) acknowledges the terms of this Amendment; (b) ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, the Credit Agreement and agrees that the Credit Agreement remains in full force and effect as expressly amended by this Amendment; (c) agrees that from and after the Amendment Effective Date (i) each reference to the Credit Agreement in the other Credit Documents shall be deemed to be a reference to the Credit Agreement, as amended by this Amendment and (ii) this Amendment does not constitute a novation of the Credit Agreement; and (d) represents and warrants to the Lenders that as of the date hereof, and immediately after giving effect to the terms of this Amendment, the execution, delivery, and performance by the Company and the consummation of the transactions contemplated by this Amendment (i) are within the Company's organizational powers, (ii) have been duly authorized by all necessary action of the board of directors of the Company, (iii) do not contravene the certificate of incorporation or bylaws of the Company, (iv) do not contravene any Requirement of Law or any material Contractual Obligation binding on or affecting the Company except for immaterial laws or Contractual Obligations, the noncompliance with which would not reasonably be expected to result in a Material Adverse Effect, (v) do not result in or require the creation or imposition of any Lien prohibited by the Credit Agreement and (vi) do not require any authorization or approval or other action by, or any notice or filing with, any Governmental Authority except for immaterial authorizations, approvals, other actions, notices or filings the failure to obtain of which would not reasonably be expected to have a Material Adverse Effect.

5.3 Credit Document. This Amendment is a Credit Document.

5.4 Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or email transmission shall be effective as delivery of a manually executed counterpart of this Amendment.

5.5 No Oral Agreement. This Amendment, the Credit Agreement and the other Credit Documents executed in connection herewith and therewith represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or unwritten oral agreements of the parties. There are no subsequent oral agreements between the parties.

5.6 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE

STATE OF NEW YORK. Sections 12.10 and 12.11 of the Credit Agreement are hereby incorporated herein and apply hereto *mutatis mutandis*.

5.7 Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

COMPANY:

KLX ENERGY SERVICES HOLDINGS, INC.

By: /s/ Thomas P. McCaffrey
Name: Thomas P. McCaffrey
Title: Senior Vice President and Chief Financial Officer

Acknowledged and agreed by:

GUARANTORS:

KLX ENERGY SERVICES LLC

By: /s/ Thomas P. McCaffrey
Name: Thomas P. McCaffrey
Title: President

KLX RE HOLDINGS LLC

By: /s/ Thomas P. McCaffrey
Name: Thomas P. McCaffrey
Title: President

First Amendment to Credit Agreement
Signature Page

**ADMINISTRATIVE AGENT, COLLATERAL AGENT AND A
LENDER:**

JPMORGAN CHASE BANK, N.A.

By: /s/ Kody J. Nerios

Name: Kody J. Nerios

Title: Authorized Officer

First Amendment to Credit Agreement
Signature Page

LENDER:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ William M. Plough

Name: William M. Plough

Title: Vice President

First Amendment to Credit Agreement
Signature Page

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-227321 and 333-227327) of KLX Energy Services Holdings, Inc. (the "Company") of our report dated February 13, 2018 (except for Note 12, as to which the date is June 13, 2018) with respect to the financial statements of Motley Services, LLC for the year ended December 31, 2017, included in the Company's Form 8-K filed with the Securities and Exchange Commission on October 22, 2018.

/s/ Johnson, Miller & Co. CPA's PC

Odessa, Texas
October 22, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-227321 and 333-227327) of KLX Energy Services Holdings, Inc. (the "Company") of our report dated March 27, 2017 with respect to the financial statements of Motley Services, LLC for the year ended December 31, 2016, included in the Company's Form 8-K filed with the Securities and Exchange Commission on October 22, 2018.

/s/ FCA, Certified Public Accountants, PLLC

Little Rock, Arkansas
October 22, 2018

Recent developments***KLX Energy Services third quarter financial guidance***

On October 22, 2018, we provided guidance with respect to our three months ending October 31, 2018 financial results of expected revenues of approximately \$120.0 million, expected Adjusted EBITDA of approximately \$26.5 million and expected Adjusted EBITDA margin of approximately 22.1%.

The financial guidance presented above is preliminary, unaudited estimates of what the Company's performance is expected to be for a quarterly period which has not yet been completed. Accordingly, the actual financial results for the three months ended October 31, 2018 may differ materially from this guidance, including as a result of the review of actual results for the final two weeks of the quarter, finalization of the financial statements for the quarter, completion of review procedures performed by the Company's independent registered public accounting firm, and other factors and adjustments related to the Company's financial reporting process.

The financial guidance presented above is based on internal estimates of the Company and information available as of the date hereof. There can be no assurance that the Company's actual results for the quarter will not differ from this guidance and that such changes will not be material. Accordingly, this guidance should not be viewed or relied upon as a substitute for financial statements to be prepared in accordance with GAAP. The Company's independent registered public accounting firm has not audited, reviewed or performed any procedures with respect to this guidance and, accordingly, do not express an opinion or any other form of assurance about them. In connection with our quarterly closing and review process for the fiscal quarter with our independent auditors, we may identify items that would require us to make adjustments to the guidance set forth above.

With respect to the Company's guidance for the three months ending October 31, 2018, the following table presents a reconciliation of the GAAP financial measure net loss to the

non-GAAP financial measures Adjusted operating earnings (loss) and Adjusted EBITDA of the Company:

	Three months ending October 31, 2018
	(in millions) (unaudited)
Adjusted EBITDA reconciliation	
Net loss	\$ (4.9)
Income taxes	—
Operating loss	(4.9)
Costs related to one-time post-Spin-Off related activities(1)	17.9
Adjusted operating earnings	13.0
Depreciation and amortization	10.0
Non-cash compensation	3.5
Adjusted EBITDA	\$ 26.5

(1) Includes \$10.7 of non-cash compensation expense associated with the acceleration of unvested shares of KLX common stock held by our employees related to the sale of KLX to The Boeing Company (“Boeing”) and \$7.2 of costs and expenses allocated by our former parent during the third quarter associated with the Spin-Off.

We use the above described adjusted measures to evaluate and assess the operational strength and performance of our business and of particular units of our business. We believe the financial measures above are relevant and useful for investors because they allow investors to have a better understanding of our actual operating performance unaffected by the impact of the non-recurring costs. These financial measures should not be viewed as a substitute for, or superior to, operating earnings, net earnings or net cash flows provided by operating activities (each as defined under GAAP), the most directly comparable GAAP measures, as a measure of the Company’s operating performance.

Motley third quarter financial guidance

On October 22, 2018, Motley provided guidance with respect to its three months ended September 30, 2018 financial results of expected revenues of approximately \$33.0 million to \$35.0 million, expected EBITDA of approximately \$11.0 million to \$12.0 million and expected EBITDA margin of approximately 33% to 34%. Motley’s third quarter EBITDA is presented on the same basis as Motley’s Adjusted EBITDA for prior periods; however, there were no adjustments pursuant to such definition during the third quarter.

Motley’s financial guidance presented above is preliminary, unaudited estimates and has not been audited or reviewed by any independent auditing firm. Actual results for the quarter may differ materially from this guidance as a result of, among other things, finalization of the financial statements for the quarter, completion of review procedures performed by Motley’s independent registered public accounting firm, and other factors and adjustments related to Motley’s financial reporting process.

The guidance presented above is based on Motley’s preliminary estimates and information available as of the date hereof. They are not a comprehensive statement of Motley’s financial and operating results for such period. There can be no

assurance that Motley's final results for such period will not differ from this guidance and that such changes will not be material. Accordingly, this guidance should not be viewed or relied upon as a substitute for complete financial statements to be prepared in accordance with GAAP or as a measure of Motley's actual performance. Motley's independent registered public accounting firm has not audited, reviewed or performed any procedures with respect to this guidance and, accordingly, does not express an opinion or any other form of assurance about them.

Summary KLX Energy Services historical and pro forma financial information

The following table presents summary historical and pro forma financial data for the Company for the periods indicated below. We derived the summary historical financial data as of January 31, 2018 and 2017, and for each of the fiscal years in the three-year period ended January 31, 2018, from our audited financial statements. We derived the summary historical financial data as of January 31, 2016 from KLX's accounting records. We derived the summary historical statements of earnings data for the six months ended July 31, 2018 and 2017 and the balance sheet data as of July 31, 2018 from our unaudited condensed financial statements. We derived the summary historical balance sheet data as of July 31, 2017 from our unaudited condensed balance sheet. In our management's opinion, the unaudited condensed financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting only of ordinary recurring adjustments, necessary for a fair presentation of the information for the periods presented. The summary historical financial data as of and for the six months ended July 31, 2018 and 2017 are not necessarily indicative of the results that may be obtained for a full year. The unaudited condensed financial data for the twelve months ended July 31, 2018 has been derived by adding the data set forth below for the fiscal year ended January 31, 2018 to the corresponding data for the six months ended July 31, 2018 and then subtracting the data for the six months ended July 31, 2017.

The historical statements of earnings (loss) reflect allocations of general corporate expenses from KLX, including, but not limited to, executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management and other shared services. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenues generated, costs incurred, headcount or other measures. Our management considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, KLX Energy Services. The allocations may not, however, reflect the expense we would have incurred as a stand-alone public company for the periods presented. Actual costs that may have been incurred if we had been a stand-alone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure. Our financial statements may not necessarily reflect our financial position, results of operations and cash flows as if we had operated as a stand-alone public company during all periods presented. Accordingly, our historical results should not be relied upon as an indicator of our future performance.

The summary unaudited pro forma condensed combined financial data are based on and have been derived from our historical annual and interim financial statements, including our unaudited condensed balance sheet as of July 31, 2018, our unaudited condensed statements of earnings (loss) for the six months ended July 31, 2018 and 2017, and our audited statements of earnings (loss) for our fiscal year ended January 31, 2018. The unaudited pro forma condensed combined statements of earnings (loss) for the six months ended July 31, 2018 and 2017, for the fiscal

year ended January 31, 2018 and for the twelve months ended July 31, 2018 give effect to the Spin-Off, the Acquisition, the debt financing and related transactions as if each had occurred on February 1, 2017. The unaudited pro forma condensed combined balance sheet as of July 31, 2018 gives effect to the Spin-Off, the Acquisition, the debt financing and related transactions as if each had occurred on July 31, 2018. In management's opinion, the unaudited pro forma condensed combined financial statements reflect adjustments that are both necessary to present fairly the unaudited pro forma condensed combined statements of earnings and the unaudited pro forma financial position of our business as of and for the periods indicated, and the pro forma adjustments are based on currently available information and assumptions we believe are reasonable, factually supportable and directly attributable to the Spin-Off, the Acquisition, the debt financing and related transactions, and for purposes of the pro forma condensed combined statements of earnings (loss), are expected to have a continuing impact on us.

The unaudited pro forma condensed combined financial data are not necessarily indicative of what our results of operations or financial position would have been had the Spin-Off, the Acquisition, the debt financing and related transactions occurred on the dates indicated. The unaudited pro forma condensed combined financial data also should not be considered indicative of our future results of operations or financial position. The pro forma adjustments are based upon currently available information and certain assumptions that we believe are reasonable, but actual results may differ from the pro forma adjustments.

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	Year ended January 31,			Six months ended July 31,		Twelve months ended July 31,	Pro forma twelve months ended July 31,
	2018	2017	2016	2018	2017	2018	2018
	(in millions)						
	(unaudited)						
Statements of Earnings (loss) Data							
Revenues	\$ 320.5	\$ 152.2	\$ 251.2	\$ 228.2	\$ 137.0	\$ 411.7	\$ 510.7
Cost of sales	269.1	181.3	282.8	167.7	119.6	317.2	389.6
Selling, general and administrative	73.4	60.1	78.5	39.7	34.8	78.3	77.6
Research and development costs	2.0	0.3	—	1.3	0.8	2.5	2.5
Goodwill and long-lived asset impairment charges(1)	—	—	640.2	—	—	—	—
Operating (loss) earnings	(24.0)	(89.5)	(750.3)	19.5	(18.2)	13.7	41.0
Interest expense	—	—	—	—	—	—	26.0
Income tax expense	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net (loss) earnings	\$ (24.1)	\$ (89.6)	\$ (750.4)	\$ 19.4	\$ (18.3)	\$ 13.6	\$ 14.9
Balance Sheet Data (end of period)							
Working capital(2)	\$ 38.1	\$ 14.8	\$ 9.0	\$ 49.9	\$ 29.4	\$ 49.9	
Intangible and other assets, net	8.2	3.6	6.1	10.6	7.3	10.6	
Total assets	273.8	205.0	234.8	305.5	237.9	305.5	
Parent company equity	224.6	178.0	192.1	254.9	200.4	\$ 254.9	
Other Financial Data							
Adjusted operating (loss) earnings(3)	(20.4)	(89.5)	(71.6)	25.2	(18.2)	23.0	
Adjusted operating margin	(6.4)%	(58.8)%	(28.5)%	11.0%	(13.3)%	5.6%	
Adjusted EBITDA(3)	25.6	(44.3)	(20.7)	48.5	4.5	69.6	
Adjusted EBITDA margin	8.0%	(29.1)%	(8.2)%	21.3%	3.3%	16.9%	
Pro Forma Adjusted EBITDA(3)							\$ 88.2
Pro forma total debt							250.0
Pro forma net debt(4)							94.6
Pro forma ratio of total debt to Pro Forma Adjusted EBITDA(5)							2.8x
Pro forma ratio of net debt to Pro Forma Adjusted EBITDA(6)							1.1x
Pro forma ratio of Adjusted EBITDA to interest expense(7)							3.4x

(1) During the fiscal year ended January 31, 2016, we recorded a \$640.2 million goodwill and long-lived asset impairment charge. The continued downturn in the oil and gas industry, including the nearly 75% decrease in the number of onshore drilling rigs and the resulting significant cutback in capital expenditures by our customers, represented a significant adverse change in the business climate, which indicated that our goodwill was impaired and our long-lived assets might not be recoverable. As a result, during the third quarter ended October 31, 2015, we performed an interim goodwill impairment test and a long-lived asset recoverability test. As a result, we determined that our goodwill was fully impaired and recorded a pre-tax impairment charge of \$310.4 million. Further, we utilized a combination of cost and market approaches to determine

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the fair value of our long-lived assets, resulting in an impairment charge of \$177.8 million related to identified intangibles and \$152.0 million related to property and equipment.

(2) Working capital is defined as current assets, excluding cash and cash equivalents, less current liabilities.

(3) The following table presents a reconciliation of the GAAP financial measure net (loss) earnings to the non-GAAP financial measures Adjusted operating (loss) earnings, Adjusted EBITDA and Pro Forma Adjusted EBITDA:

	Year ended January 31,			Six months ended July 31,		Twelve months ended July 31,	Pro forma twelve months ended July 31,
	2018	2017	2016	2018	2017	2018	2018
				(in millions)		(unaudited)	
Adjusted operating (loss) earnings and Adjusted EBITDA reconciliation							
Net (loss) earnings	\$ (24.1)	\$ (89.6)	\$ (750.4)	\$ 19.4	\$ (18.3)	\$ 13.6	\$ 14.9
Income taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest expense	—	—	—	—	—	—	26.0
Operating (loss) earnings	(24.0)	(89.5)	(750.3)	19.5	(18.2)	13.7	41.0
Goodwill and long-lived asset impairment charges(a)	—	—	640.2	—	—	—	—
Non-recurring costs(b)	3.6	—	38.5	5.7	—	9.3	3.2
Recurring costs(c)	—	—	—	—	—	—	(8.0)
Adjusted operating (loss) earnings	(20.4)	(89.5)	(71.6)	25.2	(18.2)	23.0	36.2
Depreciation and amortization	33.5	36.2	46.6	18.2	16.9	34.8	40.2
Non-cash compensation	12.5	9.0	4.3	5.1	5.8	11.8	11.8
Adjusted EBITDA	\$ 25.6	\$ (44.3)	\$ (20.7)	\$ 48.5	\$ 4.5	\$ 69.6	\$ 88.2

(a) See footnote (1) above.

(b) We incurred non-recurring costs for the fiscal year ended January 31, 2018 of \$3.6 million, of which \$3.3 million and \$0.3 million were included in selling, general and administrative expense and cost of sales, respectively, primarily associated with KLX's strategic alternatives review. Non-recurring costs for the six months ended July 31, 2018 included \$5.7 million of selling, general and administrative expense associated with KLX's strategic alternatives review and the Spin-Off of its Energy Services Group business to its stockholders. Non-recurring costs for the fiscal year ended January 31, 2016 were \$38.5 million, of which \$15.4 million and \$23.1 million were included in selling, general and administrative expense and cost of sales, respectively, primarily associated with business separation and start-up costs such as spin-off related costs, expansion initiatives, branding and IT implementation costs. The non-recurring costs of \$3.2 million for the pro forma twelve months ended July 31, 2018 were included in selling, general and administrative expense primarily associated with other one-time expenses.

(c) We expect recurring annual costs to be approximately \$8.0 million higher than the expenses historically allocated to us from KLX, reflecting 100% allocation of dedicated corporate resources and the expected higher revenues.

(4) Represents pro forma total debt less pro forma cash and cash equivalents.

(5) Represents pro forma total debt divided by Pro Forma Adjusted EBITDA.

(6) Represents pro forma net debt divided by Pro Forma Adjusted EBITDA.

(7) Represents Pro Forma Adjusted EBITDA divided by pro forma interest expense.

We use the above described adjusted measures to evaluate and assess the operational strength and performance of the business and of particular segments of the business. We believe the financial measures above are relevant and useful for investors because they allow investors to have a better understanding of our actual operating performance unaffected by the impact of non-recurring costs. These financial measures should not be viewed as a substitute for, or superior to, operating earnings, net earnings or net cash flows provided by operating activities (each as defined under GAAP), the most directly comparable GAAP measures, as a measure of our operating performance.

Summary Motley historical consolidated financial information

The following table presents summary financial data for Motley for the periods indicated below. The summary historical financial data as of December 31, 2017 and 2016, and for each of the fiscal years in the two year period ended December 31, 2017, has been derived from Motley's audited financial statements. The summary historical statements of earnings data for the six months ended June 30, 2018 and 2017 and the balance sheet data as of June 30, 2018 has been derived from Motley's unaudited financial statements. The summary historical balance sheet data as of June 30, 2017 has been derived from Motley's unaudited balance sheet. In the opinion of Motley's management, the unaudited financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting only of ordinary recurring adjustments, necessary for a fair presentation of the information for the periods presented. The summary historical financial data as of and for the six months ended June 30, 2018 and 2017 are not necessarily indicative of the results that may be obtained for a full year. The unaudited condensed financial data for the twelve months ended June 30, 2018 has been derived by adding the data set forth below for the year ended December 31, 2017 to the corresponding data for the six months ended June 30, 2018 and then subtracting the data for the six months ended June 30, 2017.

In presenting the financial data in conformity with GAAP, Motley's management was required to make estimates and assumptions that affect the amounts reported. See Note 2, "Significant Accounting Policies" to Motley's audited financial statements for a discussion of the accounting policies that Motley's management believes require subjective and complex judgments that could potentially affect reported results.

