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

FORM 10-Q

(Mark One)

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

For The Quarterly Period Ended June 30, 2022

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

For the transition period from __________ to

Commission File No. 001-38609

KLX Energy Services Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	36-4904146
(State of Incorporation)	(I.R.S. Employer Identification No.)

3040 Post Oak Boulevard, 15th Floor
Houston, TX 77056
(832) 844-1015

(Address, including zip code, and telephone number, including area code, of principal executive offices of registrant)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.01 Par Value	KLXE	The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

The registrant has one class of common stock, $0.01 par value, of which 11,974,029 shares were outstanding as of August 5, 2022.

KLX Energy Services Holdings, Inc.
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PART 1 – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

KLX Energy Services Holdings, Inc.
Condensed Consolidated Balance Sheets
(In millions of U.S. dollars and shares)
(Unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31.5	$ 28.0
Accounts receivable–trade, net of allowance of $6.0 and $6.2	123.3	103.2
Inventories, net	26.0	22.4
Other current assets	17.8	11.1
Total current assets	198.6	164.7
Property and equipment, net	167.2	171.0
Operating lease assets	43.5	47.4
Intangible assets, net	2.1	2.2
Other assets	4.0	2.4
Total assets	$ 415.4	$ 387.7
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 85.7	$ 72.1
Accrued interest	5.3	5.0
Accrued liabilities	30.1	24.1
Current portion of operating lease obligations	14.7	15.9
Current portion of finance lease obligations	8.1	5.6
Total current liabilities	143.9	122.7
Long-term debt	295.4	274.8
Long-term operating lease obligations	28.7	31.5
Long-term finance lease obligations	16.3	9.1
Other non-current liabilities	0.4	1.0
Commitments, contingencies and off-balance sheet arrangements (Note 7)		
Stockholders' deficit:		
Common stock, $0.01 par value; 110.0 authorized; 12.3 and 10.5 issued	0.1	0.1
Additional paid-in capital	487.9	478.1
Treasury stock, at cost, 0.4 shares and 0.3 shares	(4.6)	(4.3)
Accumulated deficit	(552.7)	(525.3)
Total stockholders' deficit	(69.3)	(51.4)
Total liabilities and stockholders' deficit	$ 415.4	$ 387.7

See accompanying notes to condensed consolidated financial statements.

KLX Energy Services Holdings, Inc.
Condensed Consolidated Statements of Operations
(In millions of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2022	**July 31, 2021**	**June 30, 2022**	**July 31, 2021**
Revenues	$ 184.4	$ 111.9	$ 336.7	$ 202.7
Costs and expenses:				
Cost of sales	150.9	99.2	285.9	187.8
Depreciation and amortization	14.0	14.5	27.7	29.9
Selling, general and administrative	18.0	14.3	33.0	29.3
Research and development costs	0.1	0.1	0.2	0.2
Impairment and other charges	—	0.2	—	0.8
Bargain purchase gain	—	0.5	—	0.5
Operating income (loss)	1.4	(16.9)	(10.1)	(45.8)
Non-operating expense:				
Interest expense, net	8.7	8.0	17.0	15.8
Loss before income tax	(7.3)	(24.9)	(27.1)	(61.6)
Income tax expense	0.2	0.1	0.3	0.2
Net loss	$ (7.5)	$ (25.0)	$ (27.4)	$ (61.8)
Net loss per share-basic	$ (0.67)	$ (2.98)	$ (2.58)	$ (7.39)
Net loss per share-diluted	$ (0.67)	$ (2.98)	$ (2.58)	$ (7.39)

See accompanying notes to condensed consolidated financial statements.

KLX Energy Services Holdings, Inc.
Condensed Consolidated Statements of Stockholders' Deficit
Six Months Ended June 30, 2022 and July 31, 2021
(*In millions of U.S. dollars and shares*)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
Balance at December 31, 2021	10.5	$ 0.1	$ 478.1	$ (4.3)	$ (525.3)	$ (51.4)
Restricted stock, net of forfeitures	0.2	—	0.7	—	—	0.7
Purchase of treasury stock	—	—	—	(0.3)	—	(0.3)
Issuance of common stock, net of cost	0.7	—	3.7	—	—	3.7
Net loss	—	—	—	—	(19.9)	(19.9)
Balance at March 31, 2022	11.4	0.1	482.5	(4.6)	(545.2)	(67.2)
Restricted stock, net of forfeitures	—	—	0.8	—	—	0.8
Issuance of common stock, net of cost	0.9	—	4.6	—	—	4.6
Net loss	—	—	—	—	(7.5)	(7.5)
Balance at June 30, 2022	12.3	$ 0.1	$ 487.9	$ (4.6)	$ (552.7)	$ (69.3)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
Balance at January 31, 2021	8.6	$ 0.1	$ 469.1	$ (4.0)	$ (433.1)	$ 32.1
Adjustment to beginning period Retained Earnings as a result of Topic 842 adoption	—	—	—	—	1.6	1.6
Restricted stock, net of forfeitures	0.5	—	0.8	—	—	0.8
Purchase of treasury stock	—	—	—	(0.3)	—	(0.3)
Net loss	—	—	—	—	(36.8)	(36.8)
Balance at April 30, 2021	9.1	0.1	469.9	(4.3)	(468.3)	(2.6)
Restricted stock, net of forfeitures	—	—	1.0	—	—	1.0
Issuance of common stock, net of cost	0.1	—	—	—	—	—
Net loss	—	—	—	—	(25.0)	(25.0)
Balance at July 31, 2021	9.2	$ 0.1	$ 470.9	$ (4.3)	$ (493.3)	$ (26.6)

See accompanying notes to condensed consolidated financial statements.

KLX Energy Services Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions of U.S. dollars)
(Unaudited)

	Six Months Ended	
	June 30, 2022	**July 31, 2021**
Cash flows from operating activities:		
Net loss	$ (27.4)	$ (61.8)
Adjustments to reconcile net loss to net cash flows used in operating activities		
Depreciation and amortization	27.7	29.9
Impairment and other charges	—	0.8
Non-cash lease expense	0.1	0.0
Non-cash compensation	1.5	1.8
Amortization of deferred financing fees	0.6	0.6
Provision for inventory reserve	0.3	0.1
Change in allowance for doubtful accounts	—	0.2
Gain on disposal of property, equipment and other	(5.3)	(4.2)
Bargain purchase gain	—	0.5
Changes in operating assets and liabilities:		
Accounts receivable	(20.1)	(12.3)
Inventories	(3.9)	(1.9)
Other current and non-current assets	4.2	5.1
Accounts payable	9.6	3.8
Other current and non-current liabilities	(1.9)	—
Net cash flows used in operating activities	(14.6)	(37.4)
Cash flows from investing activities:		
Purchases of property and equipment	(13.6)	(5.7)
Proceeds from sale of property and equipment	6.5	8.6
Net cash flows (used in) provided by investing activities	(7.1)	2.9
Cash flows from financing activities:		
Purchase of treasury stock	(0.3)	(0.3)
Borrowings on ABL Facility	20.0	30.0
Proceeds from stock issuance, net of costs	8.3	—
Payments on finance lease obligations	(3.4)	(1.1)
Proceeds from finance lease refinancing	1.4	—
Change to financed payables	(0.8)	(1.8)
Net cash flows provided by financing activities	25.2	26.8
Net increase (decrease) in cash and cash equivalents	3.5	(7.7)
Cash and cash equivalents, beginning of period	28.0	47.1
Cash and cash equivalents, end of period	$ 31.5	$ 39.4
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Income taxes paid, net of refunds	$ 0.6	$ 0.3
Interest	16.0	14.7
Supplemental schedule of non-cash activities:		
Accrued capital expenditures	$ 4.0	$ 1.9

See accompanying notes to condensed consolidated financial statements.

KLX Energy Services Holdings, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited – U.S. dollars in millions, except per share data)

NOTE 1 - Description of Business and Basis of Presentation

Description of Business

KLX Energy Services Holdings, Inc. (the “Company”, “KLXE”, “KLX Energy Services”, "we", "us" or "our") is a growth-oriented provider of diversified oilfield services to leading onshore oil and natural gas exploration and production (“E&P”) companies operating in both conventional and unconventional plays in major active basins throughout the United States. The Company delivers mission critical oilfield services focused on drilling, completion, production and intervention activities for technically demanding wells in over 60 service and support facilities located throughout the United States.