	Year ended December 31,		Six months ended June 30,		Twelve months ended June 30,
	2017	2016	2018	2017	2018
			(in millions)		
			(unaudited)		
Statements of Earnings Data					
Revenues	\$ 62.5	\$ 14.3	\$ 58.6	\$ 22.1	\$ 99.0
Cost of services	46.4	13.8	37.4	16.8	67.0
Gross profit	16.1	0.5	21.2	5.3	32.0
Operating expenses					
Selling, general and administrative expenses	3.9	1.4	3.2	1.8	5.3
Depreciation	3.3	0.5	3.3	1.2	5.4
Operating expense	7.2	1.9	6.5	3.0	10.7
Operating income (loss)	8.9	(1.4)	14.7	2.3	21.3
Other income (expense)					
Loss on disposal of fixed assets	(0.1)	—	—	—	(0.1)
Interest expense	(1.7)	(0.2)	(1.7)	(0.6)	(2.8)
Other expense	(1.8)	(0.2)	(1.7)	(0.6)	(2.9)
Net income (loss)	\$ 7.1	\$ (1.6)	\$ 13.0	\$ 1.7	\$ 18.4
Balance Sheet Data (end of period)					
Working capital(1)	\$ 8.1	\$ —	\$ 17.1	\$ 5.1	\$ 17.1
Total assets	58.0	22.2	88.0	41.4	88.0
Members' equity	28.5	12.3	41.5	19.8	41.5
Other Financial Data					
Adjusted EBITDA	\$ 12.2	\$ (0.9)	\$ 18.0	\$ 3.5	\$ 26.7

(1) Working capital is defined as the difference between current assets, excluding cash and cash equivalents, and current liabilities, excluding factoring note payable, the current portion of long-term debt and the current portion of capital leases.

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The following table presents a reconciliation of the GAAP financial measure net (loss) earnings to the non-GAAP financial measure Adjusted EBITDA:

	Year ended December 31,		Six months ended June 30,		Twelve months ended June 30,
	2017	2016	2018	2017	2018
			(in millions)		
			(unaudited)		
Adjusted EBITDA reconciliation					
Net income (loss)	\$ 7.1	\$ (1.6)	\$ 13.0	\$ 1.7	\$ 18.4
Other expense(a)	1.8	0.2	1.7	0.6	2.9
Operating income (loss)	8.9	(1.4)	14.7	2.3	21.3
Depreciation	3.3	0.5	3.3	1.2	5.4
Adjusted EBITDA	\$ 12.2	\$ (0.9)	\$ 18.0	\$ 3.5	\$ 26.7

(a) Other expense is defined as loss on disposal of fixed assets and interest expense.

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The Motley business

Founded in 2010, Motley is a Permian-focused completion services company, primarily providing large-diameter coiled tubing services. Motley also provides wireline services and complementary completion services such as pump-down and thru-tubing services. Motley's blue-chip customer base includes many of the largest and most active E&P operators in the Permian Basin, including Apache, Concho, Devon, Anadarko, EOG and XTO.

Motley generated revenues, Adjusted EBITDA and net income of \$99.0 million, \$26.7 million and \$18.4 million, respectively, for the twelve months ended June 30, 2018. See "Summary Motley historical consolidated financial information" for a reconciliation of Motley's Adjusted EBITDA to net (loss) earnings, the most comparable measure under GAAP.

We believe Motley's operations are complementary to ours and will strengthen our presence in the Permian Basin. Motley owns a modern equipment fleet of seven coiled tubing packages, eight wireline packets, including pressure control equipment, ten pump down units and a fleet of thru-tubing tools to enable its premium service offering. Motley continues to add to its fleet, with three coiled tubing packages and two pump down pumps expected to be delivered in the fourth quarter of 2018.

Motley currently employs approximately 250 people and is headquartered in Odessa, Texas.

Competitive strengths

We believe Motley differentiates itself from its competitors due to the following key factors:

- **Premier completions equipment.** Motley operates a high specification, standardized coiled tubing fleet with seven units and three additional units expected to be delivered in the fourth quarter of 2018. Its newbuild single piece coiled tubing units require less than two hours to deploy compared to five to eight hours for traditional two piece coiled tubing units. Motley also operates a fleet of eight wireline units with full pressure control equipment with one additional wireline unit on order. Motley's coiled tubing and wireline units deploy with its owned support equipment (cranes, double fluid pumpers, and specialty pump down pumps) to allow more efficient and consistent wellsite operations. Motley also operates ten pump down units and a fleet of thru-tubing tools with two additional pump down units on order.

- **Culture of service quality.** Motley focuses on providing customers a culture of service quality and is regarded as one of the most efficient and reliable service providers in the Permian Basin. As part of the company's culture, field-level personnel have substantial job ownership but supervisors, all the way up to executive level, closely monitor operational performance.
- **Deep customer relationships.** Motley's relationships with blue-chip customers include a variety of large, independent E&P operators that have both a global and North American focus, with significant active assets in the Permian Basin. Motley's executives have a long tenure working in the Permian Basin and customer relationships have been built over a long period of time.
- **Strong safety record.** Motley has achieved one of the strongest safety records in the industry with a total recordable incident rate of 0.84 per 200,000 hours worked (compared to an industry median of 1.5 per 200,000 hours worked). Motley's safety program empowers and holds local management teams accountable. We also believe Motley's reputation for safety also helps recruit employees to work at the company.
- **Focus on the Permian Basin.** Motley is centrally located within the Permian Basin with facilities in Odessa, Texas, including a coil shop, a wireline shop and a tool/gun shop. The Permian Basin is expected to remain the most active E&P region in the United States. The Permian Basin continues to attract increasing amounts of capital investment, with active rigs in the region increasing by more than 300 since May 2016, an increase of more than 200%. Further, we expect that the Permian Basin will continue to benefit from trends toward drilling and completing more complex wells to increase productivity, which benefit operators such as Motley which own equipment and operations well suited for the most complex wells.
- **Knowledgeable management team.** Motley's management team has extensive wireline and coiled tubing experience in the Permian Basin with substantial relationships in the region built over many years.

Operations

Motley provides large-diameter coiled tubing services, wireline services and complementary completion services such as pump-down and thru-tubing.

Coiled tubing

Coiled tubing is a flexible, long metal pipe spooled onto a large reel used to perform intervention services throughout the well lifecycle, including during drilling, completion, production and abandonment. While coiled tubing is suitable for use in a wide range of well types, the recent trend of longer laterals has increased demand for large-diameter coiled tubing as smaller diameter coiled tubing is generally unable to reach past 6,000 feet in a lateral and does not have the strength, annular velocities and weight on bit to reach extended laterals. Coiled tubing is a unique and effective completion technology that has emerged as a preferred service in the completion of horizontal sections in unconventional wells. Motley's focus on large-diameter coiled tubing and services related to horizontal completions positions the company well to benefit from these trends.

Motley's coiled tubing service began spooling up in late 2016. Currently, Motley operates a fleet of high capacity units used in well completions (primarily drill out) and a unit used in well

workover applications. Motley's coiled tubing units deploy a package of equipment that includes a crane and a combination of job specific ancillaries (e.g., double fluid pumpers, specialty pump down pumps and/or nitrogen pumps), which helps control work quality and enhance margins.

Wireline services

Motley entered the wireline space as its first service line once its business transitioned from being purely a consultancy. Motley has become a wireline service provider of choice, particularly for plug setting and perforating conveyance, which are generally considered the most technically demanding wireline jobs. Each wireline truck operates with three crews each comprised of three field service personnel and an experienced engineer. Motley maintains a standardized fleet, allowing it to stock fewer spare parts and mitigate maintenance costs.

Pump down operations

In conjunction with its introduction of coiled tubing services, Motley introduced pump down services in early 2017. Motley's fleet of ten pumping units provide a range of services used in well completions and workovers. Motley's pump down operations are provided on a standalone basis in conjunction with wireline operations or in conjunction with coiled tubing operations, as necessary. Motley has ordered two additional pump down units expected to be delivered in the fourth quarter of 2018.

Thru-tubing rental tools

Motley began offering thru-tubing rental tools in 2017 with the addition of a key, experienced team. Motley has 17 employees dedicated to thru-tubing tools. Motley's thru-tubing services are used on coiled tubing and workover rig equipment to perform completion, intervention and plug and abandonment work. Motley supplies tools primarily on a rental basis with Motley's coiled tubing units to select third parties. Motley's tools include in-house and third-party designs.

**Management’s discussion and analysis
of financial condition and results of operations
(KLX Energy Services)**

You should read the following discussion of our results of operations and financial condition together with our audited and unaudited historical financial statements and accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on our current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those we discuss in our SEC filings under the heading “Risk Factors.”

Our financial statements, which we discuss below, reflect our historical financial condition, results of operations and cash flows. The financial information discussed below, however, may not necessarily reflect what our financial condition, results of operations or cash flows would have been had we been operated as a separate, independent entity during the periods presented and do not reflect the impact that the Transactions will have on our financial condition, results of operations and cash flows, including, without limitation, increased levels of indebtedness and interest expense. In this section, dollar amounts are shown in millions, except for per share amounts or as otherwise specified.

Company overview

We are a leading provider of completion, intervention and production services and products to the major onshore oil and gas producing regions of the United States. We offer a broad range of differentiated, complementary technical services and related tools and equipment in challenging environments that provide “mission critical” solutions for our customers throughout the life cycle of the well.

We serve many of the leading companies engaged in the exploration and development of North American onshore conventional and unconventional oil and natural gas reserves. Our customers include independent and major oil and gas companies and project management firms. We actively support these customer operations from 36 service facilities located in the key major shale basins. We manage our business in these basins on a geographic basis, including the Southwest Region (the Permian Basin and Eagle Ford Shale), the Rocky Mountains Region (the Bakken formation, Williston, DJ, Uinta and Piceance Basins and Niobrara Shale) and the Northeast Region (the Marcellus and Utica Shales as well as the Mid-Continent STACK and SCOOP and Haynesville). Our revenues, operating profits and identifiable assets are primarily attributable to these three reportable geographic segments. However, while we manage our business based upon these regional groupings, our assets and our technical personnel are deployed on a dynamic basis across all of our service facilities, to optimize utilization and profitability.

We work with well operators to provide engineered solutions across the entire lifecycle of the well, by streamlining operations, reducing non-productive time and developing cost effective and often customized solutions and customized tools for our customers' most challenging service needs, which include technical, complex unconventional wells requiring extended reach horizontal laterals and greater completion intensity per well. We believe our growing reputation for delivering differential service outcomes has resulted in the number of our customer agreements growing by over 140%, from over 400 as of January 31, 2016 to over 1,000 as of January 31, 2018. These agreements enable us to work for many of the major and independent E&P companies in North America.

We offer a variety of targeted services that are differentiated by the technical competence and experience of our field service engineers and their deployment of a broad portfolio of specialized tools and equipment. Our innovative and adaptive approach to proprietary tool design has been employed by our in-house R&D organization and, in selected instances, by our technology partners to develop tools covered by 11 patents and 26 U.S. and foreign pending patent applications as well as 21 additional proprietary tools. Our technology partners include manufacturing and engineering companies that produce tools, which we design and utilize in our service offerings.

We utilize outside, dedicated manufacturers to produce our products, which, in many cases, our engineers have developed from the input and requests from our customers and customer-facing managers, thereby maintaining the integrity of our intellectual property while avoiding manufacturing startup and maintenance costs. We have found that doing so leverages our technical strengths as well as those of our technology partners. These services and related products, or PSLs, are modest in cost to the customer relative to its other well construction expenditures but have a high cost of failure and are, therefore, "mission critical" to our customers' outcomes. We believe our customers have come to depend on our decades of combined field experience to execute on some of the most challenging problems they face. We believe we are well positioned as a company for continued growth, as the oil and gas industry continues to drill and complete thousands of increasingly complex wells each year and as thousands of older legacy wells require remediation.

KLX Energy Services was formed from the combination and integration of seven private oilfield service companies acquired over the 2013 through 2014 time period. Each of the acquired businesses was regional in nature and brought one or two specific service capabilities to KLX Energy Services. Once the acquisitions were completed, we undertook a comprehensive integration of these businesses, to align our services, our people and our assets across all the geographic regions where we maintain a presence. We established a matrix management organizational structure, where each regional manager has the resources to provide a complete suite of services, supported by technical experts in our primary service categories. We have endeavored to create a "next generation" oilfield services company in terms of management controls, processes and operating metrics and have driven these processes down through the operating management structure in every region, which we believe differentiates us from many of our competitors. This allows us to offer our customers in all of our geographic regions discrete, comprehensive and differentiated services that leverage both the technical expertise of our skilled engineers and our in-house R&D team.

We invest in innovative technology and equipment designed for modern production techniques that increase efficiencies and production for our customers. North American unconventional

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onshore wells are increasingly characterized by extended lateral lengths, tighter spacing between hydraulic fracturing stages, increased cluster density and heightened proppant loads. Drilling and completion activities for wells in unconventional resource plays are extremely complex, and downhole challenges and operating costs increase as the complexity and lateral length of these wells increase. For these reasons, E&P companies with complex wells increasingly prefer service providers with the scale and resources to deliver best-in-class solutions that evolve in real time with the technology used for extraction. We believe we offer best-in-class service execution at the wellsite and innovative downhole technologies, positioning us to benefit from our ability to service the most technical, complex wells where the potential for increased operating leverage is high due to the large number of stages per well in addition to customer focus on execution rather than price. We have been awarded 11 U.S. patents, have 26 U.S. and foreign pending patent applications and utilize 21 additional proprietary tools, some of which have been developed in conjunction with our technology partners, which we believe differentiates us from our regional competition and also allows us to deliver more focused service and better outcomes in our specialized services than larger national competitors who do not discretely dedicate their resources to the services we provide.

We are focused on generating attractive returns on capital through the superior margins achieved by our differentiated services and the prudent application of our cash flow to targeted growth opportunities, which is intended to deliver high returns and short payback periods. Our services require less expensive equipment, which is also less expensive to maintain, and fewer people than many other oilfield service activities. In addition to the superior margins our differentiated services generate, we believe the rising level of completion intensity in our core operating areas contributes to improved margins and returns. This provides us significant operational leverage, and we believe positions us well to continue to generate attractive returns on capital as industry activity increases and the market for oilfield services improves. As part of our returns-focused approach to capital spending, we are focused on maintaining a capital efficient program with respect to the development of new products. We support our existing asset base with targeted investments in R&D, which we believe allows us to maintain a technical advantage over our competitors providing similar services using standard equipment.

We operate in three segments determined on a geographic basis: the Southwest Region (the Permian Basin and the Eagle Ford Shale), the Rocky Mountains Region (the Bakken formation, Williston, DJ, Uinta and Piceance Basins and Niobrara Shale) and the Northeast Region (the Marcellus and Utica Shale as well as the Mid-Continent STACK and SCOOP and Haynesville). As noted above, our revenues, operating profits and identifiable assets are primarily attributable to these three reportable geographic segments. However, while we manage our business based upon these regional groupings, our assets and our technical personnel are deployed on a dynamic basis across all of our service facilities, to optimize utilization and profitability.

Demand for services in the oil and natural gas industry is cyclical. For example, the domestic E&P industry in the United States underwent a substantial downturn in 2015 and much of 2016, placing unprecedented pressure on both our customers and competitors. However, we believe our Company is well positioned to operate successfully as a stand-alone company as a result of the numerous initiatives we undertook during the integration of the seven businesses acquired while we were part of KLX Inc. We believe our operating cost structure is now materially lower than during the historical financial reporting periods and that there is greater flexibility to respond to changing industry conditions. We improved our cost structure by

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centralizing a number of common functions, as evidenced by our reduced use of cash from operations on lower revenues. The implementation of integrated, company-wide management information systems and processes provide more transparency to current operating performance and trends within each market where we compete and help us more acutely scale our cost structure and pricing strategies on a market-by-market basis. Profitability levels are dependent more directly on pricing for our services rather than utilization rates; as such, our ability to differentiate ourselves on the basis of quality contributes to revenue growth and profitability even in a stable or declining market environment through market share gains and growing business with existing customers.

Following the completion of the Acquisition, the debt financing and related transactions, we expect our Company to be capitalized with over \$100 of cash and over \$70 of availability under our undrawn ABL Facility. We believe we have strong management systems in place, which allow us to manage our operating resources and associated expenses relative to market conditions. We believe our services often generate superior margins to our competitors based upon the differential quality of our performance, and that these margins also support strong free cash flow generation. The required investment in our business includes both working capital (principally for account receivables growth tied to increasing revenues) and capital expenditures for both maintenance of existing assets and growth. Our required maintenance capital expenditures are relatively modest compared to other oilfield service providers due to the asset-lite nature of our services, the average age of our assets of less than three years and our ability to charge back a portion of asset maintenance to customers for a number of our assets. In addition to these internal expenditures, we may also pursue additional selected acquisition opportunities. We believe industry conditions are likely to continue to support existing activity levels of oilfield service providers, but that the pace of industry consolidation will pick up, as weakened private company competitors look to take advantage of the market activity to exit.

The Spin-Off

On September 14, 2018, we completed the Spin-Off and became an independent, publicly-traded company. We are party to a number of agreements with KLX, including the Distribution Agreement, the Employee Matters Agreement, the Transition Services Agreement and the IP Matters Agreement. These agreements govern the relationship between us and KLX and provide for the allocation between us and KLX of various assets, liabilities and obligations (including employee benefits, information technology and insurance). Our undrawn \$100 ABL Facility is available for borrowing for working capital and other general corporate purposes. Availability under the ABL Facility is tied to the aggregate amount of our accounts receivable and inventory that satisfy specified criteria and currently exceeds \$70. Depending on market conditions, we may incur other indebtedness in the future to make additional acquisitions and/or provide for additional cash on the balance sheet, which could also be used for future acquisitions.

Factors affecting the comparability of our future results of operations to our historical results of operations

Our future results of operations may not be comparable to our historical results of operations for the periods presented, primarily for the Spin-Off related reasons described below:

- *Expenses Associated with Former Parent's Strategic Alternatives Review:* During the first quarter of fiscal 2018, \$3.8 million of costs and expenses were allocated to us by our former parent associated with its strategic alternatives review.
- *Initial Expenses to Become a Stand-Alone Public Company:* During the second and third quarters of fiscal 2018, \$8.8 million of costs and expenses were allocated to us by our former parent associated with the Spin-Off. In addition, we expect to incur approximately \$3.0 to \$5.0 million of costs and expenses within 6 to 12 months of the distribution associated with our transition to being a stand-alone public company. These expenses primarily relate to accounting, tax and professional costs, duplicative costs under the Transition Services Agreement between ourselves and our former parent signage, branding and employee retention expenses, and costs related to information technology and systems.
- *SG&A Allocation:* Selling, general and administrative ("SG&A") expense includes allocations of general corporate expenses from KLX. The historical statements of earnings (loss) reflect allocations of general corporate expenses from KLX, including, but not limited to, executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement and other shared services. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenues generated, costs incurred, headcount or other measures. Our management considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, KLX Energy Services. The allocations may not, however, reflect the expense we would have incurred as a stand-alone company for the periods presented. Actual costs that may have been incurred if we had been a stand-alone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure. Please see Note 1 to our audited financial statements for a description of the costs allocated, the methods of allocation, the reasons for the allocations and how future actual costs may differ from the amounts allocated under the ownership of KLX.
- *KLX Restricted Stock:* We will incur approximately \$10.7 of non-cash compensation expense associated with the acceleration of unvested shares of KLX shares held by KLX Energy Services employees related to the sale of KLX to Boeing.
- *Ongoing Stand-Alone Public Company Expenses:* We expect to incur direct, incremental expenses as a result of being a publicly-traded company, including, but not limited to, costs associated with hiring a dedicated corporate management team, annual and quarterly reports, quarterly tax provision preparation, independent auditor fees, expenses relating to compliance with the rules and regulations of the SEC, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. These direct, incremental expenses are not included in

our historical results of operations. We expect recurring annual costs to be approximately \$8.0 higher than the expenses historically allocated to us from KLX, reflecting 100% allocation of dedicated corporate resources and the expected higher revenues.

- *Impact of Purchase Accounting:* We will perform a purchase price allocation for the acquisition of Motley, which will result in the recognition of identifiable intangible assets, including customer relationships and non-competition arrangements. The identifiable intangible assets will be amortized over their estimated useful life and will result in incremental amortization as compared to historical periods.

Key financial performance indicators

We recognize the highly cyclical nature of our business and the need for metrics to (1) best measure the trends in our operations and (2) provide baselines and targets to assess the performance of our managers.

The metrics we regularly monitor within each of our geographic reporting regions include:

- Variable cost by service;
- Asset utilization by service; and
- Revenue growth by service.

The measures we believe most effective to monitor and consider when rewarding management performance include:

- Revenue growth rate;
- Operating earnings growth rate;
- Operating margin;
- Return on invested capital;
- Cash flow generation after investments in the business; and
- Effectiveness of our health, safety and environmental practices.

Our experience has shown us that measuring our performance is most meaningful when compared against our peers on a relative basis. Our compensation committee will engage its own compensation consultant to recommend performance metrics and targets for our employees.

Six months ended July 31, 2018 as compared to the six months ended July 31, 2017

The following is a summary of revenues by segment:

Segment	Six months ended		% Change
	July 31, 2018	July 31, 2017	
Southwest	\$ 80.4	\$ 45.9	75.2%
Rocky Mountains	88.0	54.8	60.6%
Northeast	59.8	36.3	64.7%
Total	\$ 228.2	\$ 137.0	66.6%

For the six months ended July 31, 2018, revenues of \$228.2 increased \$91.2, or 66.6%, as compared with the prior year period. Our revenue growth was driven by a 75.2%, or \$34.5, increase in Southwest revenues, a 60.6%, or \$33.2, increase in Rocky Mountains revenues and a 64.7%, or \$23.5, increase in Northeast revenues, reflecting the higher level of activity by our customers throughout the regions we serve. Year-over-year revenue growth by PSLs was approximately 96.2% for completion, 33.3% for intervention and 56.5% for production, for the reasons set forth above.

Cost of sales for the period was \$167.7, or 73.5% of sales, as compared to \$119.6, or 87.3% of sales, in the prior year. Cost of sales as a percentage of revenues improved by approximately 1,380 basis points, due to substantially improved results at all three segments of our business resulting from improved market conditions, operating leverage and increased profitability from superior service quality and technical expertise resulting in a reduction of customers' non-productive time.

SG&A expense during the six months ended July 31, 2018 was \$39.7, or 17.4% of revenues, as compared with \$34.8, or 25.4% of revenues, in the prior year. SG&A, as a percentage of revenues, improved by approximately 800 basis points as compared with the prior year period primarily due to increased operating leverage as the 66.6% increase in revenues significantly outpaced the 14.1% increase in SG&A. Research and development costs for the period were \$1.3 as compared to \$0.8 in the prior year, reflecting our increased focus on in-house research and development to deploy new specialized and proprietary tools and equipment.

Operating earnings of \$19.5 improved by \$37.7, reflecting continued strong year-over-year improvement driven by a higher level of activity by our customers throughout our geographic regions. The continued recovery in the major oil and gas producing basins of the onshore U.S. market has resulted in increased demand for our products and services. Additionally, we believe incremental growth has been driven by differentiation in products and services due to successful R&D initiatives, the quality and depth of our personnel and resulting incremental operating leverage.

We incurred income tax expense of \$0.1 for the six months ended July 31, 2018 and 2017. The effective income tax rate varies from the federal statutory rate of 21% in 2018 (35% in 2017) primarily due to the fact that the Company has a full valuation allowance against its net deferred tax asset. The 2018 federal statutory rate is lower than the prior year as a result of recently enacted tax legislation.

For the six months ended July 31, 2018, net earnings was \$19.4 as compared to a net loss of \$(18.3) in the prior year period. Net earnings in the first half of 2018 were favorably impacted by the improvements in pricing and activity driven by the overall improvement in the oil and gas sector.

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Segment results

The following is a summary of operating earnings (loss) by segment:

Segment	Six months ended		% Change
	July 31, 2018	July 31, 2017	
Southwest	\$ 5.2	\$ (9.2)	NMF
Rocky Mountains	6.5	(1.8)	NMF
Northeast	7.8	(7.2)	NMF
Total	\$ 19.5	\$ (18.2)	NMF

For the six months ended July 31, 2018, Southwest revenues of \$80.4 increased by \$34.5, or 75.2%, as compared to the same period in the prior year. The increase in revenues in the Southwest region was driven by increases in completion, intervention and production of 79.8%, 63.2% and 81.7%, respectively. Southwest operating earnings of \$5.2 improved by \$14.4 reflecting the increased demand for our products and services and operating leverage inherent in our cost and operating structure.

For the six months ended July 31, 2018, Rocky Mountains revenues of \$88.0 increased by \$33.2, or 60.6%, as compared to the same period in the prior year. The increase in revenues in the Rocky Mountains region was driven by increases in completion, intervention and production of 125.9%, 5.8% and 50.0%, respectively. Rocky Mountains operating earnings of \$6.5 improved by \$8.3 reflecting the increased demand for our products and services and operating leverage inherent in our cost and operating structure.

For the six months ended July 31, 2018, Northeast revenues of \$59.8 increased by \$23.5, or 64.7%, as compared to the same period in the prior year. The increase in revenues in the Northeast region was driven by increases in completion, intervention and production of 85.6%, 48.6% and 48.0%, respectively. Northeast operating earnings of \$7.8 improved by \$15.0 reflecting the increased demand for our products and services and operating leverage inherent in our cost and operating structure.

Year ended January 31, 2018, as compared to year ended January 31, 2017

The following is a summary of revenues by segment:

Segment	Year ended		% Change
	January 31, 2018	January 31, 2017	
Southwest	\$ 109.5	\$ 56.5	93.8%
Rocky Mountains	127.0	55.8	127.6%
Northeast	84.0	39.9	110.5%
Total	\$ 320.5	\$ 152.2	110.6%

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Fiscal 2017 revenues of \$320.5 increased \$168.3, or 110.6%, as compared with the prior year due to strong revenue growth in each of our segments. Year-over-year revenue growth by PSLs was approximately 108.9%, 173.1% and 62.7% for completion, intervention and production activities, respectively.

Cost of sales for Fiscal 2017 was \$269.1, or 84.0% of sales, as compared to \$181.3, or 119.1% of sales, for the year ended January 31, 2017 (“Fiscal 2016”). Cost of sales as a percentage of revenues improved by approximately 3,510 basis points, due to substantially improved results at all three segments of our business due to the improving market conditions, operating leverage of fixed costs, improved pricing and benefits from our investments in people, process and organizational systems.

SG&A expense during Fiscal 2017 was \$73.4, or 22.9% of revenues, as compared with \$60.1, or 39.5% of revenues, in the prior year period. SG&A, as a percentage of revenues, improved by approximately 1,660 basis points in Fiscal 2017 as compared with the prior year primarily due to increased operating leverage as the 110.6% increase in revenues significantly outpaced the 22.1% increase in SG&A. Research and development costs during Fiscal 2017 were \$2.0 as compared with \$0.3 in the prior year period, reflecting our increased focus on in-house research and development to deploy new specialized and proprietary tools and equipment.

Operating loss of \$24.0 improved by \$65.5 reflecting continued strong year-over-year improvement principally due to higher levels of activity by our customers and operating leverage of fixed costs related thereto.

Income tax expense for the twelve months ended January 31, 2018 and 2017 was \$0.1, reflecting KLX Energy Services’ state and local tax expenses.

Net loss for the year ended January 31, 2018 was \$(24.1) as compared to \$(89.6) in Fiscal 2016. Net earnings was favorably impacted in Fiscal 2017 by the improvements in pricing and greater demand for completion, intervention and production services as a result of the overall improvement in the oil and gas sector.

Segment results

The following is a summary of operating earnings (loss) by segment:

Segment	Year ended		% Change
	January 31, 2018	January 31, 2017	
Southwest	\$ (12.8)	\$ (37.1)	65.5%
Rocky Mountains	(0.8)	(24.1)	96.7%
Northeast	(10.4)	(28.3)	63.3%
Total	\$ (24.0)	\$ (89.5)	73.2%

For the year ended January 31, 2018, Southwest revenues of \$109.5 increased by \$53.0, or 93.8%, as compared to the same period in the prior year. The increase in revenues in the Southwest region was driven by increases in completion, intervention and production activities of 85.3%, 209.0% and 25.4%, respectively. Southwest operating loss of \$12.8 improved by 65.5% principally due to higher levels of activity by our customers and operating leverage of fixed costs related thereto.

For the year ended January 31, 2018, Rocky Mountains revenues of \$127.0 increased by \$71.2, or 127.6%, as compared to the same period in the prior year. The increase in revenues in the Rocky Mountains region was driven by increases in completion, intervention and production activities of 162.3%, 174.5% and 59.2%, respectively. Rocky Mountains operating loss of \$0.8 improved by 96.7% principally due to higher levels of activity by our customers and operating leverage of fixed costs related thereto.

For the year ended January 31, 2018, Northeast revenues of \$84.0 increased by \$44.1, or 110.5%, as compared to the same period in the prior year. The increase in revenues in the Northeast region was driven by increases in completion, intervention and production activities of 96.0%, 134.0% and 117.0%, respectively. Northeast operating loss of \$10.4 improved by 63.3% principally due to higher levels of activity by our customers and operating leverage of fixed costs related thereto.

Year ended January 31, 2017 compared to the year ended January 31, 2016

Fiscal 2016 revenues of \$152.2 decreased \$99.0, or 39.4%, as compared with the prior year due to the significant downturn in the oil and gas industry resulting in reductions in spending by all of our customers and reductions in both personnel and operating capacity. Year-over-year revenue decline by PSLs was approximately 44.9%, 23.1% and 39.4% for completion, intervention and production activities, respectively.

Cost of sales for Fiscal 2016 was \$181.3, or 119.1% of sales, as compared to \$282.8, or 112.6% of sales, for the year ended January 31, 2016 ("Fiscal 2015"). Cost of sales as a percentage of revenues increased by approximately 650 basis points, due to the significant downturn in the oil and gas industry and reduced operating leverage.

SG&A expense during Fiscal 2016 was \$60.1, or 39.5% of revenues, as compared with \$78.5, or 31.3% of revenues, in the prior year period. SG&A, as a percentage of revenues, increased by approximately 820 basis points in Fiscal 2016 as compared with the prior year primarily due to reduced operating leverage resulting from the downturn in the oil and gas industry as the 39.4% decrease in revenues outpaced the 23.4% decrease in SG&A in Fiscal 2016 as compared to the prior year. Research and development costs were \$0.3 during Fiscal 2016 as compared with none in the prior year period.

Operating loss of \$89.5 improved by \$660.8 due to the goodwill and long-lived asset impairment charge in Fiscal 2015.

Income tax expense for the twelve months ended January 31, 2017 and 2016 was \$0.1 reflecting KLX Energy Services' state and local tax expenses.

Net loss for the year ended January 31, 2017 was \$(89.6) as compared to \$(750.4) in Fiscal 2015. Net earnings was favorably impacted in Fiscal 2016 by a goodwill and long-lived asset impairment charge in Fiscal 2015 that did not repeat in Fiscal 2016.

Liquidity and capital resources

Our liquidity requirements consist of working capital needs and ongoing capital expenditure requirements. Our primary requirements for working capital are directly related to the level of our operations. Our sources of liquidity have historically been from advances from KLX and

cash flow from operations. KLX has historically used a centralized approach to cash management and financing of its operations. Transactions between KLX Energy Services and KLX historically were considered to be effectively settled for cash at the time the transaction was recorded. At July 31, 2018 and January 31, 2018, we did not have any cash on our balance sheet. Our undrawn \$100 ABL Facility is available for borrowing. Depending on market conditions, we may incur other indebtedness in the future to make additional acquisitions and/or provide for additional cash on the balance sheet, which could be used for future acquisitions. As a result of the \$50 capital contribution made to us by KLX on the distribution date related to the Spin-Off, the cash available for general corporate purposes from our debt financing related to the Acquisition, the trend in improved market conditions and cash from operating activities and our financial plans for 2018, as well as the availability of our \$100 undrawn ABL Facility (whose availability depends in part on a borrowing base tied to the aggregate amount of our accounts receivable and inventory satisfying specified criteria), we believe we have a solid balance sheet and ample operating liquidity. Availability under the ABL Facility is tied to the aggregate amount of our accounts receivable and inventory that satisfy specified criteria and currently exceeds \$70.

Prior to the Spin-Off, KLX, in the normal course of its operations, would sweep cash from our accounts and directly pay certain of our expenses. Any such cash allocated to us will be reflected in cash on our October 31, 2018 balance sheet. To the extent the cash we generated from May 1, 2018 through the September 14, 2018 distribution date is calculated to be less than the allocated cash, we will repay the excess cash to KLX, which would reduce our cash on hand and amounts due to former parent by the same amount. We do not believe any such repayment will be material to the Company.

Working capital as of July 31, 2018 was \$49.9, an increase of \$11.8 as compared with working capital at January 31, 2018. As of July 31, 2018, total current assets increased by \$13.3 and total current liabilities increased by \$1.5. The increase in current assets was primarily related to an increase in accounts receivable of \$10.8. The increase in total current liabilities was due to an increase in accounts payable of \$2.6 offset by a decrease in accrued liabilities of \$1.1.

Working capital as of January 31, 2018 was \$38.1, an increase of \$23.3 as compared with working capital at January 31, 2017. As of January 31, 2018, total current assets increased by \$45.7 and total current liabilities increased by \$22.4. The increase in current assets was primarily related to an increase in accounts receivable of \$43.4. The increase in total current liabilities was primarily due to an increase in accounts payable of \$16.4 and accrued liabilities of \$6.0.

Working capital as of January 31, 2017 was \$14.8, an increase of \$5.8 as compared with working capital at January 31, 2016. As of January 31, 2017, total current assets decreased by \$9.7 and total current liabilities decreased by \$15.5. The decrease in current assets was primarily related to decreases in accounts receivable and inventory of \$7.3 and \$2.0, respectively. The decrease in total current liabilities was primarily due to decreases in accounts payable and accrued liabilities of \$8.3 and \$7.2, respectively.

Cash flows

Net cash flows provided by operating activities was \$29.7 for the six months ended July 31, 2018 as compared to net cash used in operating activities of \$13.8 in the prior year primarily due to a \$37.7 improvement in net earnings as compared with the prior year. Cash used in

investing activities consists of capital expenditures of \$35.5 and \$21.1 for the six months ended July 31, 2018 and 2017, respectively, and reflects the higher demand levels for our services and equipment. Cash flows from financing activities of \$5.8 and \$34.9, respectively, for the six months ended July 31, 2018 and 2017 consist of net transfers from KLX.

Net cash flows used in operating activities improved by \$28.1 to \$9.4 for the year ended January 31, 2018 as compared to \$37.5 in the prior year primarily reflecting a significantly improved net loss of \$24.1 as compared with \$89.6 in the prior year.

Cash used in investing activities consists of capital expenditures of \$48.8 and \$29.0 for the years ended January 31, 2018 and 2017, respectively.

Cash flows from financing activities of \$58.2 and \$66.5, respectively, for the years ended January 31, 2018 and 2017 consist of net transfers from KLX.

Net cash flows from operating activities decreased by \$47.3 to cash used by operating activities of \$37.5 for the year ended January 31, 2017 as compared to cash provided by operating activities of \$9.8 in the prior year primarily reflecting a decrease in cash provided by accounts receivable of \$50.3, an increase in cash used by accounts payable of \$10.0 and an increase in the provision for doubtful accounts resulting in a cash use of \$5.4 partially offset by an increase in non-cash compensation of \$4.7 and other current and non-current assets of \$6.5.

Cash used in investing activities consists of capital expenditures of \$29.0 and \$98.9 for the years ended January 31, 2017 and 2016, respectively, and an acquisition of \$5.3 for the year ended January 31, 2016.

Cash flows from financing activities of \$66.5 and \$94.4, respectively, for the years ended January 31, 2017 and 2016 consist of transfers from KLX.

Capital spending

Our capital expenditures were \$35.5 and \$21.1 during the six months ended July 31, 2018 and 2017, respectively. Our capital expenditures were \$48.8 and \$29.0 during the years ended January 31, 2018 and 2017, respectively. We expect to incur approximately \$70.0 in capital expenditures for the year ending January 31, 2019, principally related to our growth and maintenance capital expenditures. The nature of our capital expenditures is comprised of a base level of investment required to support our current operations and amounts related to growth and company initiatives. Capital expenditures for growth and company initiatives are discretionary. We continually evaluate our capital expenditures, and the amount we ultimately spend will depend on a number of factors, including expected industry activity levels and company initiatives. We expect to fund future capital expenditures from cash on hand, and cash flow from operations. We have funds available from our ABL Facility (whose availability depends in part on a borrowing base tied to the aggregate amount of our accounts receivable and inventory satisfying specified criteria), which we expect to remain undrawn for at least the next 12 months.

Although we do not budget for acquisitions, pursuing growth through acquisitions is a significant part of our business strategy. Our ability to make significant additional acquisitions for cash will require us to obtain additional equity or debt financing, which we may not be able to obtain on terms acceptable to us or at all. Prior to the Acquisition, all of our previous

acquisitions over the past five years were financed with funds made available by our former parent company.

Our ability to satisfy our liquidity requirements depends on our future operating performance, which is affected by prevailing economic conditions, the level of drilling, completion, intervention and production activity for North American onshore oil and natural gas resources, and financial and business and other factors, many of which are beyond our control. We believe that our cash flows, together with cash on hand, will provide us with the ability to fund our operations and make planned capital expenditures for at least the next 12 months. We have funds available under our ABL Facility (whose availability depends in part on a borrowing base tied to the aggregate amount of our accounts receivable and inventory satisfying specified criteria), which we expect to remain undrawn for at least the next 12 months.

Contractual obligations

The following chart reflects our contractual obligations and commercial commitments as of July 31, 2018 giving pro forma effect to the Transactions. Commercial commitments include lines of credit, guarantees and other potential cash outflows resulting from a contingent event that requires performance by us or our subsidiaries pursuant to a funding commitment.

Contractual obligations	As of January 31,							Total
	2019	2020	2021	2022	2023	Thereafter		
Long-term debt and other non-current liabilities	\$ —	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 250.7	\$ 251.1	
Operating leases	6.6	12.0	6.9	3.4	2.7	4.8	36.4	
Future interest payments on outstanding debt(1)	—	25.0	25.0	25.0	25.0	75.0	175.0	
Total	\$ 6.6	\$ 37.1	\$ 32.0	\$ 28.5	\$ 27.8	\$ 330.5	\$ 462.5	

(1) To the extent we incur interest on the ABL Facility, interest payments would fluctuate based on LIBOR or the prime rate pursuant to the terms of the ABL Facility.

Off-balance sheet arrangements

Lease arrangements

We finance our use of certain facilities and equipment under committed lease arrangements provided by various institutions. Since the terms of these arrangements meet the accounting definition of operating lease arrangements, the aggregate sum of future minimum lease payments is not reflected on our balance sheets. At January 31, 2018, future minimum lease payments under these arrangements approximated \$34.2, of which \$23.0 is related to long-term real estate leases. At July 31, 2018, future minimum lease payments under these arrangements approximated \$36.4, of which \$21.8 is related to long-term real estate leases.

Rent expense for the years ended January 31, 2018, 2017 and 2016 was \$19.7, \$12.9, and \$22.8, respectively.

Indemnities, commitments and guarantees

In the normal course of our business, we make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These indemnities include indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease and indemnities to other parties to certain acquisition agreements. The duration of these indemnities, commitments and guarantees varies and, in certain cases, is indefinite. Many of these indemnities, commitments and guarantees provide for limitations on the maximum potential future payments we could be obligated to make. However, we are unable to estimate the maximum amount of liability related to our indemnities, commitments and guarantees because such liabilities are contingent upon the occurrence of events that are not reasonably determinable. Our management believes that any liability for these indemnities, commitments and guarantees would not be material to our financial statements. Accordingly, no significant amounts have been accrued for indemnities, commitments and guarantees.

We have employment agreements with certain key members of management expiring on various dates. Our employment agreements generally provide for certain protections in the event of a change of control. These protections generally include the payment of severance and related benefits under certain circumstances in the event of a change of control.