The Company offers a complementary suite of proprietary products and specialized services that is supported by technically skilled personnel and a broad portfolio of innovative in-house manufacturing, repair and maintenance capabilities. KLXE’s primary services include coiled tubing, directional drilling, thru-tubing, hydraulic fracturing rentals, fishing, pressure control, wireline, rig-assisted snubbing, fluid pumping, flowback, pressure pumping and special situation services. KLXE’s primary rentals include hydraulic fracturing stacks, blow out preventers, tubulars, downhole tools, and accommodation units. KLXE's primary product offering includes a suite of proprietary dissolvable and composite plugs along with liner hangers, stage cementing tools, inflatables, float equipment and casing equipment.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. All adjustments which, in the opinion of the Company’s management, are considered necessary for a fair presentation of the results of operations for the periods shown are of a normal recurring nature and have been reflected in the condensed consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of the results expected for the full fiscal year 2022 or for any future period. The information included in these condensed consolidated financial statements should be read in conjunction with the condensed consolidated financial statements and accompanying notes included in the Company’s 2021 Transition Report on Form 10-K filed with the SEC on March 14, 2022.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ from those estimates.

NOTE 2 - Recent Accounting Pronouncements

Accounting Standards Updates not yet Adopted

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update, ("ASU") 2020-04, *Reference Rate Reform (“Topic 848”): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting and, particularly, the risk of cessation of the London Interbank Offered Rate (“LIBOR”). The amendments in this ASU are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments in this ASU are effective for all entities, if elected, through December 31, 2022. While the exact impact of this standard is not known, the guidance is not expected to have a material impact on the Company’s consolidated financial statements.

The financial services industry and market participants continue to work towards transitioning away from interbank offered rates ("IBOR"), including the LIBOR, which are in the process of being phased out. This phasing out will have an impact on the ABL Facility (defined below) that utilizes LIBOR as a benchmark. To transition from IBOR Reference Rate, the ABL Facility agreement between the Company and JP Morgan Chase & Co. ("JP Morgan"), which as of June 30, 2022 has borrowings outstanding of $50.0, will be amended to adopt an alternate rate effective on or before June 30, 2023. Until the ABL Facility agreement is amended to allow for Secured Overnight Financing Rate ("SOFR") as the replacement to LIBOR, the Alternate Base Rate ("ABR") is the default rate that JP Morgan has agreed to use as the LIBOR replacement.

In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses (“Topic 326”): Measurement of Credit Losses on Financial Instruments. This ASU is intended to update the measurement of credit losses on financial instruments. This update improves financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope by using the Current Expected Credit Losses (“CECL”) model. This guidance is effective for interim and annual periods beginning after December 15, 2022, with early adoption permitted. The new accounting standard introduces the CECL methodology for estimating allowances for credit losses. The Company is an oilfield service company and as of June 30, 2022 had a third-party accounts receivable balance, net of allowance, of $123.3. Topic 326 is not expected to have a material impact on the Company’s condensed consolidated financial statements.

NOTE 3 - Inventories, Net

Inventories consisted of the following:

	June 30, 2022	December 31, 2021
Spare parts	$ 16.9	$ 14.7
Plugs	5.5	6.0
Consumables	3.1	2.4
Other	2.5	2.0
Subtotal	28.0	25.1
Inventory reserve	(2.0)	(2.7)
Total inventories	$ 26.0	$ 22.4

Inventories are made up of spare parts, composite and dissolvable plugs and consumables used to perform services for customers. The Company values inventories at the lower of cost or net realizable value. Inventories are reported net of obsolescence reserves of $2.0 and $2.7 as of June 30, 2022 and December 31, 2021, respectively.

NOTE 4 - Property and Equipment, Net

Property and equipment consisted of the following:

	Useful Life (Years)			June 30, 2022		December 31, 2021	
Land, buildings and improvements	1	—	40	$	33.1	$	38.9
Machinery	1	—	20		215.8		211.4
Furniture and equipment	1	—	15		186.4		179.9
ROU assets - finance leases	1	—	20		28.5		16.5
Total property and equipment					463.8		446.7
Less accumulated depreciation					301.6		280.1
					162.2		166.6
Construction in progress					5.0		4.4
Property and equipment, net				$	167.2	$	171.0

Depreciation expense related to owned fixed assets was $12.4 and $14.1 for the three months ended June 30, 2022 and July 31, 2021, respectively, and $24.5 and $29.0 for the six months ended June 30, 2022 and July 31, 2021, respectively. Finance lease amortization expense was $1.6 and $0.3, respectively, for the three months ended June 30, 2022 and July 31, 2021, and $3.1 and $0.7, respectively, for the six months ended June 30, 2022 and July 31, 2021.

Assets Held for Sale

As of June 30, 2022, the Company's condensed consolidated balance sheet included assets classified as held for sale of $6.3. The assets held for sale are reported within other current assets on the condensed consolidated balance sheet and represent the value of three operational facilities, land and select equipment. These assets were being actively marketed for sale as of June 30, 2022 and were recorded at the lower of their carrying value or fair value less costs to sell.

NOTE 5 - Long-Term Debt

Outstanding long-term debt consisted of the following:

	June 30, 2022		December 31, 2021	
Senior Secured Notes	$	250.0	$	250.0
ABL Facility		50.0		30.0
Total principal outstanding		300.0		280.0
Unamortized debt issuance costs		4.6		5.2
Total debt, net	$	295.4	$	274.8

As of June 30, 2022, long-term debt consisted of $250.0 principal amount of 11.5% senior secured notes due 2025 (the "Notes") offered pursuant to Rule 144A under the Securities Act of 1933 (as amended, the "Securities Act") and to certain non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. On a net basis, after taking into consideration unamortized debt issuance costs for the Notes, total debt related to the Notes as of June 30, 2022 was $245.4. The Notes bear interest at an annual rate of 11.5%, payable semi-annually in arrears on May 1 and November 1. Accrued interest related to the Notes was $4.8 as of June 30, 2022.

As of June 30, 2022, the Company also had a $100.0 asset-based revolving credit facility pursuant to a senior secured credit agreement dated August 10, 2018 (the "ABL Facility"). The ABL Facility became effective on September 14, 2018 and matures in September 2023. On October 22, 2018, the ABL Facility was amended primarily to permit the Company to issue the Notes and acquire Motley Services, LLC ("Motley") and the definition of the required ratio (as defined in the ABL Facility) was also amended as a result of the Notes issuance.

The ABL Facility is tied to a borrowing base formula and has no maintenance financial covenants as long as the minimum level of borrowing availability is maintained. The ABL Facility is secured by, among other things, a first priority lien on the Company's accounts receivable and inventory and contains customary conditions precedent to borrowing and affirmative and negative covenants.

The ABL Facility includes a springing financial covenant which requires the Company's consolidated fixed charge coverage ratio ("FCCR") to be at least 1.0 to 1.0 if availability falls below the greater of $10.0 or 15.0% of the line cap. At all times during the six months ended June 30, 2022, availability exceeded this threshold, and the Company was not subject to this financial covenant. As of June 30, 2022, the FCCR was below 1.0 to 1.0, and the Company was in full compliance with its credit facility.

Borrowings outstanding under the ABL Facility were $50.0 as of June 30, 2022 and bear interest at a rate equal to LIBOR or SOFR plus the applicable margin (as defined in the ABL Facility). The effective interest rate under the ABL Facility was approximately 6.3% on June 30, 2022. Total letters of credit outstanding under the ABL Facility were $5.0 both at June 30, 2022 and at December 31, 2021. Accrued interest under the ABL Facility was $0.5 as of June 30, 2022.

The financial services industry and market participants continue to work towards transitioning away from IBOR, including the LIBOR, which are in the process of being phased out. This phasing out will have an impact on the ABL Facility that utilizes LIBOR as a benchmark. To transition from IBOR Reference Rate, the ABL Facility agreement between the Company and "JP Morgan", which as of June 30, 2022 has borrowings outstanding of $50.0, will be amended to adopt an alternate rate effective on or before June 30, 2023. Until the ABL Facility agreement is amended to allow for SOFR as the replacement to LIBOR, the ABR, is the default rate that JP Morgan has agreed to use as the LIBOR replacement.

We have total funds available of $39.2 and net funds available of $25.1, after $14.1 FCCR holdback, on the June 30, 2022 borrowing base certificate.

NOTE 6 - Fair Value Information

All financial instruments are carried at amounts that approximate estimated fair value. The fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. Assets measured at fair value are categorized based upon the lowest level of significant input to the valuations.

Level 1 – quoted prices in active markets for identical assets and liabilities.

Level 2 – quoted prices for identical assets and liabilities in markets that are not active or observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 – unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The carrying amounts of cash and cash equivalents, accounts receivable-trade and accounts payable represent their respective fair values due to their short-term nature. There was $50.0 debt outstanding under the ABL Facility as of June 30, 2022. The fair value of the ABL Facility approximates its carrying value as of June 30, 2022.