We on the one hand, and KLX on the other hand, will indemnify each other against certain liabilities, among others, in connection with our respective businesses and breaches of the Distribution Agreement or the other Spin-Off agreements. The amount of each party's indemnification obligations for breaches of the Distribution Agreement or the other Spin-Off agreements are limited to \$300 in the aggregate.

The indemnification obligations under the Distribution Agreement are subject to certain notice and control of defense provisions, as well as certain limitations and obligations regarding double recovery, payment, mitigation and amount of recovery.

Seasonality

Our operations are subject to seasonal factors and our overall financial results reflect seasonal variations. Specifically, we typically have experienced a pause by our customers around the holiday season in the fourth quarter, which may be compounded as our customers exhaust their annual capital spending budgets towards year end. Additionally, our operations are directly affected by weather conditions. During the winter months (first and fourth quarters) and periods of heavy snow, ice or rain, particularly in our Rocky Mountains and Northeast segments, our customers may delay operations or we may not be able to operate or move our equipment between locations. Also, during the spring thaw, which normally starts in late March and continues through June, some areas may impose transportation restrictions to prevent damage caused by the spring thaw. Lastly, throughout the year, heavy rains adversely affect activity levels, as well locations and dirt access roads can become impassible in wet conditions. Weather conditions also affect the demand for, and prices of, oil and natural gas

and, as a result, demand for our services. Demand for oil and natural gas is typically higher in the fourth and first quarters, resulting in higher prices in these quarters.

Backlog

We operate under master service agreements (“MSAs”) with our E&P customers, which set forth the terms and conditions for the provision of services and related tools and equipment. Completion services are typically based on a day rate with rates based on the type of equipment and competitive conditions. As a result, we do not record backlog.

Effect of inflation

Inflation has not had and is not expected to have a significant effect on our operations.

Critical accounting policies

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our financial statements. We provide expanded discussion of our more significant accounting policies, estimates and judgments below. We believe that most of these accounting policies reflect our more significant estimates and assumptions used in preparation of our financial statements.

Emerging growth company status

We are an “emerging growth company” and are entitled to take advantage of certain relaxed disclosure requirements. We intend to operate under the reduced reporting requirements and exemptions, including the longer phase-in periods for the adoption of new or revised financial accounting standards, 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 and who will comply with new or revised financial accounting standards. If we were to subsequently elect instead to comply with these public company effective dates, such election would be irrevocable.

Revenue recognition

Sales of products and services are recorded when the earnings process is complete. Service revenues from oilfield technical services and related tools and equipment are recorded when services are performed and/or equipment is rented pursuant to a completed purchase order or MSA that sets forth firm pricing and payment terms.

Accounts receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain an allowance for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. The allowance for doubtful accounts at July 31, 2018, January 31, 2018 and 2017 was \$2.8, \$2.3 and \$2.7, respectively.

Long-lived assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are tested for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its carrying amount. Any required impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and a charge to operating results. For the six months ended July 31, 2018 and the years ended January 31, 2018 and 2017, there were no impairments of long-lived assets.

Recent accounting pronouncements

See Note 1 "Description of Business and Summary of Significant Accounting Policies—Recent Accounting Pronouncements" to our audited financial statements and Note 2 "Recent Accounting Pronouncements" to our unaudited financial statements for a discussion of recently issued accounting pronouncements. As an "emerging growth company" under the JOBS Act, we are offered an opportunity to use an extended transition period for the adoption of new or revised financial accounting standards. We intend to operate under the reduced reporting requirements and exemptions, including the longer phase-in periods for the adoption of new or revised financial accounting standards, 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 with these public company effective dates, such election would be irrevocable pursuant to Section 107 of the JOBS Act.

Quantitative and qualitative disclosures about market risk

At July 31, 2018 and January 31, 2018 and 2017, we held no significant derivative instruments that materially increased our exposure to market risks for interest rates, foreign currency rates, commodity prices or other market price risks.

Interest rate risk

Under our ABL Facility, we have interest rate exposure arising from variable interest as any borrowings would be impacted by changes in short-term interest rates.

Commodity price risk

Fuel purchases expose us to commodity price risk. Our fuel costs consist primarily of diesel fuel used by our various trucks and other motorized equipment. The prices for fuel are volatile and are impacted by changes in supply and demand, as well as market uncertainty and regional shortages. Recently we have been able to pass along price increases to our customers, but we may be unable to do so in the future. We generally do not engage in commodity price hedging activities.

Management's discussion and analysis of financial condition and results of operations (Motley)

You should read the following discussion of Motley's results of operations and financial condition together with Motley's audited and unaudited historical financial statements and accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on our and Motley's current expectations, estimates, assumptions and projections about our industry, business and future financial results. Actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those we discuss in our SEC filings under the heading "Risk Factors." In this section, other than under the heading "Recent Trends", dollar amounts are shown in millions, except for per share amounts or as otherwise specified.

Overview

Motley is a Permian-focused completion services company, primarily providing large-diameter coiled tubing services. Motley also provides wireline services and complementary completion services such as pump-down and thru-tubing. Motley's blue-chip customer base includes many of the largest and most active E&P operators in the Permian, such as Apache, Concho, Devon, Anadarko, EOG and XTO. Motley owns a modern equipment fleet of seven coiled tubing packages, eight wireline packages, including pressure control equipment, ten pump down units and a fleet of thru-tubing tools to enable its premium service offering. Motley continues to add to its fleet, with three coiled tubing packages and two pump down pumps expected to be delivered in the fourth quarter of 2018. Motley generated revenues, Adjusted EBITDA and net income of \$99.0, \$26.7 and \$18.4, respectively, for the twelve months ended June 30, 2018.

Recent trends

Motley's business is significantly influenced by trends in the markets in which Motley and its customers operate. Recent trends affecting Motley's operations include the following:

- **Increased crude oil prices.** Crude oil prices have experienced a strong recovery (up 170%) since February 2016, driven by improving demand, a dramatic increase in the U.S. drilling rig count and a mitigation of longer-term supply growth in certain international markets. While prices were somewhat volatile in 2017 amid swelling inventories, supply disruptions, reviving U.S. drilling and completions activity and higher political and economic uncertainty, WTI exceeded \$60 per barrel following OPEC's November 30, 2017 announcement to further extend production cuts through December 2018, and is currently trading at the highest pricing level seen over the past three years based in part on positive inventory data.
- **Highly attractive Permian Basin.** The Permian basin has become the most active oil and gas region in the U.S. due to the low breakeven economics found in the region. Motley's principal customers, have secured arrangements to transport oil to market, thereby allowing these E&Ps to continue to produce oil at strong margins compared to competitors who do not have such arrangements and eliminating "take-away" issues in the Permian Basin.

- **Rig count.** Since reaching its lowest levels in May 2016, rig count in the Permian Basin has increased 258% (based on rig count as of October 12, 2018), while the U.S. land rig count ex-Permian Basin increased only 126% over the same period. Currently, over 45% of all U.S. land rigs are located in the Permian Basin. The Permian Basin is expected to remain the most active region in the U.S. with rig count projected to increase 17% from 2017 to 2018.
- **DUC inventory.** The inventory of drilled but uncompleted wells (“DUC”) in crude oil-producing regions of the U.S. has grown significantly since 2014 and represents a considerable upside opportunity for Motley over and above the recovery in drilling activity. The number of DUC wells in crude-oil producing regions of the U.S. has increased 146% since January 2014. The Permian Basin has the largest and fastest growing DUC inventory in the U.S. Recent drilling activity has added to this balance, and Motley is positioned to benefit from the completion of these wells.
- **Well servicing and coiled tubing.** The draw of operators to the Permian Basin with its high liquids content, attractive economics and multiple proven formations have provided for positive developments in both the well servicing and coiled tubing markets, which represents upside for Motley’s completion-oriented services. Particularly, well servicing and coiled tubing presence in the Permian is forecast to more than double from 2016 and capture around 35% of the U.S. market by 2018.
- **Increased use of horizontal wells; increasing complexity of wells.** The preference for utilizing vertical rigs to drill conventional wells shifted in 2009 as operators began to exploit shale plays by leveraging techniques for shale gas production to increasingly drill horizontal wells. We believe 94% of active U.S. land rigs are horizontal. As drilling and fracking techniques have improved, operators have extended lateral lengths of wells and increased the number of frac stages per well in order to enhance production rates. Leading edge lateral lengths have exceeded 10,000 feet in some plays. Frac stages per well are pushing boundaries as operators in certain regions have implemented stimulations using 100 or more frac stages. In addition, increasing intensity and corresponding cost of completions (55%-70% of total well cost, which is increasing) make service quality increasingly important in order to prevent costly downtime. These secular trends are expected to benefit Motley as its large-diameter coiled tubing units and wireline and pump down services are well suited for modern, complex wellbores.
- **Increased demand for large diameter coiled tubing units.** Coiled tubing units with diameters of 2³/₈” and greater are increasingly being utilized for completions versus smaller diameter (e.g., 2”) units due to increased efficiency of operation (increased weight on bit, annular velocities and strength of tubing), especially in longer laterals. Motley’s focus on large diameter coiled tubing units positions Motley to benefit from this trend.
- **U.S. well servicing recovery.** Supported by a cyclical recovery and compounding secular trends, the well servicing market is expected to grow more than 56% annually from 2016 to 2018. The projected increase in well service rigs utilization presents a significant opportunity to drive enhanced utilization and increased pricing of all of Motley’s service lines.

Results of operations

Six months ended June 30, 2018 as compared to the six months ended June 30, 2017

The following table summarizes Motley's results of operations for the six months ended June 30, 2018 and 2017:

	Six months ended June 30,		Percent change
	2018	2017	
	(unaudited)		
Service revenues	\$ 58.6	\$ 22.1	165.2%
Cost of services	37.4	16.8	122.6%
Selling, general and administrative	3.2	1.8	77.8%
Depreciation	3.3	1.2	175.0%
Operating earnings	14.7	2.3	539.1%
Interest expense	1.7	0.6	183.3%
Net earnings	\$ 13.0	\$ 1.7	664.7%

Revenues. For the six months ended June 30, 2018, revenues of \$58.6 increased \$36.5, or 165.2%, as compared with the prior year period. This increase was primarily due to increased demand for Motley's products and services driven by the continued recovery in the major oil and gas producing basins of the onshore U.S. market.

Cost of services. Cost of services for the six months ended June 30, 2018 was \$37.4, or 63.8% of sales, as compared to \$16.8, or 76.0% of sales, in the prior year. Cost of services as a percentage of revenues improved by 1,220 basis points, due to improved results resulting from improved market conditions and operating leverage.

Selling, general and administrative. Selling, general and administrative expenses ("SG&A") during the six months ended June 30, 2018 was \$3.2, or 5.5% of revenues, as compared with \$1.8, or 8.1% of revenues, in the prior year. SG&A, as a percentage of revenues, improved by approximately 260 basis points as compared with the prior year period primarily due to increased operating leverage as the 165.2% increase in revenues significantly outpaced the 77.8% increase in SG&A.

Operating earnings. Operating earnings of \$14.7 improved by \$12.4 reflecting improvements in market conditions and the operating leverage inherent in our business.

Net earnings. For the six months ended June 30, 2018, net earnings was \$13.0 as compared to \$1.7 in the prior year period. The changes in net earnings are due to the various factors discussed above.

Year ended December 31, 2017 compared to the year ended December 31, 2016

The following table summarizes Motley's results of operations for the years ended December 31, 2017 and 2016:

	Year ended December 31,		Percent change
	2017	2016	
Service revenues	\$ 62.5	\$ 14.3	337.1%
Cost of services	46.4	13.8	236.2%
Selling, general and administrative	3.9	1.4	178.6%
Depreciation	3.3	0.5	560.0%
Operating earnings (loss)	8.9	(1.4)	735.7%
Loss on disposal of fixed assets	0.1	—	nm
Interest expense	1.7	0.2	750.0%
Net earnings (loss)	\$ 7.1	\$ (1.6)	543.8%

Revenues. For the year ended December 31, 2017, revenues of \$62.5 increased \$48.2, or 337.1%, as compared with the prior year. This increase was primarily driven by a higher level of activity by Motley's customers.

Cost of services. Cost of services for the year ended December 31, 2017 was \$46.4, or 74.2% of sales, as compared to \$13.8, or 96.5% of sales, in the prior year. Cost of services as a percentage of revenues improved by 2,230 basis points, due to the improved market conditions and operating leverage.

Selling, general and administrative. SG&A during the year ended December 31, 2017 was \$3.9, or 6.2% of revenues, as compared with \$1.4, or 9.8% of revenues, in the prior year. SG&A, as a percentage of revenues, improved by 360 basis points as compared with the prior year primarily due to increased operating leverage as the 337.1% increase in revenues significantly outpaced the 178.6% increase in SG&A.

Operating earnings (loss). Operating earnings of \$8.9 improved by \$10.3 as compared to loss of \$(1.4), reflecting continued strong year-over-year improvement in the market demand and operating leverage inherent in our business.

Net earnings (loss). For the year ended December 31, 2017, net earnings was \$7.1 as compared to a net loss of \$(1.6) in the prior year period due to the various factors discussed above.

Liquidity and capital resources

Motley's liquidity has historically been principally used to service Motley's debt and meet Motley's working capital requirements and capital expenditure needs. Historically, Motley has met its liquidity and capital needs with loans from its members and related parties, bank financing and the issuance of vehicle and equipment financing notes. As of June 30, 2018, Motley had outstanding long-term debt of \$30.8 and cash on-hand of \$1.6.

On March 16, 2018, Motley entered into a revolving credit, term loan, equipment loan and security agreement (the “PNC Agreement”) with PNC Bank National Association (“PNC”) which provides for a revolving credit note with a borrowing limit of \$20.0 and a term note in the amount of \$8.0. Both the revolving credit note and the term note mature on March 16, 2021. Interest on the revolving credit note is payable monthly at the rate of 1.5% plus PNC’s Base Rate (determined by the lender and not tied to external rates). Interest on the term note is determined at the rate of 2.5% plus PNC’s Base Rate. The term note also requires monthly principal payments of approximately \$0.1. The revolving credit note and the term note are subject to various covenants and are guaranteed by Motley’s members who pledged their full membership interest as collateral. As of June 30, 2018, Motley had \$8.1 and \$7.3 outstanding under the revolving credit note and the term note, respectively. The revolving credit note and the term note are expected to be repaid and the PNC Agreement is expected to be terminated in connection with the consummation of the Acquisition.

On April 1, 2018, Motley entered into a capital lease agreement for eight pump down units and two frac units with Hercules Equipment Management, LLC, owned by District 5 Investment, LP, Motley’s related party. The lease agreement matures on September 30, 2021 and requires monthly payments of approximately \$0.3, consisting of principal and interest. The market value of the equipment leased under the lease agreement is \$10.9. The lease agreement with Hercules Equipment Management, LLC is expected to be terminated and the assets transferred to Motley in connection with the consummation of the Acquisition.

In October and November 2016, Motley issued notes payable to D-5 Investments, LLC, in the aggregate amount of \$5. The notes mature on September 30, 2019 and require (i) from November 1 2016, to June 1, 2017, monthly interest payments at a rate of 12% and (ii) from July 1, 2017 to September 1, 2019, monthly payments of principal of \$0.05 plus interest accrued on the outstanding loan balance at a rate of 12%. The notes are secured by all Motley’s assets that are not subject to liens. As of June 30, 2018, Motley had \$4.4 outstanding under the notes payable to D-5 Investments, LLC. The notes are expected to be terminated and repaid in connection with the consummation of the Acquisition.

Motley is also a party to a number of vehicle financing notes and equipment financing notes payable to third parties and secured by the respective vehicles and equipment. As of June 30, 2018, the aggregate amount due under the vehicle financing notes and equipment financing notes was \$4.7. Motley’s vehicle financing notes and equipment financing notes are expected to be terminated in connection with the consummation of the Acquisition. The purchase price will be adjusted for any notes that are not terminated.

Cash flows

Six months ended June 30, 2018 as compared to the six months ended June 30, 2017

Net cash provided by (used in) operating activities. Net cash provided by operating activities increased by \$9.4 to \$7.3 for the six months ended June 30, 2018 as compared to net cash used in operating activities of \$(2.1) in the prior period primarily reflecting net earnings of \$13.0 as compared with \$1.7 in the prior period, and \$3.3 in depreciation expense (\$1.2 in the prior period) offset by a \$8.5 increase in accounts receivable (\$7.3 in the prior period).

Net cash used in investing activities. Net cash used in investing activities was \$(12.9) for the six months ended June 30, 2018 as compared to \$(1.5) in the prior period. The \$11.5 variance was primarily the result of \$13.0 capital expenditures as compared with \$1.5 in the prior period.

Net cash provided by financing activities. Net cash provided by financing activities was \$6.2 for the six months ended June 30, 2018 as compared to \$3.7 in the prior period. This \$2.5 increase was primarily related to \$7.6 of borrowings on the line of credit (none in the prior year) offset by \$1.5 repayment of long term debt in the current period (\$0.4 in the prior period).

Year ended December 31, 2017 compared to the year ended December 31, 2016

Net cash provided by (used in) operating activities. Net cash provided by operating activities increased by \$3.1 to \$2.7 for the year ended December 31, 2017 as compared to net cash used in operating activities of \$(0.4) in the prior year primarily reflecting net earnings of \$7.1 as compared with a net loss of \$(1.6) in the prior year, \$3.3 in depreciation expense (\$0.5 in the prior year) and an increase in accounts payable of \$4.4 (\$1.2 in the prior year) offset by a \$11.9 increase in accounts receivable (\$0.6 in the prior year).

Net cash used in investing activities. Net cash used in investing activities was \$(6.7) for the year ended December 31, 2017 as compared to \$(13.2) in the prior year. The \$6.5 variance was primarily the result of lower capital expenditures in the current year.

Net cash provided by financing activities. Net cash provided by financing activities was \$4.6 for the year ended December 31, 2017 as compared to \$13.7 in the prior year. This \$9.1 decrease was primarily related to \$6.7 of borrowings on long-term debt in the prior year (none in the current year) and \$10.1 in contributions received in the prior year (none in the current year) offset by \$6.4 of proceeds from factoring receivables in the current year (none in the prior year).

Off-balance sheet arrangements

Motley has not entered into any transactions, agreements or other contractual arrangements that would result in off-balance sheet liabilities.

Critical accounting policies and estimates

See Note 2 to Motley's audited financial statements for information regarding Motley's critical accounting policies and estimates.



**KLX ENERGY SERVICES TO ACQUIRE MOTLEY SERVICES;
PREVIEWS THIRD QUARTER FINANCIAL RESULTS**

WELLINGTON, FL — October 22, 2018 - KLX Energy Services Holdings, Inc. (“KLX Energy Services” or the “Company”) (NASDAQ: KLXE), a leading U.S. onshore provider of mission critical oilfield services, announced today it has entered into a definitive agreement to acquire Motley Services, LLC (“Motley”), a leading large diameter coiled tubing (“CT”) service provider, serving customers primarily in the Southwestern U.S.

Motley, a premier provider of well completion services, is primarily focused on providing high-quality large diameter coiled tubing services specializing in complex, longer lateral horizontal wells. Motley also provides wireline and thru-tubing services, which are complementary to KLX Energy Services’ existing service offerings. Motley’s third quarter 2018 revenues and EBITDA guidance, on an annualized basis based on the mid-point of the guidance, are approximately \$136 million and \$46 million, respectively.

Amin J. Khoury, Chairman, Chief Executive Officer and President of KLX Energy Services stated, “The acquisition of Motley represents an entry into the coiled tubing market for KLXE, and significantly strengthens the Company’s current portfolio of well completion services. Motley’s business will enhance our integrated platform by adding large diameter coiled tubing services initially into the Company’s Southwest region, and then rolling it out to the rest of our geographic regions.”

Mr. Khoury concluded, “The acquisition price of \$148 million represents a multiple of approximately 3.2x the mid-point of Motley’s third quarter 2018 EBITDA guidance, on an annualized basis. The acquisition is expected to close in late October or early November 2018 and to be strongly accretive to KLX Energy Services earnings in 2018 and 2019.”