The following tables present the placement in the fair value hierarchy of the Notes, based on market prices for publicly traded debt, as of June 30, 2022 and December 31, 2021:

	June 30, 2022	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Senior Secured Notes, 11.5 Percent Due 2025	$ 151.3	$ —	$ 151.3	$ —
Total Senior Secured Notes	$ 151.3	$ —	$ 151.3	$ —

	December 31, 2021	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Senior Secured Notes, 11.5 Percent Due 2025	$ 136.3	$ —	$ 136.3	$ —
Total Senior Secured Notes	$ 136.3	$ —	$ 136.3	$ —

NOTE 7 - Commitments, Contingencies and Off-Balance-Sheet Arrangements

Environmental Regulations & Liabilities

The Company is subject to various federal, state and local environmental laws and regulations that establish standards and requirements for the protection of the environment. The Company continues to monitor the status of these laws and regulations. However, the Company cannot predict the future impact of such laws and regulations, as well as standards and requirements, on its business, which are subject to change and can have retroactive effectiveness. Currently, the Company has not been fined, cited or notified of any environmental violations or liabilities that would have a material adverse effect on its condensed consolidated financial statement position, results of operations, liquidity or capital resources. However, management does recognize that by the very nature of its business, material costs could be incurred in the future to maintain compliance. The amount of such future expenditures is not determinable due to several factors, including the unknown magnitude of possible regulation or liabilities, the unknown timing and extent of the corrective actions that may be required, the determination of the Company's liability in proportion to other responsible parties and the extent to which such expenditures are recoverable from insurance or indemnification.

Litigation

The Company is at times either a plaintiff or a defendant in various legal actions arising in the normal course of business, the outcomes of which, in the opinion of management, neither individually nor in the aggregate are likely to result in a material adverse effect on the Company's condensed consolidated financial statements.

On March 9, 2021, the Company filed claims in the District Court of Harris County, Texas against Magellan E&P Holdings, Inc. ("Magellan"), Redmon-Keys Insurance Group, Inc. and certain underwriters at Lloyd's ("Underwriters") to recover $4.6 owed on invoices duly issued by the Company for services rendered on behalf of the defendants in response to an offshore well blowout near Bob Hall Pier in Corpus Christi, Texas. Magellan did not dispute the invoices but alleged an inability to pay prior to obtaining funding from Underwriters under Magellan's Owner's Extra Expense Policy. On March 19, 2021, Underwriters filed a declaratory judgment action in the United States District Court for the Southern District of Texas seeking a declaration that certain blowout related expenses fall outside of policy coverage. On March 30, 2021, Magellan filed for bankruptcy pursuant to Chapter 7 of the U.S. bankruptcy code. The bankruptcy proceedings are ongoing. We expect that the trustee will continue to pursue claims against Underwriters as well as preference and other claims to maximize the value of the Chapter 7 estate for the benefit of trade creditors. During the year ended January 31, 2021, the Company reserved the full amount of its invoices totaling $4.6 as a prudent action in light of the Chapter 7 filing.

Indemnities, Commitments and Guarantees

During its ordinary course of business, the Company has made certain indemnities, commitments and guarantees under which it 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, as well as 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 the Company could be obligated to make. However, the Company is unable to estimate the maximum amount of liability related to its indemnities, commitments and guarantees because such liabilities are contingent upon the occurrence of events that are not reasonably determinable. Management believes that any liability for these indemnities, commitments and guarantees would not be material to the accompanying condensed consolidated financial statements. Accordingly, no significant amounts have been accrued for indemnities, commitments and guarantees.

NOTE 8 - Stockholders' Deficit

Equity Distribution Agreement

On June 14, 2021, the Company entered into an Equity Distribution Agreement (the “Equity Distribution Agreement”) with Piper Sandler & Co. as sales agent (the “Agent”). Pursuant to the terms of the Equity Distribution Agreement, the Company may sell from time to time through the Agent (the “ATM Offering”) the Company’s common stock, par value $0.01 per share, having an aggregate offering price of up to $50.0 (the “Common Stock”).

Any Common Stock offered and sold in the ATM Offering will be issued pursuant to the Company’s shelf registration statement on Form S-3 (Registration No. 333-256149) filed with the SEC on May 14, 2021 and declared effective on June 11, 2021 (the “Registration Statement”), the prospectus supplement relating to the ATM Offering filed with the SEC on June 14, 2021 and any applicable additional prospectus supplements related to the ATM Offering that form a part of the Registration Statement. Sales of Common Stock under the Equity Distribution Agreement may be made in any transactions that are deemed to be “at the market offerings” as defined in Rule 415 under the Securities Act.

The Equity Distribution Agreement contains customary representations, warranties and agreements by the Company, indemnification obligations of the Company and the Agent, including for liabilities under the Securities Act, other obligations of the parties and termination provisions. Under the terms of the Equity Distribution Agreement, the Company will pay the Agent a commission equal to 3.0% of the gross sales price of the Common Stock sold.

The Company plans to use the net proceeds from the ATM Offering, after deducting the Agent’s commissions and the Company’s offering expenses, for general corporate purposes, which may include, among other things, paying or refinancing all or a portion of the Company’s then-outstanding indebtedness, and funding acquisitions, capital expenditures and working capital.

During the three and six months ended June 30, 2022, the Company sold 889,271 and 1,584,648 shares of Common Stock, respectively, for gross proceeds of approximately $4.7 and $8.4, respectively, and paid legal and administrative fees of $0.1 and $0.1, respectively. During the three and six months ended July 31, 2021, the Company sold 60,216 shares of Common Stock in exchange for gross proceeds of approximately $0.6 and paid fees to the sales agent and other legal and accounting fees of $0.6 to establish the ATM Offering.

Stock-Based Compensation

The Company has a Long-Term Incentive Plan (“LTIP”) under which the compensation committee of the Board of Directors (the “Board”) of the Company (the “Compensation Committee”) has the authority to grant stock options, stock appreciation rights, restricted stock, restricted stock units or other forms of equity-based or equity-related awards. Compensation cost for the LTIP grants is generally recorded on a straight-line basis over the vesting term of the shares based on the grant date value using the closing trading price.

On February 12, 2021, the stockholders of KLXE approved the KLX Energy Services Holdings, Inc. Long-Term Incentive Plan (Amended and Restated as of December 2, 2020) (the “Amended and Restated LTIP”), which, among other things, increased the total number of shares of Company Common Stock, par value $0.01 per share, and reserved for issuance under the Amended and Restated LTIP by 632,051 shares. A description of the Amended and Restated LTIP is included in the Company’s proxy statement, filed with the SEC on January 11, 2021.

Compensation cost recognized during the three and six months ended June 30, 2022 and July 31, 2021 was related to grants of restricted stock as approved by the Compensation Committee. Stock-based compensation was $0.8 and $1.0 for the three months ended June 30, 2022 and July 31, 2021, respectively, and $1.5 and $1.8 for the six months ended June 30, 2022 and July 31, 2021, respectively. Unrecognized compensation cost related to restricted stock awards made by the Company was $5.7 at June 30, 2022.

NOTE 9 - Income Taxes

Income tax expense was $0.2 and $0.3 for the three and six months ended June 30, 2022, respectively, and was comprised primarily of state and local taxes, compared to $0.1 and $0.2 for the three and six months ended July 31, 2021, respectively. The Company has a valuation allowance against its deferred tax balances and, as a result, it was unable to recognize a tax benefit on its year-to-date losses.

In response to the COVID-19 pandemic, many governments have enacted measures to provide aid and economic stimulus. These measures include deferring the due dates of tax payments or other changes to their income and non-income-based tax laws. The Coronavirus Aid, Relief, and Economic Security Act, which was enacted on March 27, 2020 in the United States, includes measures to assist companies, including temporary changes to income and non-income-based tax laws. The Company has deferred the employer portion of FICA tax payments of $2.0 through June 30, 2022. This deferral is included on the condensed consolidated balance sheet in accrued liabilities. The payment is due by December 31, 2022.

The Company continues to monitor additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service and others.

NOTE 10 - Segment Reporting

The Company is organized on a geographic basis. The Company’s reportable segments, which are also its operating segments, are comprised of the Rocky Mountains Region (the Bakken, Williston, DJ, Uinta, Powder River, Piceance and Niobrara basins), the Southwest Region (the Permian Basin and the Eagle Ford Shale) and the Northeast/Mid-Con Region (the Marcellus and Utica Shale as well as the Mid-Continent STACK and SCOOP and Haynesville Shale). The segments regularly report their results of operations and make requests for capital expenditures and acquisition funding to the Company's chief operational decision-making group ("CODM"). As a result, the Company has three reportable segments.

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The following table presents revenues and operating loss by reportable segment:

	Three Months Ended		Six Months Ended	
	June 30, 2022	July 31, 2021	June 30, 2022	July 31, 2021
Revenues				
Rocky Mountains	$ 53.1	$ 33.6	$ 96.4	$ 57.9
Southwest	60.0	43.0	111.9	81.0
Northeast/Mid-Con	71.3	35.3	128.4	63.8
Total revenues	184.4	111.9	336.7	202.7
Operating income (loss)				
Rocky Mountains	4.0	(2.2)	3.2	(9.4)
Southwest	2.0	(3.7)	1.6	(11.2)
Northeast/Mid-Con	7.3	(3.8)	6.5	(10.6)
Corporate and other	(11.9)	(7.2)	(21.4)	(14.6)
Total operating income (loss)	1.4	(16.9)	(10.1)	(45.8)
Interest expense, net	8.7	8.0	17.0	15.8
Loss before income tax	$ (7.3)	$ (24.9)	$ (27.1)	$ (61.6)

The following table presents revenues by service offering by reportable segment:

	Three Months Ended							
	June 30, 2022				July 31, 2021			
	Rocky Mountains	Southwest	Northeast /Mid-Con	Total	Rocky Mountains	Southwest	Northeast /Mid-Con	Total
Drilling	$ 6.7	$ 27.8	$ 17.5	$ 52.0	$ 2.3	$ 18.6	$ 11.1	$ 32.0
Completion	27.2	20.8	43.8	91.8	18.7	14.5	18.0	51.2
Production	11.9	6.0	4.1	22.0	8.1	5.8	2.8	16.7
Intervention	7.3	5.4	5.9	18.6	4.5	4.1	3.4	12.0
Total revenues	$ 53.1	$ 60.0	$ 71.3	$ 184.4	$ 33.6	$ 43.0	$ 35.3	$ 111.9

	Six Months Ended							
	June 30, 2022				July 31, 2021			
	Rocky Mountains	Southwest	Northeast /Mid-Con	Total	Rocky Mountains	Southwest	Northeast /Mid-Con	Total
Drilling	$ 10.4	$ 51.4	$ 33.1	$ 94.9	$ 3.3	$ 33.1	$ 20.3	$ 56.7
Completion	52.7	38.3	77.7	168.7	33.0	30.7	32.4	96.1
Production	20.9	11.7	7.3	39.9	13.7	9.7	5.2	28.6
Intervention	12.4	10.5	10.3	33.2	7.9	7.5	5.9	21.3
Total revenues	$ 96.4	$ 111.9	$ 128.4	$ 336.7	$ 57.9	$ 81.0	$ 63.8	$ 202.7

The following table presents capital expenditures by reportable segment:

	Three Months Ended		Six Months Ended	
	June 30, 2022	July 31, 2021	June 30, 2022	July 31, 2021
Rocky Mountains	$ 1.7	$ 1.2	$ 3.3	$ 1.9
Southwest	2.3	1.1	3.9	1.9
Northeast/Mid-Con	3.8	1.1	6.4	1.8
Corporate and other	—	0.1	—	0.1
Total capital expenditures	$ 7.8	$ 3.5	$ 13.6	$ 5.7

The following table presents total assets by segment:

	June 30, 2022	December 31, 2021
Rocky Mountains	$ 136.2	$ 127.7
Southwest	139.9	134.4
Northeast/Mid-Con	107.6	97.6
Total	383.7	359.7
Corporate and other	31.7	28.0
Total assets	$ 415.4	$ 387.7

NOTE 11 - Net Loss Per Common Share

Basic net loss per common share is computed using the weighted average common shares outstanding during the period. Diluted net loss per common share is computed by using the weighted average common shares outstanding, including the dilutive effect of restricted shares based on an average share price during the period. For the three months ended June 30, 2022 and July 31, 2021, 0.4 and 0.5 million shares of the Company's common stock, respectively, and for the six months ended June 30, 2022 and July 31, 2021, 0.4 and 0.4 million shares of the Company's common stock, respectively, were excluded from the determination of diluted net loss per common share because their effect would have been anti-dilutive. The computations of basic and diluted net loss per share for the three and six months ended June 30, 2022 and July 31, 2021 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2022	July 31, 2021	June 30, 2022	July 31, 2021
Net loss	$ (7.5)	$ (25.0)	$ (27.4)	$ (61.8)
(Shares in millions)				
Basic weighted average common shares	11.2	8.4	10.7	8.4
Effect of dilutive securities - dilutive securities	—	—	—	—
Diluted weighted average common shares	11.2	8.4	10.7	8.4
Basic net loss per common share	$ (0.67)	$ (2.98)	$ (2.58)	$ (7.39)
Diluted net loss per common share	$ (0.67)	$ (2.98)	$ (2.58)	$ (7.39)

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information to investors. This Quarterly Report on Form 10-Q (this "Quarterly Report") includes forward-looking statements that reflect our current expectations and projections about our future results, performance and prospects. Forward-looking statements include all statements that are not historical in nature or are not current facts. When used in this Quarterly Report, the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "might," "should," "could," "will" or the negative of these terms or similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

These forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause our actual results, performance and prospects to differ materially from those expressed in, or implied by, these forward-looking statements. Factors that might cause such a difference include those discussed in our filings with the SEC, in particular those discussed under the headings "Risk

Factors" in our Transition Report on Form 10-K for the fiscal year ended December 31, 2021 and in this Quarterly Report, including the following factors:

- the extraordinary market environment and impacts resulting from the novel coronavirus ("COVID-19") pandemic;
- increased volatility in national and global crude oil demand and crude oil prices;
- the possibility of inefficiencies, curtailments or shutdowns in our customers' operations, whether due to COVID-19 repercussions in the workforce or in response to reductions in demand;
- uncertainty regarding our future operating results;
- our credit profile and our ability to renew or refinance our indebtedness;
- regulation of and dependence upon the energy industry;
- the cyclical nature of the energy industry;
- fluctuations in market prices for fuel, oil and natural gas;
- our ability to maintain acceptable pricing for our services;
- competitive conditions within the industry;
- the loss of or interruption in operations of one or more key suppliers;
- legislative or regulatory changes and potential liability under federal and state laws and regulations;
- decreases in the rate at which oil and/or natural gas reserves are discovered and/or developed;
- the impact of technological advances on the demand for our products and services;
- customers' delays in obtaining permits for their operations;
- hazards and operational risks that may not be fully covered by insurance;
- the need to obtain additional capital or financing, and the availability and/or cost of obtaining such capital or financing;
- limitations originating from our organizational documents, debt instruments and U.S. federal income tax obligations may impact our financial flexibility, our ability to engage in strategic transactions or our ability to declare and pay cash dividends on our common stock;
- general economic conditions, such as inflation or increases in interest rates;
- changes in supply, demand and costs of equipment;
- oilfield anti-indemnity provisions;
- seasonal and adverse weather conditions that can affect oil and natural gas operations;
- reliance on information technology resources and the inability to implement new technology and services;
- the possibility of international conflicts, terrorist or cyber-attacks and the consequences of any such events;
- increased labor costs or our ability to employ, or maintain the employment of, a sufficient number of key employees, technical personnel, and other skilled and qualified workers;
- the inability to successfully consummate acquisitions or inability to manage potential growth; and
- our ability to remediate any material weakness in, or to maintain effective, internal controls over financial reporting and disclosure controls and procedures.

In light of these risks and uncertainties, you are cautioned not to put undue reliance on any forward-looking statements in this Quarterly Report. These statements should be considered only after carefully reading this entire Quarterly Report. Except as required under the federal securities laws and rules and regulations of the SEC, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed in this Quarterly Report not to occur.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (U.S. dollars in millions, except per share data)

The following discussion and analysis should be read in conjunction with the historical condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report as well as our Transition Report on Form 10-K for the fiscal year ended December 31, 2021. This discussion contains forward-looking statements reflecting our current expectations and estimates and assumptions concerning events and financial trends that may affect our future operating results or financial position. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the sections entitled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this Quarterly Report.

The following discussion and analysis addresses the results of our operations for the three and six months ended June 30, 2022, as compared to our results of operations for the three and six months ended July 31, 2021. In addition, the discussion and analysis addresses our liquidity, financial condition and other matters for these periods.

Company History

KLX Energy Services was initially formed from the combination of seven private oilfield service companies acquired during 2013 and 2014. 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. In November 2018, we expanded our completion and intervention service offerings through the acquisition of Motley, a premier provider of large diameter coiled tubing services, further enhancing our completions business. We successfully completed the integration of the Motley business during fiscal 2018. On March 15, 2019, the Company acquired Tecton Energy Services ("Tecton"), a leading provider of flowback, drill-out and production testing services, operating primarily in the greater Rocky Mountains. In March 2019, the Company acquired Red Bone Services LLC ("Red Bone"), a premier provider of oilfield services primarily in the Mid-Continent region, providing fishing, non-hydraulic fracturing high pressure pumping, thru-tubing and certain other services. We successfully completed the integration of the Tecton and Red Bone businesses during fiscal 2019. We acquired Quintana Energy Services ("QES") during the second quarter of 2020 and, by doing so, helped establish KLXE as an industry leading provider of diversified oilfield solutions across the full well lifecycle to the major onshore oil and gas producing regions of the United States.

The merger of KLXE and QES (the "Merger") provided increased scale to serve a blue-chip customer base across the onshore oil and gas basins in the United States. The Merger combined two strong company cultures comprised of highly talented teams with shared commitments to safety, performance, customer service and profitability. The combination leveraged two of the largest fleets of coiled tubing and wireline assets, with KLXE becoming a leading provider of large diameter coiled tubing and wireline services and one of the largest independent providers of directional drilling to the U.S. market.