Under the terms of the agreement, KLX Energy Services will pay Motley total consideration of \$148 million, consisting of \$139 million in cash and \$9 million of KLX Energy Services common stock. The Company intends to fund the cash portion of the purchase price with the net proceeds of a debt financing.

The transaction is subject to certain closing conditions, including approvals from regulatory authorities. There can be no assurance that the transaction will be completed.

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KLX Energy Services is providing third quarter 2018 revenue and Adjusted EBITDA guidance of approximately \$120 million and approximately \$26.5 million, respectively, representing increases of approximately 35 percent and approximately 188 percent, respectively, as compared to the same period of the prior year. Motley is providing third quarter 2018 revenues and EBITDA guidance of approximately \$33 to \$35 million and \$11 to \$12 million, respectively.¹ Combined company guidance for third quarter 2018 revenues, Adjusted EBITDA and Adjusted Earnings Per Share are expected to be approximately \$154.1 million, \$38.0 million (24.7 percent of sales) and \$0.96 per diluted share, respectively.²

Freshfields Bruckhaus Deringer US LLP is acting as legal counsel to KLX Energy Services. Simmons & Company International, Energy Specialists for Piper Jaffray, are acting as the exclusive financial advisor to Motley and Locke Lord LLP is acting as legal advisor to Motley.

The Company will host a conference call to discuss the acquisition at 9:45 a.m. Eastern on Monday, October 22, 2018. A live audio broadcast of the conference call, along with a supplemental presentation, will be available on the investor relations page of the KLX Energy Services website at www.klxenergy.com.

About KLX Energy Services

KLX Energy Services is a leading U.S. onshore provider of mission critical oilfield services focused on completion, intervention and production activities for the most technically demanding wells. KLX Energy Services' experienced and technically skilled personnel are supported by a broad portfolio of specialized tools and equipment, including innovative proprietary tools developed by the Company's in-house R&D team. KLX Energy Services supports its customers on a 24/7 basis from over 35 service facilities located in the major onshore oil and gas producing regions of the United States. For more information, visit the KLX Energy Services website at www.klxenergy.com.

Forward-Looking Statements

This news release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements, including those regarding the timing and consummation of the transactions described herein, involve risks and uncertainties. The Company's actual experience and results may differ materially from the experience and results anticipated in such statements. Factors that might cause such a difference include those discussed in the Company's filings with the Securities and Exchange Commission ("SEC"), which

include its Registration Statement on Form 10, Quarterly Report on 10-Q and Current Reports on Form 8-K. For more information, see the sections entitled “Risk Factors” and “Forward-Looking Statements” contained in the Company’s Form 10 and in its other filings. The forward-looking statements included in this news release are made only as of the date of this news release and, except as required by the federal securities laws and the rules and regulations of the SEC, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

¹ Motley’s fiscal third quarter ends September 30, KLXE’s fiscal third quarter ends October 31

² Combined Adjusted Earnings Per Share includes \$6.5 million of interest expense to reflect the issuance of the notes. Motley’s data used in combined results based on mid-point of their third quarter 2018 guidance

KLX ENERGY SERVICES HOLDINGS, INC.
PRO FORMA RECONCILIATION OF CONSOLIDATED OPERATING EARNINGS
TO ADJUSTED OPERATING EARNINGS AND ADJUSTED EBITDA
(In Millions)

	THREE MONTHS
	ENDED
	October 31, 2018
Operating earnings	\$ 4.6
Costs related to one-time post-spin-off related activities	17.9
Adjusted operating earnings	22.5
Depreciation and amortization	12.0
Non-cash compensation	3.5
Adjusted EBITDA	\$ 38.0

KLX ENERGY SERVICES HOLDINGS, INC.
RECONCILIATION OF OPERATING EARNINGS
TO ADJUSTED OPERATING EARNINGS AND ADJUSTED EBITDA
(In Millions)

	THREE MONTHS
	ENDED
	October 31, 2018
Operating earnings	\$ (4.9)
Costs related to one-time post-spin-off related activities	17.9
Adjusted operating earnings	13.0
Depreciation and amortization	10.0
Non-cash compensation	3.5
Adjusted EBITDA	\$ 26.5

KLX ENERGY SERVICES HOLDINGS, INC.
PRO FORMA RECONCILIATION OF NET EARNINGS
TO ADJUSTED NET EARNINGS PER DILUTED SHARE
(In Millions, Except Per Share Data)

	THIRD QUARTER
	2018 GUIDANCE
Net earnings	\$ (1.9)
Non-cash compensation	3.5
Income taxes	—
Costs related to one-time post-spin-off related activities	17.9
Adjusted earnings before tax expense	19.5
Income taxes	—
Adjusted income taxes	—
Adjusted net earnings	\$ 19.5
Adjusted net earnings per diluted share	\$ 0.96
Diluted weighted average shares	20.3

CONTACT:

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Motley Services, LLC

Financial Statements
Years Ended December 31, 2017 and 2016



JOHNSON, MILLER & CO. CPA's PC
Certified Public Accountants A Professional Corporation

An Independent Member of BDO Alliance USA

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Independent Auditors' Report

To the Members
Motley Services, LLC

We have audited the accompanying financial statements of Motley Services, LLC, (the "Company") which comprise the balance sheet as of December 31, 2017, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Motley Services, LLC as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The 2016 financial statements of Motley Services, LLC were audited by other auditors, whose report dated March 27, 2017, expressed an unmodified opinion on those statements.

Johnson, Miller & Co., CPAs PC

Odessa, Texas
February 13, 2018
except for Note 12,
as to which the date is June 13, 2018

Financial Statements

Balance Sheets

December 31,	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 939,961	311,036
Trade accounts receivable	14,868,860	2,978,575
Prepaid expenses	1,961,508	155,980
Total current assets	<u>17,770,329</u>	<u>3,445,591</u>
Fixed Assets at Cost, Net	40,254,824	18,674,970
Other Assets	—	119,246
Total assets	<u>\$ 58,025,153</u>	<u>22,239,807</u>
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 7,191,456	2,797,886
Accrued liabilities	1,645,610	377,548
Factoring note payable	6,394,986	—
Current portion of long-term debt	1,539,802	685,022
Current portion of capital leases	1,295,918	—
Total current liabilities	<u>18,067,772</u>	<u>3,860,456</u>
Long—Term Liabilities		
Long-term debt, net of current portion	7,586,660	6,079,387
Capital leases, net of current portion	3,873,494	—
Total long-term liabilities	<u>11,460,154</u>	<u>6,079,387</u>
Total liabilities	<u>29,527,926</u>	<u>9,939,843</u>
Members' Equity	28,497,227	12,299,964
Total liabilities and members' equity	<u>\$ 58,025,153</u>	<u>22,239,807</u>

See accompanying notes to financial statements.

Statements of Operations

Years Ended December 31,	2017	2016
Revenues	\$ 62,532,960	14,270,937
Cost of Services	(46,387,001)	(13,839,373)
Gross profit	16,145,959	431,564
Operating Expenses		
Selling, general and administrative expenses	3,935,808	1,338,578
Depreciation	3,323,252	518,094
Operating expense	7,259,060	1,856,672
Operating income (loss)	8,886,899	(1,425,108)
Other Income (Expense)		
Loss on disposal of fixed assets	(109,214)	(1,898)
Interest expense	(1,658,203)	(157,460)
Other	(548)	833
Other expense	(1,767,965)	(158,525)
NET INCOME (LOSS)	\$ 7,118,934	(1,583,633)

See accompanying notes to financial statements.

Statements of Changes in Members' Equity

<u>Years Ended December 31, 2017 and 2016</u>	<u>S-Corp Equity</u>	<u>LLC Equity</u>
Balance, January 1, 2016	\$ 4,494,209	—
Distributions	(754,942)	—
Conversion to LLC, October 14, 2016	(3,739,267)	3,739,267
Member contributions	—	10,144,330
Net loss	—	(1,583,633)
Balance, December 31, 2016	—	12,299,964
Distributions	—	—
Member contributions	—	9,078,329
Net income	—	7,118,934
Balance, December 31, 2017	\$ —	28,497,227

See accompanying notes to financial statements.

Statements of Cash Flows

Years Ended December 31,	2017	2016
Cash flows from operating activities:		
Net income (loss)	\$ 7,118,934	(1,583,633)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	3,323,252	518,094
Amortization of debt issuance costs	68,463	—
Loss on disposal of assets	109,214	1,898
Change in operating assets:		
Accounts receivable, trade	(11,890,285)	(635,953)
Prepaid expenses and other current assets	(1,805,528)	(155,980)
Other assets	119,246	(121,267)
Change in operating liabilities:		
Accounts payable	4,393,570	1,186,076
Accrued liabilities	1,268,062	405,405
Net cash provided by (used in) operating activities	2,704,928	(385,360)
Cash flows from investing activities:		
Purchase of property and equipment	(6,689,637)	(13,219,813)
Proceeds from sale of assets	—	50,670
Net cash used in investing activities	(6,689,637)	(13,169,143)
Cash flows from financing activities:		
Borrowings on long-term debt	—	6,747,516
Repayments of long-term debt	(1,202,843)	(1,583,051)
Net payments on line of credit	—	(821,656)
Distributions to members	—	(754,942)
Contributions from members	—	10,144,330
Net proceeds from factoring	6,394,986	—
Capital lease payments	(578,509)	—
Net cash provided by financing activities	4,613,634	13,732,197
Net increase in cash and cash equivalents	628,925	177,694
Cash and cash equivalents, beginning of year	311,036	133,342
Cash and cash equivalents, end of year	\$ 939,961	311,036
Cash paid during the year for:		
Interest	\$ 1,658,203	157,460
Non-cash investing and financing transactions:		
Acquisitions of equipment through long-term debt	\$ 3,496,433	—
Acquisitions of equipment through capital leases	5,747,921	—
Acquisitions of equipment financed by member contributions	9,078,329	—

See accompanying notes to financial statements.

Notes to Financial Statements

1. Organization and History

Organization

Motley Services, LLC, (the “Company”), a Texas limited liability company, was initially organized as a corporation on May 28, 2010 in the state of Texas and was converted to a limited liability company on October 7, 2016. The Company is governed by a Limited Liability Company Agreement, amended on October 14, 2016.

The Company is primarily engaged in providing cased hole wireline services, coiled tubing, wireline, pumping through tubing and nitrogen services for oil and gas wells. The Company’s operations are concentrated in the Permian Basin region of Texas and New Mexico.

2. Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Cash and Cash Equivalents

The Company considers all short-term investments with maturities of three months or less to be cash equivalents.

There were no short-term investments other than cash as of December 31, 2017 and 2016.

The Company's cash balances may at times exceed federally insured amounts. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

The Company's allowance for doubtful accounts is based on management's evaluations of the collectability of each account receivable based on the customer's payment history and general economic conditions.

Prepaid Expenses

Prepaid expenses consist primarily of operating supplies used on jobs, prepaid benefits and other current prepaid expenses.

Fixed Assets

The Company's fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the following estimated useful lives:

Vehicles	3 years
Equipment	3-10 years
Furniture and fixtures	3-7 years

2. Significant Accounting Policies (Continued)*Fixed Assets (Continued)*

Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the Company's property accounts and the resulting gain or loss is recognized.

Maintenance, repairs and minor renewals and replacements are charged to expense when incurred. Betterments and major renewals and replacements are capitalized.

Income Taxes

Effective May 28, 2010, the Company elected to be taxed as an S-Corporation under the provisions of the Internal Revenue Code. Under those provisions, the Company's earnings and losses were included in the personal income tax returns of the Stockholders of the Company.

On October 14, 2016, the Company elected Q-Sub status and converted to a Partnership for tax purposes. Accordingly, taxable income or losses are reported by the members on their individual income tax returns based on their percentage of ownership. Consequently, no provision for income taxes is reported in the accompanying financial statements. Tax years open for examination by taxing authorities include the years from 2015 through 2017.

Revenue Recognition

The Company recognizes revenues upon completion of services.

Advertising Expense

All advertising costs are expensed when incurred. For the years ended December 31, 2017 and 2016, advertising expense was \$64,983 and \$62,605, respectively.

Certain Reclassifications — Immaterial

Certain reclassifications have been made to conform to the 2017 presentation.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, ("GAAP") management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant Accounting Policies (Continued)*Use of Estimates (Continued)*

Areas where critical accounting estimates are made by management include:

- Depreciation of property and equipment
- Allowance for doubtful accounts

Risk Concentration

Financial instruments that potentially subject the Company to concentrations of credit risk are its receivables. The Company provides services to customers domestically. The Company continuously evaluates its customers' credit worthiness and financial conditions and generally does not require collateral. The Company does not believe it is exposed to any material risk of concentration.

*Recently Issued Accounting Pronouncements**Revenues from Contracts with Customers*

In May of 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would:

1. Remove inconsistencies and weaknesses in revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
4. Provide more useful information to users of financial statements through improved disclosure requirements.
5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

2. Significant Accounting Policies (Continued)*Recently Issued Accounting Pronouncements (Continued)**Revenues from Contracts with Customers (Continued)*

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For nonpublic companies the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Management does not expect the adoption will have a material impact on the Company's financial statements.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which is effective for nonpublic companies beginning after December 15, 2019. Early application is permitted. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less.

All other leases will fall into one of two categories:

- Financing leases, similar to capital leases, will require the recognition of an asset and liability, measured at the present value of the lease payments.
- Interest on the liability will be recognized separately from amortization of the asset.
- Principal repayments will be classified as financing outflows and payments of interest as operating outflows on the statement of cash flows.

2. Significant Accounting Policies (Continued)*Lease Accounting (Continued)*

- Operating leases will also require the recognition of an asset and liability measured at the present value of the lease payments.
- A single lease cost, consisting of interest on the obligation and amortization of the asset, calculated such that the amortization of the asset will increase as the interest amount decreases resulting in a straight-line recognition of lease expense.
- All cash outflows will be classified as operating on the statement of cash flows.

Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases.

Classification for Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230)*”. ASU 2016-15 provides accounting guidance related to the presentation and classification of certain transactions in the statement of cash flows where diversity in practice exists. The guidance is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented and provides for certain practical expedients. Management does not expect the adoption to have a material impact on the Company’s financial statements.

3. Accounts Receivable

Accounts receivable at December 31, 2017 and 2016 consists of trade receivables of \$14,868,860 and \$2,978,575, respectively. The Company factors certain of its receivables for cash flow financing purposes. Such receivables serve as collateral for the borrowing arrangement. See Note 6.

Management considers accounts receivable to be fully collectible; accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

4. Fixed Assets

Fixed assets consisted of the following at December 31,

	2017	2016
Wireline units	\$ 6,859,446	6,065,685
Coil units	16,677,526	—
Pumps	7,766,073	—
10K units	1,812,750	1,286,897
Shop equipment	3,510,229	708,209
Nitrogen equipment	669,652	—
Trucks	5,398,317	626,350
Furniture and fixtures	186,711	72,865
Equipment under development	1,752,680	11,039,807
	44,633,384	19,799,813
Accumulated depreciation and amortization	(4,378,560)	(1,124,843)
Fixed assets, net	\$ 40,254,824	18,674,970

Equipment under development at December 31, 2017, consisted primarily of deposits on and purchases of segments of equipment not yet completed.

Depreciation expense for 2017 and 2016 was \$3,323,252 and \$518,094, respectively.

5. Accrued Liabilities

Accrued liabilities consisted of the following at December 31,

	2017	2016
Accrued payroll and related expenses	\$ 956,192	184,460
Accrued franchise taxes	197,364	—
Accrued other	492,054	193,088
	\$ 1,645,610	377,548

6. Factoring Note Payable

The Company signed an Accounts Receivable factoring agreement with Gulf Coast Bank and Trust Company dated January 11, 2017. The agreement was in effect for one year and was extended automatically for another year. The initial borrowing limit of \$5,000,000 increased to \$8,500,000 on June 27, 2017 under the first amendment to the agreement. Borrowings under the agreement are subject to interest at the current prime rate with a floor of 3.5% (currently 4.5%). Each invoice factored under the agreement is subject to a 10% reserve retained by the factor until the invoice amount is collected. Invoices that are not collected within 90 days of the invoice date are automatically charged against the current reserve balance.

On December 31, 2017 the Company had \$6,691,840 in outstanding borrowings with the factor, and \$296,854 in reserve with the factor.

7. Long-Term Debt

Long term debt as of December 31, is as follows:

	2017	2016
Vehicle financing notes payable to Ford Motor Credit, with combined monthly payments of \$5,161 including interest at a rate of 5.89% for thirty-six months. The notes mature in April and July of 2019 and are secured by vehicles. Four of the notes either matured or were paid off during 2017.	\$ 93,359	234,258
Equipment financing note payable to Allegiance Capital, LLC, dated December 20, 2017, with payments of \$29,151 per month for 60 months including interest at a rate of 8.75%. The note matures on December 20, 2021 and is secured by equipment.	1,174,251	1,408,500
Vehicle financing notes payable to Ally Financial with combined monthly payments of \$4,486 including interest at a rate of 5.89% for thirty-six months. The notes mature in April and July of 2019 and are secured by vehicles.	141,805	121,651
Note payable to D-5 Investments, LLC, dated October 11, 2016, with monthly payments of interest only at a rate of 12% from November 1 2016, to June 1 of 2017 and monthly payments of \$50,000 principal plus	4,650,000	5,000,000

interest accrued on the outstanding loan balance at a rate of 12% from July 1, 2017 to September 1, 2019. The note matures on September 30, 2019 when all remaining outstanding principal and interest is due. The note is secured by all assets owned by the company that are not subject to liens.

Equipment financing note payable to Allegiance Capital, LLC, dated January 27, 2017, with payments of \$3,239 per month for 60 months including interest at a rate of 8.75%. The note matures on January 27, 2022 and is secured by equipment.

132,711

—

7. Long-Term Debt
(Continued)

Long term debt as of December 31, is as follows:

	2017	2016
Vehicle financing notes payable to Wells Fargo, with combined monthly payments of \$5,704 including interest at a rate of 8.24% for thirty-six months. The notes mature from March to May of 2020 and are secured by vehicles.	\$ 139,742	—
Equipment financing note payable to Allegiance Capital, LLC, dated March 7, 2017, with payments of \$9,929 per month for 60 months including interest at a rate of 8.75%. The note matures on March 7, 2022 and is secured by equipment.	420,549	—
Equipment financing note payable to Portfolio Advisors VIII, LLC, dated June 12, 2017, with payments of \$9,986 per month for 60 months including interest at a rate of 9%. The note matures on June 12, 2022 and is secured by equipment.	440,874	—
Equipment financing note payable to Portfolio Advisors VIII, LLC, dated June 30, 2017, with payments of \$6,078 per month for 36 months including interest at a rate of 10%. The note matures on June 30, 2020 and is secured by equipment.	160,561	—
Equipment financing note payable to Portfolio Advisors VIII, LLC, dated August 16, 2017, with payments of \$12,915 per month for 36 months including interest at a rate of 10%. The note matures on August 16, 2020 and is secured by equipment.	350,986	—

**7. Long-Term Debt
(Continued)**

Long term debt as of December 31, is as follows:

	<u>2017</u>	<u>2016</u>
Equipment financing note payable to Portfolio Advisors VIII, LLC, dated October 31, 2017, with payments of \$27,659 per month for 60 months including interest at a rate of 9.5%. The note matures on October 31, 2022 and is secured by equipment.	1,522,450	—
	<u>9,227,288</u>	6,764,409
Less current portion of long-term debt	<u>(1,539,802)</u>	(685,022)
Less unamortized debt issuance costs	<u>(100,826)</u>	—
Long-term debt	<u>\$ 7,586,660</u>	<u>6,079,387</u>

Maturities of long-term debt at December 31, 2017 are as follows:

2018	\$ 1,539,802
2019	5,158,434
2020	964,952
2021	848,724
2022	715,376
Thereafter	—
	<u>\$ 9,227,288</u>

As of December 31, 2017, the Company was in compliance with all of the covenants on its debt.

**8. Capital Lease
Obligations**

The Company is the lessee of various equipment under capital leases that expire through March of 2023. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of the assets under capital leases is included in the depreciation expenses for 2017 and 2016.

The following is a summary of property held under capital leases:

	<u>2017</u>	<u>2016</u>
Equipment cost	\$ 5,825,921	—
Less: accumulated depreciation	<u>(392,163)</u>	—
Total	<u>\$ 5,433,758</u>	<u>—</u>

8. Capital Lease Obligations (Continued)

Minimum future lease payments under capital leases as of December 31, 2017 for next five years are as follows:

2018	\$ 1,720,672
2019	1,600,672
2020	1,317,974
2021	714,894
2022	863,356
Thereafter	39,393
Total minimum lease payments	<u>6,256,961</u>
Less: amount representing interest	(1,087,549)
Less: current portion	<u>(1,295,918)</u>
Capital leases, net of current portion	<u>\$ 3,873,494</u>

9. Operating Leases

The Company leases vehicles under cancelable agreements which expire through December of 2020. The leases are obtained under a commercial credit line with Ford Motor Credit Company dated January 24, 2014. The credit line term was extended on July 21, 2017 through December 31, 2017. Under the provisions of the commercial credit line, Ford Motor Credit Company has agreed to purchase lease agreements from authorized dealerships which lease vehicles to the Company, in the cumulative amount of up to \$1,800,000. Once this limit is reached, or the line term expires, Ford Motor Credit Company will not accept additional leases extended to the company. The line of credit was extended in December of 2017 for an additional period of six months and the total limit was raised to \$2,500,000.

The Company leases vehicles under a non-cancellable agreement which expires on January 20, 2020. The leases are obtained under a commercial credit line with Ally Financial, Inc. dated 1/13/2017. The credit line term is scheduled to end on January 31, 2018. Under the provisions of the commercial credit line, Ally Financial, Inc. has agreed to purchase lease agreements from authorized dealerships which lease vehicles to the Company, in the cumulative amount of up to \$402,000. Once this limit is reached, or the line term expires, Ally Financial, Inc. will not accept additional leases extended to the company.

Vehicle rental expenses under the lease agreements specified above, for the years ended December 31, 2017 and 2016 totaled \$433,525 and \$303,565.

9. Operating Leases (Continued)

The Company also leases the buildings and land where its facilities and yard are located under a non-cancelable agreement with a related party. The agreement is classified as an operating lease and requires monthly payments of \$40,000 based on the first amendment of the original agreement until it expires on September 30, 2021. Rental expenses under the agreement for the years ended December 31, 2017 and 2016 totaled \$371,250 and \$180,000 respectively. Minimum annual rental commitments and minimal lease payments over the next five years are as follows:

December 31,	Vehicle Leases	Facility and land lease
2018	\$ 638,039	480,000
2019	585,963	480,000
2020	268,422	480,000
2021	—	360,000
2022	—	—
Thereafter	—	—
	<u>\$ 1,492,424</u>	<u>1,800,000</u>

10. Related Parties

During 2017 and 2016, the Company rented the buildings and the land where its facilities and yard are located, as discussed in Note 9 above, from Motley Capital, LLC, owned by the Company's CEO. The Company paid monthly rent of \$18,000 in 2016 which increased to \$21,875 per month from January to July of 2017 and to \$40,000 per month for the remaining term of the agreement. The total rent paid for 2017 and 2016 was \$371,250 and \$180,000 respectively. In December of 2017, the Company prepaid \$40,000 of rent to the Motley Capital, LLC for January of 2018.

As of December 31, 2017 and 2016, the Company owed \$4,650,000 and \$5,000,000 under a note to District 5 Investments, LP as discussed in Note 7 above. In addition to the principal, the Company owed \$53,759 in accrued interest to the related party. The Company incurred \$597,617 in interest on the note during 2017 and \$120,300 during 2016.

In 2017, the Company signed a lease agreement for two tractors at a cost of \$100,000 each with Hercules Equipment Management, LLC, owned by District 5 Investment, LP. The lease is classified as capital. Monthly payments of \$4,448 are payable to the related party until maturity in December of 2021. As of December 31, 2017, the Company owed \$168,942 principal and incurred \$22,329 in interest on the lease for 2017.

In 2017, the Company signed a lease agreement for two pumps at a cost of \$1,150,000 each with Hercules Equipment Management, LLC, owned by District 5 Investment, LP. The lease is classified as capital. Monthly payments of \$72,872 are payable to the related party until maturity in August of 2020. As of December 31, 2017, the Company owed \$2,087,463 principal and incurred \$60,733 in interest on it for 2017.

**10. Related Parties
(Continued)**

In 2017, the Company signed a lease agreement on a month-to-month basis for eight pump down units and two frac units with Hercules Equipment Management, LLC, owned by District 5 Investment, LP. The lease is classified as operating. The monthly payments vary based on use per unit. Total rent expense incurred under the lease for 2017 is \$2,062,433. As of December 31, 2017, the Company owed \$225,972 for use of the equipment for December of 2017.

11. Significant Customers

The Company had revenues from significant customers that accounted for the following percentages of the Company's total revenues at December 31,:

	2017	2016
Customer A	27%	31%
Customer B	23%	—%
Customer C	16%	24%
Customer D	10%	—%

Management believes that in the unlikely event that the Company lost these customers, based on current market conditions, the Company would be able to find comparable work with other existing customers or new customers.

12. Subsequent Events

The Company has evaluated subsequent events through June 13, 2018, the date the financial statements were available to be issued.

On March 16, 2018, the Company signed a revolving credit note agreement with PNC Bank National Association with a borrowing limit of \$20 million. Monthly payments of interest on the outstanding balance are due on the first business day of each month until maturity on March 16, 2021 when all outstanding interest and principal are due. Interest (currently 6.25%) is determined at the rate of 1.5% plus PNC's Base Rate (determined by the lender and not tied to external rates). The note is subject to various covenants and is guaranteed by the Company's partners who pledged their full partnership interest as collateral.

On March 16, 2018, the Company signed a term note agreement with PNC Bank National Association in the amount of \$8 million. Monthly payments of \$166,666.67 commencing on April 1, 2018 are due on the first day of each month until maturity on March 16, 2021 when all outstanding interest and principal are due. Interest (currently 7.25%) is determined at the rate of 2.5% plus PNC's Base Rate (determined by the lender and not tied to external rates). The note is subject to various covenants and is guaranteed by the Company's partners who pledged their full partnership interest as collateral.

On April 1, 2018, the Company signed a lease agreement for eight pump down units and two frac units with Hercules Equipment Management, LLC, owned by District 5 Investment, LP. This agreement is classified as capital and it replaced the existing month-to-month agreement disclosed in Note 10. Monthly payments of \$302,226.31 consisting of principal and interest are payable to the related party until maturity on September 30, 2021. The market value of the equipment leased is \$10.9 million.

MOTLEY SERVICES, LLC
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For The Year Ended December 31, 2016

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To the Members
MOTLEY SERVICES, LLC
P.O. Box 13463
Odessa, TX 79768

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Motley Service, LLC, a Texas partnership, which comprise the balance sheet as of December 31, 2016, and the related statements of income, members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL ADVISORS



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Motley Services, LLC as of December 31, 2016, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ FCA, Certified Public Accountants, PLLC
FCA, Certified Public Accountants, PLLC

Little Rock, Arkansas
March 27, 2017

MOTLEY SERVICES, LLC
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 1)	\$	311,036	
Accounts receivable (Note 3)		2,978,575	
Prepaid expenses		155,980	
Total Current Assets		<u>3,445,591</u>	\$ 3,445,591

FIXED ASSETS - AT COST (Note 1)

Deposit on equipment	\$	11,039,807	
Wireline trucks		6,065,685	
10K Units		1,286,897	
Shop equipment		708,209	
Trucks		626,350	
Furniture and fixtures		72,865	
Total Fixed Assets	\$	<u>19,799,813</u>	
Less: accumulated depreciation		<u>(1,124,843)</u>	
Net Fixed Assets - at Cost			18,674,970

OTHER ASSETS

Capitalized cost net of amortization (Note 10)			<u>119,246</u>
TOTAL ASSETS			<u>\$ 22,239,807</u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$	2,797,886
Accrued liabilities		193,088
Accrued wages		184,460
Current portion of long-term debt (Note 9)		685,022
Total Current Liabilities	\$	3,860,456
LONG TERM LIABILITIES		
Long-term debt, net of current maturities (Note 9)		6,079,387
TOTAL LIABILITIES	\$	9,939,843
MEMBERS' EQUITY (Note 5)		12,299,964
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$	22,239,807

SEE ACCOMPANYING NOTES

1

**MOTLEY SERVICES, LLC
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

		<u>Percent of Revenues</u>
REVENUES EARNED	\$ 14,270,937	100.0%
COST OF REVENUES EARNED	14,355,446	100.5%
GROSS PROFIT (LOSS)	\$ (84,509)	(0.5)%
OPERATING EXPENSES		
Insurance	\$ 299,235	
Rental expense (Note 4)	195,020	
Officer salary	173,712	
Other taxes, licenses, and permits	113,151	
Leased employees	105,902	
Professional fees	105,398	
Meals and travel	88,436	
Advertising (Note 1)	62,205	
Telephone and utilities	57,558	
Leased employee fees	42,777	
Security	29,560	
Office expense	27,658	
Dues and subscriptions	22,634	
Miscellaneous expense	11,297	
Amortization expense	2,021	
Computer and internet expenses	4,035	
Total Operating Expenses	1,340,599	9.4
NET LOSS FROM OPERATIONS	\$ (1,425,108)	(9.9)%
OTHER INCOME (EXPENSE)		
Interest expense	\$ (157,460)	
Other income	833	
Gain on sale of assets	(1,898)	
Total Other Income (Expense)	(158,525)	(1.1)
NET LOSS BEFORE INCOME TAX EXPENSE	\$ (1,583,633)	(11.1)%
INCOME TAXES (Note 6)	—	—
NET LOSS	\$ (1,583,633)	(11.1)%

SEE ACCOMPANYING NOTES

2

**MOTLEY SERVICES, LLC
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016**

STOCKHOLDER'S EQUITY - Beginning of Year	\$	4,494,209
LESS: Net Loss		(1,583,633)
LESS: Distributions		(754,942)
ADD: Members' Contribution (Note 5)		10,144,330
MEMBERS' EQUITY - End of Year	\$	12,299,964

SEE ACCOMPANYING NOTES

3

**MOTLEY SERVICES, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</u>		
Cash Flows from Operating Activities:		
Cash received from customers	\$	13,535,398
Cash paid to suppliers and employees		(13,763,298)
Interest paid		(157,460)
Net Cash Used in Operating Activities	\$	(385,360)
Cash Flows from Investing Activities:		
Net payments for the purchase of property	\$	(13,219,813)
Proceeds from sale of asset		50,670
Net Cash Used in Investing Activities		(13,169,143)
Cash Flows from Financing Activities:		
Principal payments on long-term debt	\$	(1,583,051)
Proceeds from issuance of long-term debt		6,747,516
Contributions from members		10,144,330
Distributions to members		(754,942)
Principal payments on line of credit		(7,001,081)
Proceeds from line of credit		6,179,425
Net Cash Provided by Financing Activities		13,732,197
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$	177,694
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		133,342
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$	311,036

<u>RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>		
Net Loss	\$	(1,583,633)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	\$	516,073
Amortization		2,021
Loss on sale of equipment		1,898
Changes in Assets and Liabilities		
Increase in contract, prepaid expenses, anc capitalized cost		(1,012,786)
Decrease in reserve receivables		99,586
Increase in accounts payable, accrued liabilities and accrued wages		1,591,481
Total Change in Assets and Liabilities		1,198,273
NET CASH USED IN OPERATING ACTIVITIES	\$	(385,360)

SEE ACCOMPANYING NOTES

4

**MOTLEY SERVICE, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Company's Activities

Motley Services, LLC, (the Company) is engaged in cased hole wireline services, well plugs, and coil tubing services for oil and gas wells. The Company operates in Permian Basin region of Texas and New Mexico.

Revenue and Cost Recognition

Revenues from sales are recognized on the accrual basis of accounting in accordance with generally accepted accounting principles. Jobs are short-term in length and billing takes place immediately after jobs are complete.

Provision for bad debts is determined using the specific write-off method. This method is not in accordance with generally accepted accounting principles, but use of this method is not considered a material misstatement of the financial statements.

Cash Equivalents

Cash equivalents consist of investments that are readily convertible into cash and generally have original maturities of three months or less.

Income Taxes

Effective May 28, 2010, the Company elected to be taxed as an S-Corporation under the Internal Revenue Code. Under those provisions, the stockholders separately account for income, deductions, losses, and credits; therefore, these statements do not include accruals for income taxes or recognition of deferred tax assets or liabilities. The Company was an S-Corp through October 6, 2016. (See Notes 5 and 8.)

On October 14, 2016, the Company elected Q-Sub status and converted to a Partnership for tax purposes under the Internal Revenue Code. Under those provisions, the members separately account for their pro rata shares of the Company's income, deductions, losses, and credits. Therefore, these statements do not include any provision for income taxes or refunds. (See Notes 5 and 8.)

MOTLEY SERVICES, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Management's Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Fixed Assets

Depreciation is primarily provided by using the straight-line method over the estimated useful lives of the assets. Depreciation expense charged to operations for the year ended December 31, 2016, was \$516,073.

Advertising

The Company engages in advertising. Advertising expense is recognized the first time advertising occurs. Advertising cost included in operations for the year ended December 31, 2016, is \$62,605.

NOTE 2 – CONCENTRATION OF CREDIT RISK:

At December 31, 2016, the Company maintained cash balances at various financial institutions. The Federal Deposit Insurance Corporation insure accounts at these financial institutions for up to \$250,000 per depositor. At times throughout the year, the Company's balances exceeded the insured amount.

NOTE 3 – CONTRACT RECEIVABLES:

A summary of contract receivables is as follows:

	<u>Total</u>	<u>Current</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>91 + Days</u>
Contract receivables	\$ 2,978,575	\$ 2,525,775	\$ 147,000	\$ 305,800	\$ —

MOTLEY SERVICES, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4 – RELATED PARTY TRANSACTIONS:

During the year ending December 31, 2016, the Company rented office space from a related party. The amount of rent paid for 2016, was \$180,000.

The Company owes a member \$5,000,000 from a loan for equipment. (See Note 9.)

NOTE 5 – MEMBERS' EQUITY:

The Company was an S-Corp for tax purposes until October 6, 2016, when the Company elected Q-Sub Status. On October 14, 2016, the Company converted to a Partnership for tax purposes and obtained additional members. The following reflect the changes in equity for 2016:

	<u>Total</u>	<u>Retained Earnings</u>	<u>LLC Earnings</u>
Balance – December 31, 2015	\$ 4,494,209	\$ 4,494,209	\$ —
Net Income – For Year Ended December 31, 2016	(1,583,633)	—	(1,583,633)
Distributions to Stockholders	(754,942)	(754,942)	—
Conversion to LLC October 14, 2016	—	(3,739,267)	3,739,267
Contributions from member	10,144,330	—	10,144,330
Balance – December 31, 2016	<u>\$ 12,299,964</u>	<u>\$ —</u>	<u>\$ 12,299,964</u>

NOTE 6 – INCOME TAXES:

As noted in Note 1, the Company has elected to be taxed as a Partnership under the Internal Revenue Code. Under this tax method, no income tax accrual or expense or deferred tax asset or liability is included in the balance sheet or the results of operations. Estimated income tax distributions to the members consist of the following:

Estimated income distributions to the members consist of the following:

Approximate current year taxable income	\$ —
Estimated tax rate	35%
Estimated Tax Distribution to the Members	<u>\$ —</u>

Estimated tax payments made directly by the members were in the amount of \$ -0- for federal purposes and \$ -0- for state purposes for the year ended December 31, 2016.

MOTLEY SERVICES, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6 – INCOME TAXES CONTINUED:

The net deferred tax expense to the members is the result of the following amounts of deferred assets and liabilities:

Deferred tax asset – current	\$ —
Deferred tax liability – current	(5,500)
Net Deferred Tax Liability – Current	<u>\$ (5,500)</u>
Deferred tax asset – non-current	\$ —
Deferred tax liability – non-current	(1,120,000)
Net Deferred Tax Liability – Non-Current	<u>\$ (1,120,000)</u>

The net deferred tax expense and deferred tax liability resulted primarily from the use of different methods of depreciation for book and tax purposes. The Company uses the percentage-of-completion method for financial statement and income tax purposes.

With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2014.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES:

The Company is committed to operating leases payable to Ford Motor Credit and Quality Leasing. Lease equipment expense resulting from the operating leases was approximately \$303,565 for the year ended December 31, 2016.

Future minimum lease payments, by year and in aggregate, under operating leases, with remaining lease terms in excess of one year are as follows for the year ended December 31, 2016:

2017	\$	492,880
2018		543,697
2019		<u>588,645</u>
Total	\$	<u>1,625,222</u>

MOTLEY SERVICES, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8 – SUBSEQUENT EVENTS:

The Company has evaluated all subsequent events for potential recognition and disclosure through March 24, 2017, the date these financial statements were available to be issued.

NOTE 9 – LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>Total</u>	<u>Current</u>	<u>Long-term</u>
5.7-6.1% Notes payable – Ford Credit Services, due \$11,197/mo. including interest, secured by vehicles, matures January 2018 – July 2019	\$ 234,258	\$ 124,002	\$ 110,256
8.2-8.9% Note payable – Ally, due \$3,012/mo. including interest, secured by equipment, matures December 2020	121,651	26,771	94,880
8.75% Notes payable – Allegiance, due \$29,151/mo. including interest, secured by equipment, matures December 2021	1,408,500	234,249	1,174,251
12.0% Note payable – D-5 Investments, due \$50,000/mo., beginning July 2017 including interest, secured by assets, matures October 2019	5,000,000	300,000	4,700,000
Total	<u>\$ 6,764,409</u>	<u>\$ 685,022</u>	<u>\$ 6,079,387</u>

Maturities of long-term debt for the years subsequent to December 31, 2016, are approximately: 2017 - \$685,022; 2018 - \$964,469; 2019 - \$4,442,135; 2020 - \$339,198, and \$333,585 thereafter.

NOTE 10 – INTANGIBLE ASSEST:

In association with the D-5 Investments, LP, investment in the Company, legal and accounting expenses totaling \$119,246 were incurred. These costs have been capitalized and included in the balance sheet net of accumulative amortization.