After closing the Merger, the Company has focused on integrating personnel, facilities, processes and systems across all functional areas of the organization. Additional synergies may be realized as management continues to rationalize operational facilities and align common roles, processes and systems throughout each function and region. The Merger also enhanced the Company's ability to effect further industry consolidation.

Looking ahead, the Company expects to continue to evaluate strategic, accretive consolidation opportunities that further strengthen the Company's competitive positioning and capital structure and drive efficiencies, accelerate growth and create long-term stockholder value.

Company Overview

We serve many of the leading companies engaged in the exploration and development of onshore conventional and unconventional oil and natural gas reserves in the United States. Our customers are primarily large independent and major oil and gas companies. We currently support these customer operations from over 60 service facilities located in the key major shale basins. We operate in three segments on a geographic basis, including the Rocky Mountains Region (the Bakken, Williston, DJ, Uinta, Powder River, Piceance and Niobrara basins), the Southwest Region (the Permian Basin, Eagle Ford Shale and the Gulf Coast as well as in industrial and petrochemical facilities) and the Northeast/Mid-Con Region (the Marcellus and Utica Shale as well as the Mid-Continent STACK and SCOOP and Haynesville Shale). Our revenues, operating earnings and identifiable assets are primarily attributable to these three reportable geographic segments. While we manage our business based upon these geographic groupings, our assets and our technical personnel are deployed on a dynamic basis across all of our service facilities to optimize utilization and profitability.

These expansive operating areas provide us with access to a number of nearby unconventional crude oil and natural gas basins, both with existing customers expanding their production footprint and third parties acquiring new acreage. Our proximity to existing and prospective customer activities allows us to anticipate or respond quickly to such customers' needs and efficiently deploy our assets. We believe that our strategic geographic positioning will benefit us as activity increases in our core operating areas. Our broad geographic footprint provides us with exposure to the ongoing recovery in drilling, completion, production and intervention related service activity and will allow us to opportunistically pursue new business in basins with active drilling environments.

We work with our customers to provide engineered solutions across the lifecycle of the well by streamlining operations, reducing non-productive time and developing cost effective solutions and customized tools for our customers' challenging service needs, including their technically complex extended reach horizontal wells. We believe future revenue growth opportunities will continue to be driven by increases in the number of new customers served and the breadth of services we offer to existing and prospective customers.

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 proprietary equipment. Our innovative and adaptive approach to proprietary tool design has been employed by our in-house research and development ("R&D") organization and, in selected instances, by our technology partners to develop tools covered by 29 patents and 7 pending patent applications, which we believe differentiates us from our regional competitors and also allows us to deliver more focused service and better outcomes in our specialized services than larger national competitors that do not discretely dedicate their resources to the services we provide.

We utilize contract manufacturers to produce our products which, in many cases, our engineers have developed from 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. This approach leverages our technical strengths, as well as those of our technology partners. These services and related products are modest in cost to the customer relative to other well construction expenditures but have a high cost of failure and are, therefore, critical to our customers' outcomes. We believe our customers have come to depend on our decades of field experience to execute on some of the most challenging problems they face. We believe we are well positioned as a company to service customers when they are drilling and completing complex wells, and remediating both newer and older legacy wells.

We invest in innovative technology and equipment designed for modern production techniques that increase efficiencies and production for our customers. North American unconventional 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 technically complex wells where the potential for increased operating leverage is high due to the large number of stages per well.

We endeavor 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.

Recent Trends and Outlook

Demand for services in the oil and natural gas industry is cyclical and subject to sudden and significant volatility. Market demand for our services is experiencing a recovery from the lows of the last two years that were heavily impacted by the COVID-19 pandemic. While COVID-19 continues to affect the global economy, overall industrial activity is experiencing growth in the first half of 2022. This recent trend is buoyed by less severe COVID-19 cases, fiscal and monetary stimulus policies, and pent-up demand for goods and services. The ongoing Russian invasion of Ukraine has contributed to a growing price resurgence for crude oil and is a major factor behind the increased demand for drilling, completion and production activities.

So far in fiscal year 2022, West Texas Intermediate ("WTI") prices have increased an incremental 33.5% from January 1 to March 31 and another 7.2% from April 1 to June 30. In response to the rising oil prices and as a response to the energy crisis resulting from the Russian-Ukrainian war, the United States has continued to increase drilling and completion activity levels. As of June 30, 2022, U.S. rig count was up to 750, an increase of 28.0% since December 31, 2021, according to a report from Baker Hughes. However, commodity prices have recently declined slightly from the highs experienced in the second quarter and the demand for commodities could decline further due to, among other things, uncertainty and volatility arising from the ongoing conflict in Ukraine, release of sanctions on Russia, a widespread resurgence of the COVID-19 outbreak, higher gas prices, increasing inflation and government efforts to reduce inflation, or possible changes in the overall health of the global economy, including a prolonged recession. Although current forward strip for commodity prices indicate expectations of relatively high commodity prices over the next twelve months or longer, the current commodity price environment remains uncertain and the extent to which commodity prices and our operating and financial results of future periods will be impacted by the ongoing conflict in Ukraine, increasing inflation, government efforts to reduce inflation, any recession, the COVID-19 pandemic and the actions of foreign oil and gas producers will depend largely on future developments, which are highly uncertain and cannot be accurately predicted.

During the quarter ended June 30, 2022, the Producer Price Index as measured by the Bureau of Labor Statistics increased by 2.4%. In line with this trend, we have experienced higher costs for goods used in providing services to our customers. In addition, we face increased competition for labor, as turnover in the industry is still fairly high. We are spending more to attract and retain employees in the field, especially as we are planning for continued growth for the remainder of this fiscal year. At the same time, we have seen increased demand for our services, which has allowed us to implement price increases with our customers across all regions.

The Company remains focused on building a leaner and more profitable set of service offerings, which has allowed us to make meaningful positive impacts to our revenue, operating margins, cash flows and Adjusted EBITDA. We have taken, and are continuing to take, steps to reduce costs, including reductions in capital expenditures, as well as other workforce rightsizing and ongoing cost initiatives.

We believe our diverse product and service offerings uniquely position KLXE to respond to a rapidly evolving marketplace where we can provide a comprehensive suite of engineered solutions for our customers with one call and one master services agreement.

How We Generate Revenue and the Costs of Conducting Our Business

Our business strategy seeks to generate attractive returns on capital by providing differentiated services and prudently applying our cash flow to select targeted opportunities, with the potential to deliver high returns that we believe offer superior margins over the long-term. Our services generally require equipment that is less expensive to maintain and is operated by a smaller staff than many other oilfield service providers. As part of our returns-focused approach to capital spending, we are focused on efficiently utilizing capital to develop 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.

Demand for services in the oil and natural gas industry is cyclical and subject to sudden and significant volatility. We remain focused on serving the needs of our customers by providing a broad portfolio of product service lines across the major basins, while maintaining sufficient operating liquidity and prudently managing our capital expenditures.

We believe we have strong management systems in place, which will allow us to manage our operating resources and associated expenses relative to market conditions. Historically, we believe our services have generated margins superior to our competitors based upon the differential quality of our performance, and that these margins would contribute to future cash flow generation. The required investment in our business includes both working capital (principally for accounts receivable, inventory and accounts payable growth tied to increasing activity and revenues) and capital expenditures for both maintenance of existing assets and ultimately growth when economic returns justify the spending.

How We Evaluate Our Operations

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 measures we believe most effective to achieve the above stated goals include:

- *Revenue*
- *Adjusted Earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")*: Adjusted EBITDA is a supplemental non-GAAP financial measure that is used by management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies. Adjusted EBITDA is not a measure of net earnings or cash flows as determined by GAAP. We define Adjusted EBITDA as net earnings (loss) before interest, taxes, depreciation and amortization, further adjusted for (i) goodwill and/or long-lived asset impairment charges, (ii) stock-based compensation expense, (iii) restructuring charges, (iv) transaction and integration costs related to acquisitions and (v) other expenses or charges to exclude certain items that we believe are not reflective of ongoing performance of our business.
- *Adjusted EBITDA Margin:* Adjusted EBITDA Margin is defined as Adjusted EBITDA, as defined above, as a percentage of revenue.

We believe Adjusted EBITDA is useful because it allows us to supplement the GAAP measures in order to evaluate our operating performance and compare the results of our operations from period to period without regard to our financing methods or capital structure. We exclude the items listed above in arriving at Adjusted EBITDA (Loss) because these amounts can vary substantially from company to company within our industry depending upon accounting methods, book values of assets, capital structures and the method by which the assets were acquired. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net (loss) earnings as determined in accordance with GAAP, or as an indicator of our operating performance or liquidity. Certain items excluded from Adjusted EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historic costs of depreciable assets, none of which are components of Adjusted

EBITDA. Our computations of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

Results of Operations

Three Months Ended June 30, 2022 Compared to Three Months Ended July 31, 2021

Revenue. The following is a summary of revenue by segment:

	Three Months Ended		
	June 30, 2022	July 31, 2021	% Change
Revenue:			
Rocky Mountains	$ 53.1	$ 33.6	58.0 %
Southwest	60.0	43.0	39.5 %
Northeast/Mid-Con	71.3	35.3	102.0 %
Total revenue	$ 184.4	$ 111.9	64.8 %

For the quarter ended June 30, 2022, revenues were $184.4, an increase of $72.5, or 64.8%, as compared with the prior year period. Rocky Mountains segment revenue increased by $19.5, or 58.0%, Southwest segment revenue increased by $17.0, or 39.5%, and Northeast/Mid-Con segment revenues increased by $36.0, or 102.0%. The increase in Rocky Mountains revenue was driven by an increase in activity and pricing across service lines, most prominently in rentals, directional drilling, tech services and wireline. The increase in Southwest revenue was primarily driven by a similar increase in activity and pricing across service lines, with directional drilling, coiled tubing and wireline experiencing the largest increases. The two-fold increase of Northeast/Mid-Con revenue was due to a large increase in pressure pumping, accommodations and directional drilling activity and pricing in the region.

On a product line basis, drilling, completion, production and intervention services contributed approximately 28.2%, 49.8%, 11.9% and 10.1%, respectively, to revenue for the three months ended June 30, 2022. Drilling, completion, production and intervention services revenues increased by approximately $20.0, $40.6, $5.3 and $6.6, respectively, as compared to the three months ended July 31, 2021.

Cost of sales. For the quarter ended June 30, 2022, cost of sales were $150.9, or 81.8% of sales, as compared to the three months ended July 31, 2021 of $99.2, or 88.7% of sales. Cost of sales as a percentage of revenues decreased primarily due to improvement in pricing that outpaced the increasing cost of labor during the quarter. Additionally, the Company experienced inflationary pressures in raw materials and finished goods, but price increases partially offset the inflationary pressures.

Selling, general and administrative expenses. For the quarter ended June 30, 2022, selling, general and administrative (“SG&A”) expenses were $18.0, or 9.8% of revenues, as compared with $14.3, or 12.8% of revenues, in the prior year period. The reduction in percentage of revenues is mainly due to strong operating leverage facilitating minimal SG&A increases as revenue increased 64.8% in the three months ended June 30, 2022 as compared to the three months ended July 31, 2021.

Operating income (loss). The following is a summary of operating income (loss) by segment:

	Three Months Ended		
	June 30, 2022	July 31, 2021	% Change
Operating income (loss):			
Rocky Mountains	$ 4.0	$ (2.2)	281.8 %
Southwest	2.0	(3.7)	154.1 %
Northeast/Mid-Con	7.3	(3.8)	292.1 %
Corporate and other	(11.9)	(7.2)	(65.3)%
Total operating income (loss)	$ 1.4	$ (16.9)	108.3 %

For the quarter ended June 30, 2022, operating income was $1.4 compared to operating loss of $16.9 in the prior year period, due to improvements in activity and pricing.

Each segment's operating results improved significantly compared to the prior year period. Rocky Mountains segment operating income was $4.0, Southwest segment operating income was $2.0, and Northeast/Mid-Con segment operating income was $7.3 for the three months ended June 30, 2022. The driving factor for the improvement in each case was higher pricing and activity during the period.

Income tax expense. For the quarter ended June 30, 2022, income tax expense was $0.2, as compared to income tax expense of $0.1 in the prior year period, and was comprised primarily of state and local taxes. The Company did not recognize a tax benefit on its year-to-date losses because it has a valuation allowance against its deferred tax balances.

Net loss. For the quarter ended June 30, 2022, net loss was $7.5, as compared to $25.0 in the prior year period, primarily as a result of improving industry conditions.

Results of Operations

Six Months Ended June 30, 2022 Compared to Six Months Ended July 31, 2021

Revenue. The following is a summary of revenue by segment:

	Six Months Ended		
	June 30, 2022	July 31, 2021	% Change
Revenue:			
Rocky Mountains	$ 96.4	$ 57.9	66.5 %
Southwest	111.9	81.0	38.1 %
Northeast/Mid-Con	128.4	63.8	101.3 %
Total revenue	$ 336.7	$ 202.7	66.1 %

For the six months ended June 30, 2022, revenues were $336.7, an increase of $134.0, or 66.1%, as compared with the prior year period. Rocky Mountains segment revenue increased by $38.5, or 66.5%, Southwest segment revenue increased by $30.9, or 38.1%, and Northeast/Mid-Con segment revenues increased by $64.6, or 101.3%. The increase in Rocky Mountains revenue was driven by an increase in activity and pricing across service lines, most prominently in rentals, wireline, directional drilling, tech services and coiled tubing. The increase in Southwest revenue was primarily driven by a similar increase in activity and pricing across service lines, with directional drilling and coiled tubing experiencing the largest increases. The two-fold increase of Northeast/Mid-Con revenue was due to a large increase in pressure pumping, directional drilling, accommodations, tech services and coiled tubing activity and pricing in the region.

On a product line basis, drilling, completion, production and intervention services contributed approximately 28.2%, 50.1%, 11.8% and 9.9%, respectively, to revenue for the six months ended June 30, 2022. Drilling, completion, production and intervention services revenues increased by approximately $38.2, $72.6, $11.3 and $11.9, respectively, as compared to the six months ended July 31, 2021.

Cost of sales. For the six months ended June 30, 2022, cost of sales were $285.9, or 84.9% of sales, as compared to the six months ended July 31, 2021 of $187.8, or 92.6% of sales. Cost of sales as a percentage of revenues decreased primarily due to improvement in pricing that outpaced the increasing cost of labor during the six months ended June 30, 2022. Additionally, the Company experienced inflationary pressures in raw materials and finished goods, but price increases partially offset the inflationary pressures.

Selling, general and administrative expenses. For the six months ended June 30, 2022, SG&A expenses were $33.0, or 9.8% of revenues, as compared with $29.3, or 14.5% of revenues, in the prior year period. The reduction in percentage of revenues is mainly due to strong operating leverage facilitating minimal SG&A increases as revenue increased 66.1% in the six months ended June 30, 2022 as compared to the six months ended July 31, 2021.

Operating income (loss). The following is a summary of operating income (loss) by segment:

	Six Months Ended		
	June 30, 2022	**July 31, 2021**	**% Change**
Operating income (loss):			
Rocky Mountains	$ 3.2	$ (9.4)	134.0 %
Southwest	1.6	(11.2)	114.3 %
Northeast/Mid-Con	6.5	(10.6)	161.3 %
Corporate and other	(21.4)	(14.6)	(46.6)%
Total operating loss	$ (10.1)	$ (45.8)	77.9 %

For the six months ended June 30, 2022, operating loss was $10.1 compared to operating loss of $45.8 in the prior year period, due to improvements in activity and pricing.

Each segment's operating results improved significantly compared to the prior year period. Rocky Mountains segment operating income was $3.2, Southwest segment operating income was $1.6, and Northeast/Mid-Con segment operating income was $6.5 for the six months ended June 30, 2022. The driving factor for the improvement in each case was higher pricing and activity during the period.

Income tax expense. For the six months ended June 30, 2022, income tax expense was $0.3, as compared to income tax expense of $0.2 in the prior year period, and was comprised primarily of state and local taxes. The Company did not recognize a tax benefit on its year-to-date losses because it has a valuation allowance against its deferred tax balances.

Net loss. For the six months ended June 30, 2022, net loss was $27.4, as compared to $61.8 in the prior year period, primarily as a result of improving industry conditions, driving improved revenue and margins.

Liquidity and Capital Resources

Overview

We require capital to fund ongoing operations, including maintenance expenditures on our existing fleet and equipment, organic growth initiatives, debt service obligations, investments and acquisitions. Our primary sources of liquidity to date have been capital contributions from our equity and note holders, borrowings under the Company's ABL Facility and cash flows from operations. At June 30, 2022, we had $31.5 of cash and cash equivalents and $25.1 available on the June 30, 2022 ABL Facility Borrowing Base Certificate, net of $14.1 FCCR holdback, which resulted in a total available liquidity position of $56.6.

Our material cash commitments from known contractual and other obligations consist primarily of obligations for long-term debt and related interest as well as leases for property and equipment and purchase obligations as part of normal operations. See below "— ABL Facility" and "—Senior Notes" for information regarding scheduled maturities of our long-term debt. See "Note 10 - Leases" of Item 8 in our 2021 Transition Report on Form 10-K filed with the SEC on March 14, 2022 for information regarding scheduled maturities of our operating and financing leases.