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To the Members
MOTLEY SERVICES, LLC
P. O. Box 13463
Odessa, TX 79768

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information, Schedule 1 - Schedule of Revenues and Cost of Revenues Earned) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ FCA, Certified Public Accountants, PLLC
FCA, Certified Public Accountants, PLLC

Little Rock, Arkansas
March 27, 2017

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL ADVISORS

MOTLEY SERVICES, LLC
SCHEDULE 1
SCHEDULE OF REVENUES AND COST OF REVENUES EARNED
FOR THE YEAR ENDED DECEMBER 31, 2016

		<u>Percent of Revenues</u>
REVENUES EARNED	\$ 14,270,937	100.0 %
DIRECT COST OF REVENUES EARNED		
Materials	\$ 6,609,552	
Leased employees	4,805,539	
Cost of consulting	462,422	
Auto and fuel expenses	445,368	
Equipment leases (Note 8)	303,565	
Equipment rental	135,931	
Per diem	26,180	
On site meals	24,780	
Total Direct Cost of Revenues Earned	\$ 12,813,337	89.8%
INDIRECT COST OF REVENUES EARNED		
Depreciation (Note 1)	\$ 516,073	
Insurance	360,165	
Shop supplies	324,340	
Repairs and maintenance	219,169	
Safety expense and uniforms	122,362	
Total Indirect Cost of Revenues Earned	1,542,109	10.7
TOTAL COST OF REVENUES EARNED	\$ 14,355,446	100.5%
GROSS PROFIT	\$ (84,509)	(0.5)%

**SEE ACCOMPANYING NOTES AND AUDITOR'S
REPORT ON SUPPLEMENTARY INFORMATION**

Motley Services, LLC

Financial Statements
As of June 30, 2018 and
the Six Months Ended June 30, 2018 and 2017

Financial Statements

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Motley Services, LLC**Balance Sheet**

June 30, 2018 (Unaudited)

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,577,403
Trade accounts receivable	23,321,262
Prepaid expenses	<u>1,674,569</u>
Total current assets	26,573,234
Fixed Assets at Cost, Net	
	<u>61,442,084</u>
Total assets	<u>\$ 88,015,318</u>
LIABILITIES AND MEMBERS' EQUITY	
Current Liabilities	
Accounts payable	\$ 5,131,052
Accrued liabilities	2,796,076
Current portion of long-term debt	3,730,864
Current portion of capital leases	4,050,209
Total current liabilities	<u>15,708,201</u>
Long—Term Liabilities	
Long-term debt, net of current portion	20,154,163
Capital leases, net of current portion	<u>10,643,490</u>
Total long-term liabilities	<u>30,797,653</u>
Total liabilities	46,505,854
Members' Equity	<u>41,509,464</u>
Total liabilities and members' equity	<u>\$ 88,015,318</u>

See accompanying notes to financial statements.

Statements of Income and Changes in Members' Equity

Six Months Ended June 30,	2018 (Unaudited)	2017 (Unaudited)
Revenues	\$ 58,577,389	22,141,891
Cost of Services	(37,413,080)	(16,811,635)
Gross profit	<u>21,164,309</u>	<u>5,330,256</u>
Operating Expenses		
Selling, general and administrative expenses	3,175,844	1,830,100
Depreciation	<u>3,259,608</u>	<u>1,247,858</u>
Operating expense	<u>6,435,452</u>	<u>3,077,958</u>
Operating income	<u>14,728,857</u>	<u>2,252,298</u>
Other Income (Expense)		
Loss on disposal of fixed assets	(29,779)	—
Interest expense	(1,699,793)	(601,234)
Other	<u>12,952</u>	<u>(826)</u>
Other expense, net	<u>(1,716,620)</u>	<u>(602,060)</u>
NET INCOME	<u>13,012,237</u>	<u>1,650,238</u>
Members' Equity:		
Balance beginning of period	28,497,227	12,299,964
Acquisitions of equipment financed by member contributions	<u>—</u>	<u>5,894,227</u>
Balance, end of period	<u>\$ 41,509,464</u>	<u>19,844,429</u>

See accompanying notes to financial statements.

Statements of Cash Flows

Six Months Ended June 30,	2018 (Unaudited)	2017 (Unaudited)
Cash flows from operating activities:		
Net income	\$ 13,012,237	1,650,238
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,259,608	1,247,858
Amortization of debt issuance costs	114,983	5,155
Loss on disposal of assets	29,779	—
Change in operating assets:		
Accounts receivable, trade	(8,452,402)	(7,283,279)
Prepaid expenses and other current assets	286,939	(684,685)
Other assets	—	119,246
Change in operating liabilities:		
Accounts payable	(2,060,404)	1,972,807
Accrued liabilities	1,150,466	846,020
Net cash provided by (used in) operating activities	<u>7,341,206</u>	<u>(2,126,640)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(12,951,219)	(1,473,045)
Proceeds from sale of assets	60,000	—
Net cash used in investing activities	<u>(12,891,219)</u>	<u>(1,473,045)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(1,502,222)	(408,039)
Net borrowings on line of credit	7,581,832	—
Net proceeds from factoring	1,520,558	4,269,403
Capital lease payments	(1,412,713)	(172,502)
Net cash provided by financing activities	<u>6,187,455</u>	<u>3,688,862</u>
Net increase in cash and cash equivalents	637,442	89,177
Cash and cash equivalents, beginning of year	939,961	311,036
Cash and cash equivalents, end of year	<u>\$ 1,577,403</u>	<u>400,213</u>
Cash paid during the year for:		
Interest	\$ 1,584,810	596,079
Non-cash investing and financing transactions:		
Acquisitions of buildings and equipment through long-term debt	\$ 648,428	1,552,317
Acquisitions of equipment through capital leases	10,937,000	3,525,920
Repayments of factoring notes through long-term debt	7,915,544	—
Acquisitions of equipment financed by member contributions	—	5,894,227

See accompanying notes to financial statements.

Notes to Financial Statements

1. Organization and History

Organization

Motley Services, LLC, (the "Company"), a Texas limited liability company, was initially organized as a corporation on May 28, 2010 in the state of Texas and was converted to a limited liability company on October 7, 2016. The Company is governed by a Limited Liability Company Agreement, amended on October 14, 2016.

The Company is primarily engaged in providing cased hole wireline services, coiled tubing, wireline, pumping through tubing and nitrogen services for oil and gas wells. The Company's operations are concentrated in the Permian Basin region of Texas and New Mexico.

Interim Financial Statement Information

The accompanying financial statements as of June 30, 2018 and for the six months ended June 30, 2018 and 2017 have not been audited by the Company's independent auditors. In the opinion of Company management, the unaudited financial statements reflect all adjustments necessary to present fairly the Company's financial statements as of June 30, 2018 and for the six months ended June 30, 2018 and 2017. All such adjustments are of a normal, recurring nature. In preparing the unaudited financial statements, management of the Company has made certain estimates and assumptions that affect reported amounts in the financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results.

2. Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Cash and Cash Equivalents

The Company considers all short-term investments with maturities of three months or less to be cash equivalents.

There were no short-term investments other than cash as of June 30, 2018.

The Company's cash balances may at times exceed federally insured amounts. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

The Company's allowance for doubtful accounts is based on management's evaluations of the collectability of each account receivable based on the customer's payment history and general economic conditions. At June 30, 2018, the Company had no allowance for doubtful accounts.

2. Significant Accounting Policies (Continued)

Prepaid Expenses

Prepaid expenses consist primarily of operating supplies used on jobs, prepaid benefits and other current prepaid expenses.

Fixed Assets

The Company's fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the following estimated useful lives:

Vehicles	3 years
Equipment	3-10 years
Furniture and fixtures	3-7 years

Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the Company's property accounts and the resulting gain or loss is recognized.

Maintenance, repairs and minor renewals and replacements are charged to expense when incurred. Betterments and major renewals and replacements are capitalized.

Income Taxes

On October 14, 2016, the Company elected Q-Sub status and converted to a Partnership for tax purposes. Accordingly, taxable income or losses are reported by the members on their individual income tax returns based on their percentage of ownership. Consequently, no provision for income taxes is reported in the accompanying financial statements. Tax years open for examination by taxing authorities include the years from 2015 through 2017.

Revenue Recognition

The Company recognizes revenues upon completion of services.

Advertising Expense

All advertising costs are expensed when incurred. For the six months ended June 30, 2018 and 2017 advertising expense was \$35,891 and \$25,258, respectively.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, ("GAAP") management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant Accounting Policies (Continued)*Use of Estimates (Continued)*

Areas where critical accounting estimates are made by management include:

- Depreciation of property and equipment
- Allowance for doubtful accounts

Risk Concentration

Financial instruments that potentially subject the Company to concentrations of credit risk are its receivables. The Company provides services to customers domestically. The Company continuously evaluates its customers' credit worthiness and financial conditions and generally does not require collateral. The Company does not believe it is exposed to any material risk of concentration.

*Recently Issued Accounting Pronouncements**Revenues from Contracts with Customers*

In May of 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The FASB and the International Accounting Standards Board ("IASB") initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would:

1. Remove inconsistencies and weaknesses in revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
4. Provide more useful information to users of financial statements through improved disclosure requirements.
5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

2. Significant Accounting Policies (Continued)*Recently Issued Accounting Pronouncements (Continued)**Revenues from Contracts with Customers (Continued)*

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For nonpublic companies the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Management does not expect the adoption will have a material impact on the Company's financial statements.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which is effective for nonpublic companies beginning after December 15, 2019. Early application is permitted. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less.

All other leases will fall into one of two categories:

- Financing leases, similar to capital leases, will require the recognition of an asset and liability, measured at the present value of the lease payments.
- Interest on the liability will be recognized separately from amortization of the asset.
- Principal repayments will be classified as financing outflows and payments of interest as operating outflows on the statement of cash flows.

2. Significant Accounting Policies (Continued)*Lease Accounting (Continued)*

- Operating leases will also require the recognition of an asset and liability measured at the present value of the lease payments.
- A single lease cost, consisting of interest on the obligation and amortization of the asset, calculated such that the amortization of the asset will increase as the interest amount decreases resulting in a straight-line recognition of lease expense.
- All cash outflows will be classified as operating on the statement of cash flows.

Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases.

Management has not evaluated the effect the adoption will have on its financial statements.

Classification for Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230)*”. ASU 2016-15 provides accounting guidance related to the presentation and classification of certain transactions in the statement of cash flows where diversity in practice exists. The guidance is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented and provides for certain practical expedients. Management does not expect the adoption to have a material impact on the Company’s financial statements.

3. Accounts Receivable

Accounts receivable at June 30, 2018 consists of trade receivables of \$23,321,262. The Company factors certain of its receivables for cash flow financing purposes. Such receivables serve as collateral for the borrowing arrangement. See Note 6.

As of June 30, 2018, management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

4. Fixed Assets

Fixed assets consisted of the following at June 30, 2018:

Wireline units	\$ 7,102,612
Coil units	20,811,816
Pumps	19,092,733
10K units	1,834,461
Shop equipment	4,620,414
Nitrogen equipment	709,524
Trucks	6,102,440
Furniture and fixtures	200,329
Buildings and leasehold improvements	554,028
Equipment under development	8,031,152
	<u>69,059,509</u>
Accumulated depreciation and amortization	<u>(7,617,425)</u>
Fixed assets, net	<u>\$ 61,442,084</u>

Equipment under development at June 30, 2018, consisted primarily of deposits on and purchases of segments of equipment not yet completed.

Depreciation expense for the six months ended June 30, 2018 and 2017 was \$3,259,608 and \$1,247,858, respectively.

5. Accrued Liabilities

Accrued liabilities consisted of the following at June 30, 2018:

Accrued payroll and related expenses	\$ 1,519,510
Accrued franchise taxes	59,091
Accrued property taxes	297,878
Accrued other	919,597
	<u>\$ 2,796,076</u>

6. Factoring Note Payable

The Company signed an Accounts Receivable factoring agreement with Gulf Coast Bank and Trust Company dated January 11, 2017. The agreement was in effect for one year and was extended automatically for another year. The initial borrowing limit of \$5,000,000 increased to \$8,500,000 on June 27, 2017 under the first amendment to the agreement. Borrowings under the agreement are subject to interest at the current prime rate with a floor of 3.5% (currently 4.5%). Each invoice factored under the agreement is subject to a 10% reserve retained by the factor until the invoice amount is collected. Invoices that are not collected within 90 days of the invoice date are automatically charged against the current reserve balance.

As of June 30, 2018, the Company had no amounts of outstanding borrowings with the factor agreement.

7. Long-Term Debt

Long-term debt as of June 30, 2018 is as follows:

Vehicle financing notes payable to Ford Motor Credit, with combined monthly payments of \$5,161 including interest at a rate of 5.89% for thirty-six months. The notes mature in April and July of 2019 and are secured by vehicles. Four of the notes either matured or were paid off during 2017.	\$ 64,726
Equipment financing note payable to Allegiance Capital, LLC, dated December 20, 2017, with payments of \$29,151 per month for 60 months including interest at a rate of 8.75%. The note matures on December 20, 2021 and is secured by equipment.	1,049,000
Vehicle financing notes payable to Ally Financial with combined monthly payments of \$4,486 including interest at a rate of 5.89% for thirty-six months. The notes mature in April and July of 2019 and are secured by vehicles.	120,565
Note payable to D-5 Investments, LLC, dated October 11, 2016, with monthly payments of interest only at a rate of 12% from November 1 2016, to June 1 of 2017 and monthly payments of \$50,000 principal plus interest accrued on the outstanding loan balance at a rate of 12% from July 1, 2017 to September 1, 2019. The note matures on September 30, 2019 when all remaining outstanding principal and interest is due. The note is secured by all assets owned by the company that are not subject to liens.	4,350,000

Equipment financing note payable to Allegiance Capital, LLC, dated January 27, 2017, with payments of \$3,239 per month for 60 months including interest at a rate of 8.75%. The note matures on January 27, 2022 and is secured by equipment.	118,898
Vehicle financing notes payable to Wells Fargo, with combined monthly payments of \$5,704 including interest at a rate of 8.24% for thirty-six months. The notes mature from March to May of 2020 and are secured by vehicles.	111,210
Equipment financing note payable to Allegiance Capital, LLC, dated March 7, 2017, with payments of \$9,929 per month for 60 months including interest at a rate of 8.75%. The note matures on March 7, 2022 and is secured by equipment.	378,817

7. **Long-Term Debt**
(Continued)

Equipment financing note payable to Portfolio Advisors VIII, LLC, dated June 12, 2017, with payments of \$9,986 per month for 60 months including interest at a rate of 9%. The note matures on June 12, 2022 and is secured by equipment.	400,253
Equipment financing note payable to Portfolio Advisors VIII, LLC, dated June 30, 2017, with payments of \$6,078 per month for 36 months including interest at a rate of 10%. The note matures on June 30, 2020 and is secured by equipment.	126,619
Equipment financing note payable to Portfolio Advisors VIII, LLC, dated August 16, 2017, with payments of \$12,915 per month for 36 months including interest at a rate of 10%. The note matures on August 16, 2020 and is secured by equipment.	289,872
Equipment financing note payable to Portfolio Advisors VIII, LLC, dated October 31, 2017, with payments of \$27,659 per month for 60 months including interest at a rate of 9.5%. The note matures on October 31, 2022 and is secured by equipment.	1,428,559
Vehicle financing note payable to PACCAR Financial Corp. dated March 23, 2018, with payments of \$10,149 per month for 48 months including interest at a rate of 6.22%. The note matures on April 7, 2022 and is secured by vehicles.	405,705
Note payable to Allegiance Capital, LLC, dated January 23, 2018, with monthly payments of \$5,469, principal plus interest accrued on the outstanding loan balance at a rate of 9%. The note matures on January 23, 2022. The note is secured by mobile homes.	195,938
Term loan payable to PNC Bank, National Association, in the original amount of \$8 million, dated March 16, 2018, with monthly principal payments of \$166,667 plus interest at the rate of 7.5% for 36 months. The note matures on March 16, 2021 when a balloon payment of all unpaid principal and interest is due. Interest (7.5% as of June 30, 2018) is determined at the rate of 2.5% plus Prime Rate. The loan is subject to various covenants and is guaranteed by the Company's partners who pledged their full partnership interest as collateral.	7,333,333

**7. Long-Term Debt
(Continued)**

Revolving note payable to PNC Bank, National Association, with a borrowing limit of \$20 million, dated March 16, 2018. Monthly payments of interest on the outstanding balance are due on the first business day of each month until maturity on March 16, 2021 when all outstanding interest and principal are due. Interest (6.5% as of June 30, 2018%) is determined at the rate of 1.5% plus Prime Rate. The note is subject to various covenants and is guaranteed by the Company's partners who pledged their full partnership interest as collateral.

	8,119,679
	<u>24,493,174</u>
Less current portion of long-term debt	(3,730,864)
Less unamortized debt issuance costs	(608,147)
Long-term debt	<u>\$ 20,154,163</u>

Annual maturities of long-term debt for each of the next five years ending June 30 and thereafter are as follows:

2019	\$ 3,730,864
2020	6,965,291
2021	12,490,464
2022	797,348
2023	509,207
Thereafter	—
	<u>\$ 24,493,174</u>

As of June 30, 2018, the Company was in compliance with all of the covenants on its debt.

**8. Capital Lease
Obligations**

The Company is the lessee of various equipment under capital leases that expire through March of 2023. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of the assets under capital leases is included in the depreciation expenses for 2017 and 2016.

The following is a summary of property held under capital leases as of June 30, 2018:

Equipment cost	\$ 16,762,921
Less: accumulated depreciation	<u>(875,068)</u>
Total	<u>\$ 15,887,853</u>

8. Capital Lease Obligations (Continued)

Minimum future lease payments under capital leases for next five years ending June 30 and thereafter are as follows:

2019	\$	5,179,268
2020		5,238,055
2021		4,510,281
2022		1,594,880
2023		572,097
Thereafter		—
Total minimum lease payments		17,094,581
Less: amount representing interest		(2,400,882)
Less: current portion		(4,050,209)
Capital leases, net of current portion	\$	<u>10,643,490</u>

9. Operating Leases

The Company also leases the buildings and land where its facilities and yard are located under non-cancelable agreement with a related party. The agreement is classified as an operating lease and requires monthly payments of \$52,500 based on the first amendments of the original agreement until it expires on September 30, 2021. Rental expenses under the agreement for the six months ended June 30, 2018 and 2017 totaled \$265,000 and \$131,250, respectively. Minimum annual rental commitments and minimal lease payments over the next five years ending June 30 and thereafter are as follows:

	<u>Vehicle and Other Equipment Leases</u>	<u>Facility and Land Lease</u>
2019	\$ 924,112	630,000
2020	754,809	630,000
2021	257,419	630,000
2022	—	157,500
2023	—	—
Thereafter	—	—
	<u>\$ 1,936,340</u>	<u>2,047,500</u>

The Company leases vehicles under cancelable agreements which expire through December of 2020. The leases are obtained under a commercial credit line with Ford Motor Credit Company dated January 24, 2014. The credit line term was extended through June of 2019. Under the provisions of the commercial credit line, Ford Motor Credit Company has agreed to purchase lease agreements from authorized dealerships which lease vehicles to the Company, in the cumulative amount of up to \$3,800,000. Once this limit is reached, or the line term expires, Ford Motor Credit Company will not accept additional leases extended to the company.

**9. Operating Leases
(Continued)**

The Company leases vehicles under a non-cancellable agreement which expires on January 20, 2020. The leases are obtained under a commercial credit line with Ally Financial, Inc. dated January 13, 2017. The credit line term expired on January 31, 2018. Under the provisions of the commercial credit line, Ally Financial, Inc. has agreed to purchase lease agreements from authorized dealerships which lease vehicles to the Company, in the cumulative amount of up to \$402,000. Once this limit is reached, or the line term expires, Ally Financial, Inc. will not accept additional leases extended to the company.

Vehicle rental expenses under the lease agreements specified above, for the six months ended June 30, 2018 and 2017 totaled \$417,343 and \$194,351, respectively.

10. Related Parties

During the six months ended June 30, 2018 and 2017, the Company rented the buildings and land where its facilities and yard are located, as discussed in Note 9 above, from Motley Capital, LLC, owned by the Company's CEO. The Company paid monthly rent of \$21,875 per month from January to June of 2017, \$40,000 per month from January to April 2018 and \$52,500 per month from May to June of 2018. The total rent paid for the six months ended June 30, 2018 and 2017 was \$225,000 and \$131,250, respectively. June of 2018, the Company prepaid \$52,500 for July of 2018.

As of June 30, 2018, the Company owed \$4,350,000 under a note to District 5 Investments, LP as discussed in Note 7 above. The Company incurred \$272,983 and \$301,666.68 in interest on the note during the six months ended June 30, 2018 and 2017, respectively.

In 2017, the Company signed a lease agreement for two tractors at a cost of \$100,000 each with Hercules Equipment Management, LLC, owned by District 5 Investment, LP. The lease is classified as capital. Monthly payments of \$4,448 are payable to the related party until maturity in December of 2021. As of June 30, 2018, the Company owed \$151,966 principal and incurred \$9,660 and \$11,577 in interest on the lease for the six months ended June 30, 2018 and 2017, respectively.