We have taken several actions to continue to improve our liquidity position, including issuing equity under our ATM program and monetizing non-core and obsolete assets. We actively manage our capital spending and are focused primarily on required maintenance spending. Additionally, despite the continuing COVID-19 pandemic, increasing oil prices have resulted in an increase in demand for our services and a slight improvement in our operating cash flow in the first half of 2022 as compared to the first half of 2021 as reported. We believe based on our current forecasts, our cash on hand, continued draws under the ABL Facility, together with our cash flows, will provide us with the ability to fund our operations, including planned capital expenditures, for at least the next twelve months. Based on current trends, we believe that our liquidity beyond the next twelve months will increase as our operational results continue to improve. However, we are unable to quantify or guarantee this increase, and there can be no certainty that current trends will continue and that our liquidity and financial position will continue to improve.

We have substantial indebtedness. As of June 30, 2022, we had total outstanding long-term indebtedness of $295.4 under our ABL Facility and Senior Notes as described in greater detail under "— ABL Facility" and "—Senior Notes" below. Our ability to pay the principal and interest on our long-term debt and to satisfy our other liabilities will depend on our future operating performance and ability to refinance our debt as it becomes due. Our future operating performance and ability to satisfy our liquidity requirements and refinance such indebtedness will be affected by prevailing economic and political conditions, the level of drilling, completion, production and intervention services activity for North American onshore oil and natural gas resources, the continuation of the COVID-19 pandemic, the willingness of capital providers to lend to our industry and other financial and business factors, many of which are beyond our control.

Our ability to refinance or restructure our debt will depend on the condition of the public and private debt markets and our financial condition at such time, among other things. Any refinancing of our debt could be at higher interest rates and may require us to comply with covenants, which could further restrict our business operations. A rising interest rate environment could have an adverse impact on the price of our shares, or our ability to issue equity or incur debt to refinance our existing indebtedness, for acquisitions or other purposes. In addition, incurring additional debt in excess of our existing outstanding indebtedness would result in increased interest expense and financial leverage, and issuing common stock may result in dilution to our current stockholders.

Our ABL Facility matures in September 2023 and we are in discussions with our existing lenders and other sources of capital to refinance the ABL Facility. If we are unable to refinance the ABL Facility over the next twelve months and uncertainty around our ability to refinance or restructure our existing long-term debt still exists, that could result in our auditors issuing a "going concern" or similar qualification or exception as early as our audit opinion with respect to the fiscal year ending December 31, 2022. The delivery of an audit opinion with such a qualification would result in an event of default under our ABL Facility. If an event of default occurs, the lenders under the ABL Facility would be entitled to accelerate any outstanding indebtedness, terminate all undrawn commitments and enforce liens securing our obligations under the ABL

Facility. Further, the acceleration of indebtedness under our ABL Facility could cause an event of default under our Senior Notes, entitling the requisite holders of the Senior Notes to accelerate our indebtedness in respect thereof and enforce liens securing our obligations under the Senior Notes. If our lenders or noteholders accelerate our obligations under the affected debt agreements, we may not have sufficient liquidity to repay all of our outstanding indebtedness then due and payable.

In light of our substantial leverage position and the uncertainty regarding future market conditions, availability of capital and our financial performance, as market conditions warrant and subject to our contractual restrictions, liquidity position and other factors, we may explore various alternatives to recapitalize, refinance or otherwise restructure our capital structure. We may accomplish this through open market or privately negotiated transactions, which may include, among other things, a mix of refinancings, private or public equity or debt raises and rights offerings, repurchases of our outstanding debt, debt-for-debt or debt-for-equity exchanges that if successful could result in the dilution of ownership by existing stockholders. Some of these alternatives may require the consent of current lenders, stockholders or noteholders, and there is no assurance that we will be able to execute any of these alternatives on acceptable terms, or at all.

ABL Facility

We entered into a $100.0 ABL Facility on August 10, 2018. The ABL Facility became effective on September 14, 2018 and is scheduled to mature in September 2023. Borrowings under the ABL Facility bear interest at a rate equal to LIBOR (as defined in the ABL Facility) plus the applicable margin (as defined). Availability under the ABL Facility is tied to a borrowing base formula and the ABL Facility has no maintenance financial covenants as long as we maintain a minimum level of borrowing availability. The ABL Facility is secured by, among other things, a first priority lien on our accounts receivable and inventory and contains customary conditions precedent to borrowing and affirmative and negative covenants. $50.0 was outstanding under the ABL Facility as of June 30, 2022. The effective interest rate under the ABL Facility was approximately 6.3% on June 30, 2022.

The financial services industry and market participants continue to work towards transitioning away from IBOR, including the LIBOR, which are in the process of being phased out. This phasing out will have an impact on the ABL Facility that utilizes LIBOR as a benchmark. To transition from IBOR Reference Rate, the ABL Facility agreement between the Company and JP Morgan, which as of June 30, 2022 has borrowings outstanding of $50.0, will be amended to adopt an alternate rate effective on or before June 30, 2023. Until the ABL Facility agreement is amended to allow for SOFR as the replacement to LIBOR, the ABR, is the default rate that JP Morgan has agreed to use as the LIBOR replacement.

The ABL Facility includes a springing financial covenant which requires the Company's consolidated FCCR to be at least 1.0 to 1.0 if availability falls below the greater of $10.0 or 15.0% of the line cap. At all times during the six months ended June 30, 2022, availability exceeded this threshold, and the Company was not subject to this financial covenant. As of June 30, 2022, the FCCR was below 1.0 to 1.0, and the Company was in full compliance with the ABL Facility.

The ABL Facility includes financial, operating and negative covenants that limit our ability to incur indebtedness, to create liens or other encumbrances, to make certain payments and investments, including dividend payments, to engage in transactions with affiliates, to engage in sale/leaseback transactions, to guarantee indebtedness and to sell or otherwise dispose of assets and merge or consolidate with other entities. It also includes a covenant to deliver annual audited financial statements that are not qualified by a "going concern" or like qualification or exception. A failure to comply with the obligations contained in the ABL Facility could result in an event of default, which could permit acceleration of the debt, termination of undrawn commitments and enforcement against any liens securing the debt.

Senior Notes

In conjunction with the acquisition of Motley in 2018, we issued $250.0 principal amount of 11.5% senior secured notes due 2025 (the "Notes") offered pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. On a net basis, after taking into consideration the debt issuance costs for the Notes, total debt related to the Notes as of June 30, 2022 was $245.4. The Notes bear interest at an annual rate of 11.5%, payable semi-annually in arrears on May 1 and November 1. Accrued interest related to the Notes was $4.8 as of June 30, 2022.

The Indenture contains customary affirmative and negative covenants restricting, among other things, the Company’s ability to incur indebtedness and liens, pay dividends or make other distributions, make certain other restricted payments or investments, sell assets, enter into restrictive agreements, enter into transactions with the Company’s affiliates, and merge or consolidate with other entities or sell substantially all of the Company’s assets.

The Indenture also contains customary events of default including, among other things, the failure to pay interest for 30 days, failure to pay principal when due, failure to observe or perform any other covenants or agreement in the Indenture subject to grace periods, cross-acceleration to indebtedness with an aggregate principal amount in excess of $50.0, material impairment of liens, failure to pay certain material judgments and certain events of bankruptcy.

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 in control.

Capital Expenditures

Our capital expenditures were $13.6 during the six months ended June 30, 2022, compared to $5.7 in the six months ended July 31, 2021. We expect to incur between $25.0 and $30.0 in total capital expenditures for the year ending December 31, 2022, based on current industry conditions. We have no material commitments for capital expenditures beyond the next twelve months. 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.

Equity Distribution Agreement

On June 14, 2021, the Company entered into an Equity Distribution Agreement (the “Equity Distribution Agreement”) with Piper Sandler & Co. as sales agent (the “Agent”). Pursuant to the terms of the Equity Distribution Agreement, the Company may sell from time to time through the Agent (the “ATM Offering”) the

Company's common stock, par value $0.01 per share, having an aggregate offering price of up to $50.0 (the "Common Stock").

Any Common Stock offered and sold in the ATM Offering will be issued pursuant to the Company's shelf registration statement on Form S-3 (Registration No. 333-256149) filed with the SEC on May 14, 2021 and declared effective on June 11, 2021 (the "Registration Statement"), the prospectus supplement relating to the ATM Offering filed with the SEC on June 14, 2021 and any applicable additional prospectus supplements related to the ATM Offering that form a part of the Registration Statement. Sales of Common Stock under the Equity Distribution Agreement may be made in any transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act.

The Equity Distribution Agreement contains customary representations, warranties and agreements by the Company, indemnification obligations of the Company and the Agent, including for liabilities under the Securities Act, other obligations of the parties and termination provisions. Under the terms of the Equity Distribution Agreement, the Company will pay the Agent a commission equal to 3.0% of the gross sales price of the Common Stock sold.

The Company plans to use the net proceeds from the ATM Offering, after deducting the Agent's commissions and the Company's offering expenses, for general corporate purposes, which may include, among other things, paying or refinancing all or a portion of the Company's then-outstanding indebtedness, and funding acquisitions, capital expenditures and working capital.

The COVID-19 pandemic coupled with the war in Ukraine have caused global crude oil supply shocks and continued volatility in oil prices, significantly affecting the value of our common stock, which, even amid ongoing recovery and uptick in the demand for our services, may reduce our ability to access capital in the bank and capital markets, including through equity or debt offerings.

During the three and six months ended June 30, 2022, the Company sold 889,271 and 1,584,648 shares of Common Stock for gross proceeds of approximately $4.7 and $8.4 and paid legal and administrative fees of $0.1 and $0.1. During the three and six months ended July 31, 2021, the Company sold 60,216 shares of Common Stock in exchange for gross proceeds of approximately $0.6 and paid fees to the sales agent and other legal and accounting fees of $0.6 to establish the ATM Offering.

Cash Flows

Our cash flow used in operating activities for the six months ended June 30, 2022 was approximately $14.6 as compared to approximately $37.4 used in operating activities in the six months ended July 31, 2021. Our operating cash flow is sensitive to many variables, the most significant of which are utilization and profitability, the timing of billing and customer collections, payments to our vendors, repair and maintenance costs and personnel, any of which may affect our available cash. Additionally, should our customers experience financial distress for any reason, they could default on their payments owed to us, which would affect our cash flows and liquidity.

At June 30, 2022, we had $31.5 of cash and cash equivalents. Cash on hand at June 30, 2022 increased by $3.5, as a result of $25.2 of cash flows provided by financing activities offset by $14.6 of cash flows used in operating activities and $7.1 of cash flows used in investing activities. Our liquidity requirements consist of working capital needs, debt service obligations and ongoing capital expenditure requirements. Our primary requirements for working capital are directly related to the activity level of our operations.

The following table sets forth our cash flows for the periods presented below:

	Six Months Ended	
	June 30, 2022	July 31, 2021
Net cash flows used in operating activities	$ (14.6)	$ (37.4)
Net cash flows (used in) provided by investing activities	(7.1)	2.9
Net cash flows provided by financing activities	25.2	26.8
Net change in cash	3.5	(7.7)
Cash balance end of period	$ 31.5	$ 39.4

Net cash used in operating activities

Net cash used in operating activities was $14.6 for the six months ended June 30, 2022, as compared to net cash used in operating activities of $37.4 for the six months ended July 31, 2021. The improvement in operating cash flows was primarily attributable to the increase in revenues across most service and related product lines driven by an uptick in activity in the latter half of the quarter. Although operating leverage improved during the quarter, this improvement was insufficient to prevent an operating loss for the six months ended June 30, 2022.

Net cash (used in) provided by investing activities

Net cash used in investing activities was $7.1 for the six months ended June 30, 2022, as compared to net cash provided by investing activities of $2.9 for the six months ended July 31, 2021. The cash flow used in investing activities for the six months ended June 30, 2022 was primarily driven by maintenance capital spending tied to the operation of our existing asset base offset by sales of facilities, trucks and other idle assets resulting from the cost reduction initiatives.

Net cash provided by financing activities

Net cash provided by financing activities was $25.2 for the six months ended June 30, 2022, compared to net cash provided by financing activities of $26.8 for the six months ended July 31, 2021. During the six months ended June 30, 2022, $20.0 in cash was received as borrowings under the ABL facility, $8.3 was received as proceeds on ATM Offering sales, $1.4 was received as proceeds from finance lease refinancing, $0.8 was paid on financed payables, $3.4 was paid on finance lease obligations, and $0.3 was paid for treasury shares in connection with the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock grants under the Company’s long-term incentive program.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated 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 believe that our critical accounting policies are limited to those described in the Critical Accounting Estimates section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our 2021 Transition Report on Form 10-K filed with the SEC on March 14, 2022.

Recent Accounting Pronouncements

See Note 2 “Recent Accounting Pronouncements” to our condensed consolidated financial statements for a discussion of recently issued accounting pronouncements. As an “emerging growth company” under the Jumpstart Our Business Startups Act (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 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by Item 305 of Regulation S-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers (who are our Chief Executive Officer and Chief Financial Officer, respectively), or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met.

In connection with the preparation of this Quarterly Report for the quarter ended June 30, 2022, an evaluation was performed under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that its disclosure controls and procedures were effective as of June 30, 2022.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected or, are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is at times either a plaintiff or a defendant in various legal actions arising in the normal course of business, the outcomes of which, in the opinion of management, neither individually nor in the aggregate are likely to result in a material adverse effect on the Company’s financial condition, cash flows and results of operations.

On March 9, 2021, the Company filed claims in the District Court of Harris County, Texas against Magellan, Redmon-Keys Insurance Group, Inc. and the Underwriters to recover $4.6 owed on invoices duly issued by the Company for services rendered on behalf of the defendants in response to an offshore well blowout near Bob Hall Pier in Corpus Christi, Texas. Magellan did not dispute the invoices but alleged an inability to pay prior to obtaining funding from Underwriters under Magellan's Owner's Extra Expense Policy. On March 19, 2021, Underwriters filed a declaratory judgment action in the United States District Court for the Southern District of Texas seeking a declaration that certain blowout related expenses fall outside of policy coverage. On March 30, 2021, Magellan filed for bankruptcy pursuant to Chapter 7 of the U.S. bankruptcy code. The bankruptcy proceedings are ongoing. We expect that the trustee will continue to pursue claims against Underwriters as well as preference and other claims to maximize the value of the Chapter 7 estate for the benefit of trade creditors. During the year ended January 31, 2021, the Company reserved the full amount of its invoices totaling $4.6 as a prudent action in light of the Chapter 7 filing.

ITEM 1A. RISK FACTORS

In addition to the information set forth in this report, you should carefully consider the risk factors previously described in Part I, Item IA. “Risk Factors” in our Transition Report on Form 10-K for the fiscal year ended December 31, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table presents the total number of shares of our common stock that we repurchased during the three months ended June 30, 2022:

Period	Total number of shares purchased(1)	Average price paid per share(2)	Total number of shares purchased as part of publicly announced plans or programs(3)	Approximate dollar value of shares that may yet be purchased under the plans or programs
April 1, 2022 - April 30, 2022	261	$ 4.98	—	$ 48,859,603
May 1, 2022 - May 31, 2022	—	$ —	—	$ 48,859,603
June 1, 2022 - June 30, 2022	—	$ —	—	$ 48,859,603
Total	261		—	

(1) Includes shares purchased from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting of restricted stock grants under the Company’s Long-Term Incentive Plan.

(2) The average price paid per share of common stock repurchased includes commissions paid to the brokers.

(3) In August 2019, our Board authorized a share repurchase program for the repurchase of outstanding shares of the Company’s common stock having an aggregate purchase price up to $50.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

3.1	Amended and Restated Certificate of Incorporation of KLX Energy Services Holdings, Inc. (incorporated by reference to Exhibit 3.1 of KLX Energy Services Holdings, Inc.'s Quarterly Report on Form 10-Q, filed on September 8, 2020, File No. 001-38609).
3.2	Fourth Amended and Restated Bylaws of KLX Energy Services Holdings, Inc. (incorporated by reference to Exhibit 3.1 of KLX Energy Services Holdings, Inc.'s Current Report on Form 8-K, filed on September 9, 2021, File No. 001-38609).
10.1†	Form of Executive Retention Agreement (incorporated by reference to Exhibit 10.1 of KLX Energy Services Holdings, Inc.'s Quarterly Report on Form 10-Q, filed on May 13, 2022, File No. 001-38609).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herewith.
† Management contract or compensatory plan or arrangement. Form of award granted to executive officers in April 2022.

SIGNATURES

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

KLX ENERGY SERVICES HOLDINGS, INC.

By: /s/ Christopher J. Baker
Christopher J. Baker
President and Chief Executive Officer

Date: August 12, 2022

By: /s/ Keefer M. Lehner
Keefer M. Lehner
Executive Vice President and Chief Financial Officer

Date: August 12, 2022

By: /s/ Geoffrey C. Stanford
Geoffrey C. Stanford
Senior Vice President and Chief Accounting Officer

Date: August 12, 2022

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Christopher J. Baker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 of KLX Energy Services Holdings, Inc. (the "registrant");

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

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

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

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

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

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

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

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

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

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

Date: August 12, 2022

/s/ Christopher J. Baker
Christopher J. Baker
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Keefer M. Lehner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 of KLX Energy Services Holdings, Inc. (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: August 12, 2022

/s/ Keefer M. Lehner
Keefer M. Lehner
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the Quarterly Report of KLX Energy Services Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Christopher J. Baker, as President and Chief Executive Officer of the Company, hereby certify that:

(1) the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2022

/s/ Christopher J. Baker
Christopher J. Baker
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the Quarterly Report of KLX Energy Services Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Keefer M. Lehner, as Executive Vice President and Chief Financial Officer of the Company, hereby certify that:

(1) the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 12, 2022

/s/ Keefer M. Lehner
Keefer M. Lehner
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)