In 2017, the Company signed a lease agreement for two pumps at a cost of \$1,150,000 each with Hercules Equipment Management, LLC, owned by District 5 Investment, LP. The lease is classified as capital. Monthly payments of \$72,872 are payable to the related party until maturity in August of 2020. As of June 30, 2018, the Company owed \$82,391 principal and incurred \$1,674,970 and \$2,087,463 in interest on the lease for the six months ended June 30, 2018.

**10. Related Parties
(Continued)**

In 2017, the Company leased on a month-to-month basis eight pump down units and two frac units from Hercules Equipment Management, LLC, owned by District 5 Investment, LP. The lease was classified as operating. The monthly payments varied based on use per unit. The agreement was cancelled and replaced on April 1, 2018 (see next paragraph). Total rent expense incurred under the lease for the three months ended March 31, 2018 and the six months ended June 30, 2017 was \$864,647 and \$709,849, respectively.

On April 1, 2018, the Company signed a lease agreement for eight pump down units and two frac units with Hercules Equipment Management, LLC, owned by District 5 Investment, LP. This agreement is classified as capital and it replaced the existing month-to-month agreement disclosed in Note 10 above. Monthly payments of \$302,226 consisting of principal and interest are payable to the related party until maturity on September 30, 2021. The market value of the equipment leased is \$10.9 million.

As of June 30, 2018, the Company owed \$10,226,874 principal and incurred \$233,553 in interest from the date of inception to June 30, 2018.

In 2017, the Company signed a lease agreement for two cranes at a cost of \$1,100,016 each with a related party. The lease is classified as capital. Monthly payments of \$39,687 are payable to the related party until maturity in June of 2022. As of June 30, 2018, the Company owed \$1,881,509 principal and incurred \$86,669 in interest on it for the six months ended June 30, 2018.

11. Significant Customers

The Company had revenues from significant customers that accounted for the following percentages of the Company's total revenues for the six months ended June 30:

	2018	2017
Customer A	31%	24%
Customer B	22%	23%
Customer C	10%	16%
Customer D	8%	19%

Management believes that in the unlikely event that the Company lost these customers, based on current market conditions, the Company would be able to find comparable work with other existing customers or new customers.

12. Subsequent Events

The Company has evaluated subsequent events through October 20, 2018, the date the financial statements were available to be issued.

Unaudited pro forma condensed combined financial statements

The unaudited pro forma condensed combined financial statements set forth below are based on and have been derived from the historical annual and interim financial statements of KLX Energy Services Holdings, Inc. (“KLX Energy Services” or the “Company”) and Motley Services, LLC (“Motley”), including our unaudited condensed balance sheet as of July 31, 2018, our unaudited condensed statements of earnings (loss) for the six months ended July 31, 2018 and 2017, our audited statement of earnings (loss) for our fiscal year ended January 31, 2018, Motley’s unaudited condensed balance sheet as of June 30, 2018, Motley’s unaudited condensed statements of operations for the six months ended June 30, 2018 and 2017 and Motley’s audited statement of operations for its fiscal year ended December 31, 2017. Our historical financial statements include allocations of certain expenses from KLX Inc. (“KLX”), including expenses for costs related to functions such as treasury, tax, accounting, legal, internal audit, human resources, public and investor relations, general management, shared information technology systems, corporate governance activities and centrally managed employee benefit arrangements. These costs may not be representative of the future costs we will incur as an independent, publicly-traded company and do not include certain additional costs we expect to incur as an independent, publicly-traded company.

Our fiscal year ends on January 31 of each year while Motley’s fiscal year ends on December 31 of each year. The difference in fiscal periods for KLX Energy Services and Motley is considered to be immaterial. Accordingly, the unaudited pro forma condensed combined financial statements for each period are presented on the basis of KLX Energy Services’ fiscal year and combine the historical results of the fiscal and interim periods of KLX Energy Services and Motley with no related adjustments.

The unaudited pro forma condensed combined balance sheet gives effect to the spin-off of KLX Energy Services from KLX (the “Spin-Off”), the debt financing and the acquisition of Motley by the Company (the “Acquisition”) as if each had occurred on July 31, 2018. The unaudited pro forma condensed combined statements of earnings (loss) for the six months ended July 31, 2018 and July 31, 2017, the fiscal year ended January 31, 2018 and the twelve months ended July 31, 2018 give effect to the Spin-Off, the debt financing and the Acquisition as if each had occurred on February 1, 2017. In management’s opinion, the unaudited pro forma condensed combined financial statements reflect adjustments that are both necessary to present fairly the unaudited pro forma condensed combined statements of earnings and the unaudited pro forma condensed combined financial position of our business as of and for the periods indicated, and the pro forma adjustments are based on currently available information and assumptions we believe are reasonable, factually supportable, directly attributable to our

separation from KLX and acquisition of Motley and, for purposes of the pro forma condensed combined statements of earnings (loss), are expected to have a continuing impact on us.

The unaudited pro forma condensed combined financial statements are for illustrative and informational purposes only and are not intended to represent what our results from operations or financial position would have been had the Spin-Off, the debt financing and the Acquisition occurred on the dates indicated. The unaudited pro forma condensed combined financial statements also should not be considered indicative of our future results of operations or financial position.

The following unaudited pro forma condensed combined statements of earnings and unaudited pro forma condensed combined balance sheet give pro forma effect to the following:

- the contribution by KLX of its energy services business to us, as a result of which we now own, directly or indirectly, the operations comprising and the entities that comprise KLX Energy Services, including all liabilities of such business at the Spin-Off distribution date;
- the distribution of our common stock to KLX stockholders at a 0.4 to 1.0 distribution ratio;
- a \$50 million capital contribution by KLX to KLX Energy Services;
- our acquisition of Motley on the terms provided for in the Unit Purchase Agreement; and
- the debt financing and the use of proceeds therefrom.

The unaudited Acquisition pro forma adjustments reflect adjustments related to:

- changes in cash on hand provided in connection with the debt financing;
- changes in indebtedness incurred in connection with the debt financing, and resulting from the indebtedness of Motley to be repaid by the Sellers on the closing of, and not assumed by KLX Energy Services in, the Acquisition;
- transaction fees and debt issuance costs incurred in connection with the debt financing;
- changes in interest expense resulting from the debt financing, including amortization of estimated debt issuance costs, and resulting interest expense not incurred on the indebtedness of Motley not assumed by KLX Energy Services in the Acquisition;
- goodwill recorded due to a preliminary purchase price allocation related to the Acquisition; and
- the equity impact of eliminating historical balances and issuing stock in conjunction with the Acquisition.

As a stand-alone public company, we will incur additional recurring costs. We expect recurring annual costs to be approximately \$8.0 million higher than the expenses historically allocated to

us from KLX, reflecting 100% allocation of dedicated corporate resources and the higher expected revenues.

The significant assumptions involved in determining our estimates of recurring costs of being a stand-alone public company include:

- costs to perform financial reporting, tax, regulatory compliance, corporate governance, audit, Sarbanes-Oxley Act compliance, treasury, legal, internal audit and investor relations activities;
- compensation and benefits reflecting 100% allocation of dedicated corporate level executive positions such as CEO, CFO and the Board of Directors; and
- the type and level of other costs expected to be incurred.

No pro forma adjustments have been made to our financial statements to reflect the additional costs and expenses described above because they are projected amounts based on judgmental estimates and would not be factually supportable.

We currently estimate that we will incur the following non-recurring expenses that we will incur during our fiscal year ended January 31, 2019: (1) \$3.8 million of costs and expenses allocated by our former parent during the first quarter associated with its strategic alternatives review; (2) \$8.8 million of costs and expenses allocated by our former parent during the second and third quarters associated with the Spin-Off; (3) \$10.7 million of non-cash compensation expense recorded during the third quarter associated with the acceleration of unvested shares of KLX Inc. common stock held by KLX Energy Services employees related to the sale of KLX to Boeing; and (4) approximately \$3.0 to \$5.0 million of costs and expenses to be incurred during the third and fourth quarters associated with our transition to being a stand-alone public company. We have not adjusted the accompanying unaudited pro forma condensed combined statements of earnings (loss) for these estimated expenses as they are not expected to have an ongoing impact on our operating results. We anticipate that substantially all of these expenses will be incurred within 6 to 12 months of the Spin-Off distribution date. These expenses primarily relate to the following:

- accounting, tax and other professional costs pertaining to our separation and establishment as a stand-alone public company; and
- costs to establish separate information systems.

Due to the scope and complexity of these activities, the amount of these costs could increase or decrease materially, and the timing of incurrence could change.

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KLX Energy Services Holdings, Inc.
Unaudited pro forma condensed combined balance sheet
As of July 31, 2018
(In millions)

	Historical— KLX Energy Services Holdings, Inc.	Historical— Motley Services, LLC	Spin-off pro forma adjustments	Note	Acquisition pro forma adjustments	Note	Pro forma
ASSETS							
Current assets:							
Cash and cash equivalents	\$ —	\$ 1.6	\$ 50.0	(1)	\$ 103.8	(2)	\$ 155.4
Accounts receivable	84.7	23.3	—		—		108.0
Inventories	11.5	—	—		—		11.5
Other current assets	3.2	1.7	—		—		4.9
Total current assets	<u>99.4</u>	<u>26.6</u>	<u>50.0</u>		<u>103.8</u>		<u>279.8</u>
Property and equipment	195.5	61.4	—		—		256.9
Intangible assets	2.7	—	—		68.1	(3)	70.8
Other assets	7.9	—	—		—		7.9
	<u>\$ 305.5</u>	<u>\$ 88.0</u>	<u>\$ 50.0</u>		<u>\$ 171.9</u>		<u>\$ 615.4</u>
LIABILITIES AND PARENT COMPANY EQUITY							
Current liabilities:							
Accounts payable	\$ 34.4	\$ 5.1	\$ —		\$ —		\$ 39.5
Accrued liabilities	15.1	2.8	—		—		17.9
Current portion—long-term debt	—	7.8	—		(7.8)	(4)	—
Total current liabilities	<u>49.5</u>	<u>15.7</u>	<u>—</u>		<u>(7.8)</u>		<u>57.4</u>
Other non-current liabilities	1.1	—	—		—		1.1
Long-term debt	—	30.8	—		212.2	(4)	243.0
Equity:							
Common stock	—	—	0.2	(5)	—		0.2
Additional paid-in capital	—	—	304.7	(5)	9.0	(6)	313.7
Parent company investment	254.9	41.5	(254.9)	(5)	(41.5)	(6)	—
Total Parent company equity	<u>254.9</u>	<u>41.5</u>	<u>50.0</u>		<u>(32.5)</u>		<u>313.9</u>
	<u>\$ 305.5</u>	<u>\$ 88.0</u>	<u>\$ 50.0</u>		<u>\$ 171.9</u>		<u>\$ 615.4</u>

See accompanying notes to unaudited pro forma condensed combined financial statements.

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KLX Energy Services Holdings, Inc.
Unaudited pro forma condensed combined statement of earnings (loss)
For the six months ended July 31, 2018
(In millions)

	Historical— KLX Energy Services Holdings, Inc.	Historical— Motley Services, LLC	Spin-off pro forma adjustments	Note	Acquisition pro forma adjustments	Note	Pro forma
Service revenues	\$ 228.2	\$ 58.6	\$ —		\$ —		\$ 286.8
Cost of sales	167.7	40.7	—		—		208.4
Selling, general and administrative	39.7	3.2	(5.7)	(7)	—		37.2
Research and development costs	1.3	—	—		—		1.3
Operating earnings	19.5	14.7	5.7	(7)	—		39.9
Interest expense	—	1.7	—		11.3	(8)	13.0
Earnings before income taxes	19.5	13.0	5.7		(11.3)		26.9
Income tax expense	0.1	—	—	(7)	—		0.1
Net earnings (loss)	\$ 19.4	\$ 13.0	\$ 5.7		\$ (11.3)		\$ 26.8

See accompanying notes to unaudited pro forma condensed combined financial statements.

KLX Energy Services Holdings, Inc.
Unaudited pro forma condensed combined statement of earnings (loss)
For the fiscal year ended January 31, 2018
(In millions)

	Historical— KLX Energy Services Holdings, Inc.	Historical— Motley Services, LLC	Spin-off pro forma adjustments	Note	Acquisition pro forma adjustments	Note	Pro forma
Service revenues	\$ 320.5	\$ 62.5	\$ —		\$ —		\$ 383.0
Cost of sales	269.1	49.7	—		—		318.8
Selling, general and administrative	73.4	4.0	(0.4)	(7)	—		77.0
Research and development costs	2.0	—	—		—		2.0
Operating earnings	(24.0)	8.8	0.4	(7)	—		(14.8)
Interest expense	—	1.7	—		24.3	(8)	26.0
Earnings before income taxes	(24.0)	7.1	0.4		(24.3)		(40.8)
Income tax expense	0.1	—	—	(7)	—		0.1
Net earnings (loss)	\$ (24.1)	\$ 7.1	\$ 0.4		\$ (24.3)		\$ (40.9)

See accompanying notes to unaudited pro forma condensed combined financial statements.

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KLX Energy Services Holdings, Inc.
Unaudited pro forma condensed combined statement of earnings
For the six months ended July 31, 2017
(In millions)

	Historical— KLX Energy Services Holdings, Inc.	Historical— Motley Services, LLC	Spin-off pro forma adjustments	Acquisition pro forma adjustments	Note	Pro forma
Service revenues	\$ 137.0	\$ 22.1	\$ —	\$ —		\$ 159.1
Cost of sales	119.6	18.0	—	—		137.6
Selling, general and administrative	34.8	1.8	—	—		36.6
Research and development costs	0.8	—	—	—		0.8
Operating earnings	(18.2)	2.3	—	—		(15.9)
Interest expense	—	0.6	—	12.4	(8)	13.0
Earnings before income taxes	(18.2)	1.7	—	(12.4)		(28.9)
Income tax expense	0.1	—	—	—		0.1
Net earnings	\$ (18.3)	\$ 1.7	\$ —	\$ (12.4)		\$ (29.0)

See accompanying notes to unaudited pro forma condensed combined financial statements.

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KLX Energy Services Holdings, Inc.
Unaudited pro forma condensed combined statement of earnings (loss)
For the twelve months ended July 31, 2018
(In millions)

	Historical— KLX Energy Services Holdings, Inc.	Historical— Motley Services, LLC	Spin-off pro forma adjustments	Note	Acquisition pro forma adjustments	Note	Pro forma
Service revenues	\$ 411.7	\$ 99.0	\$ —		\$ —		\$ 510.7
Cost of sales	317.2	72.4	—		—		389.6
Selling, general and administrative	78.3	5.4	(6.1)	(7)	—		77.6
Research and development costs	2.5	—	—		—		2.5
Operating earnings	13.7	21.2	6.1	(7)	—		41.0
Interest expense	—	2.8	—		23.2	(8)	26.0
Earnings before income taxes	13.7	18.4	6.1		(23.2)		15.0
Income tax expense	0.1	—	—	(7)	—		0.1
Net earnings (loss)	<u>\$ 13.6</u>	<u>\$ 18.4</u>	<u>\$ 6.1</u>		<u>\$ (23.2)</u>		<u>\$ 14.9</u>

See accompanying notes to unaudited pro forma condensed combined financial statements.

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KLX Energy Services Holdings, Inc.
Notes to unaudited pro forma condensed combined financial statements

Note 1—Basis of presentation

In management's opinion, the unaudited pro forma condensed combined financial statements reflect adjustments that are both necessary to present fairly the unaudited pro forma condensed combined statements of earnings and the unaudited pro forma condensed combined financial position of our business as of and for the periods indicated, and the pro forma adjustments are based on currently available information and assumptions we believe are reasonable, factually supportable, directly attributable to our separation from KLX and acquisition of Motley and, for purposes of the statements of earnings (loss), are expected to have a continuing impact on us.

The business combination will be accounted for using the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. As the acquirer, the Company will estimate the fair value of Motley's assets acquired and liabilities assumed.

The pro forma condensed combined financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the Spin-Off and the Acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

Note 2—Transaction financing

The Company intends to complete the Motley acquisition by paying \$139.2 million in cash consideration and \$9 million in common stock consideration for aggregate consideration of \$148.2 million. Management intends to fund the cash consideration with the proceeds generated by a debt financing. The equity consideration would consist of 278,811 shares of KLX Energy Services common stock if issued based on the closing share price of \$32.28 as of October 19, 2018.

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Note 3—Preliminary purchase price allocation

The Company has performed a preliminary purchase price allocation for the Motley acquisition, subject to working capital and certain other closing adjustments. The following table summarizes the allocation of the preliminary purchase price as of July 31, 2018 (in millions):

Cash and cash equivalents	\$	1.6
Accounts receivable		23.3
Other current assets		1.7
Property and equipment, net		61.4
Accounts payable		(5.1)
Accrued liabilities		(2.8)
Total identifiable net assets	\$	80.1
Goodwill and identifiable intangible assets		68.1
Total net assets	\$	148.2

The preliminary purchase price allocation, based on management's preliminary estimate using Motley's historical balance sheet as of July 31, 2018, has been used to prepare pro forma adjustments in the unaudited pro forma condensed combined balance sheet and statements of earnings (loss). The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments. The final allocation may include (1) changes in identifiable net assets, (2) changes in allocations to intangible assets such as customer relationships and covenants not to compete, as well as goodwill, (3) changes in fair values of property, plant and equipment and (4) other changes to assets and liabilities.

Note 4—Pro forma adjustments

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro form condensed combined financial information:

- (1) Reflects the capital contribution from KLX of \$50 million as part of the Spin-Off.
- (2) The adjustment to cash reflects the \$250 million debt financing net of debt issuance costs of \$7.0 million. The net change in cash also reflects the payment to Motley of \$139.2 million.
- (3) Reflects an adjustment to record goodwill associated with the acquisition of \$68.1 million as presented in Note 3.
- (4) Reflects the elimination of the current and long-term portion of Motley's historical debt and capital leases not assumed in the acquisition and the \$250 million debt financing, offset by debt issuance costs of \$7.0 million.
- (5) The adjustment to common stock, additional-paid-in capital and parent company investment represents: (a) the elimination of approximately \$254.9 million of parent company investment; (b) the \$50 million capital contribution from KLX; and (c) the establishment of our capital structure. KLX Energy Services had 20.1 million common shares outstanding at September 14, 2018 issued at a par value of \$0.01 per share.

(6) Represents the elimination of the historical equity of Motley (\$41.5 million) in connection with the Acquisition, offset by the issuance of \$9.0 million of common shares of KLX Energy Services common stock in connection with the acquisition.

(7) Reflects the elimination of non-recurring separation costs related to the review of strategic alternatives and the spin-off of KLX Energy Services to KLX stockholders that were incurred of \$5.7 million, \$0.4 million and \$6.1 million for the six months ended July 31, 2018, the fiscal year ended January 31, 2018 and the twelve months ended July 31, 2018, respectively. These costs were primarily for legal, tax and accounting fees and other related expenses.

(8) The adjustment to interest expense for the six months ended July 31, 2018 and 2017 and the fiscal year ended January 31, 2018 to give effect to the \$250 million debt financing and the extinguishment of Motley's historical debt in connection with the Acquisition is presented below:

	Six months ended		Year ended January 31, 2018
	July 31, 2017	July 31, 2018	
	(\$ in millions)		
Interest on \$250 million of debt financing	\$ 12.5	\$ 12.5	\$ 25.0
Amortization of debt issuance costs	0.5	0.5	1.0
Less: Historical interest expense related to debt not assumed in the Acquisition	(0.6)	(1.7)	(1.7)
Total pro forma adjustments to interest expense	<u>\$ 12.4</u>	<u>11.3</u>	<u>\$ 24.3</u>

For each 0.25 basis point change in the interest rate of the debt financing, our annual interest expense will change by \$0.6 million.