

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For The Quarterly Period Ended October 31, 2018

Commission File No. 001-38609

**KLX ENERGY SERVICES HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of Incorporation)

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

**1300 Corporate Center Way**  
**Wellington, Florida 33414**  
(Address of principal executive offices)

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

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

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, 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 22,362,241 shares were outstanding as of December 3, 2018.

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**KLX ENERGY SERVICES HOLDINGS, INC.**  
**Form 10-Q for the Quarter Ended October 31, 2018**

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**PART 1 – FINANCIAL INFORMATION****ITEM 1. CONDENSED FINANCIAL STATEMENTS**

**KLX ENERGY SERVICES HOLDINGS, INC.**  
**CONDENSED BALANCE SHEETS (UNAUDITED)**  
(In millions other than per share amounts)

|  | <u>OCTOBER 31,</u><br><u>2018</u> | <u>JANUARY 31,</u><br><u>2018</u> |
|--|-----------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                   |                                   |
| Current assets:  |                                   |                                   |
| Cash and cash equivalents  | \$ 313.2                          | \$ —                              |
| Accounts receivable–trade, less allowance for doubtful accounts (\$2.2 at October 31, 2018 and \$2.3 at January 31, 2018)                                  | 87.4                              | 73.9                              |
| Inventories, net   | 13.8                              | 10.2                              |
| Other current assets   | 8.8                               | 2.0                               |
| Total current assets   | <u>423.2</u>                      | <u>86.1</u>                       |
| Property and equipment, net of accumulated depreciation (\$148.4 at October 31, 2018 and \$128.9 at January 31, 2018)                                      | 206.3                             | 179.5                             |
| Identifiable intangible assets, net  | 2.7                               | 2.8                               |
| Other assets   | 9.0                               | 5.4                               |
|  | <u>\$ 641.2</u>                   | <u>\$ 273.8</u>                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                   |                                   |
| Current liabilities:   |                                   |                                   |
| Accounts payable   | \$ 40.4                           | \$ 31.8                           |
| Accrued liabilities  | 28.1                              | 16.2                              |
| Total current liabilities  | <u>68.5</u>                       | <u>48.0</u>                       |
| Long-term debt   | 243.0                             | —                                 |
| Other non-current liabilities  | 1.4                               | 1.2                               |
| Commitments, contingencies and off-balance sheet arrangements (Note 8)   |                                   |                                   |
| Stockholders' equity:  |                                   |                                   |
| Common stock, \$0.01 par value per share; 110.0 shares authorized; 22.3 shares issued as of October 31, 2018 and 22.1 shares issued as of January 31, 2018 | 0.2                               | —                                 |
| Additional paid-in capital   | 337.5                             | —                                 |
| Former Parent investment   | —                                 | 1,025.8                           |
| Accumulated deficit  | (9.4)                             | (801.2)                           |
| Total stockholders' equity   | <u>328.3</u>                      | <u>224.6</u>                      |
|  | <u>\$ 641.2</u>                   | <u>\$ 273.8</u>                   |

See accompanying notes to condensed financial statements.

**KLX ENERGY SERVICES HOLDINGS, INC.**  
**CONDENSED STATEMENTS OF (LOSS) EARNINGS (UNAUDITED)**  
(In millions other than per share amounts)

|   | THREE MONTHS ENDED  |                     | NINE MONTHS ENDED   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | OCTOBER 31,<br>2018 | OCTOBER 31,<br>2017 | OCTOBER 31,<br>2018 | OCTOBER 31,<br>2017 |
| Service revenues                        | \$ 123.2            | \$ 89.2             | \$ 351.4            | \$ 226.2            |
| Cost of sales                           | 90.2                | 72.8                | 257.9               | 192.4               |
| Selling, general and administrative     | 42.3                | 17.4                | 82.0                | 52.2                |
| Research and development costs          | 0.6                 | 0.8                 | 1.9                 | 1.6                 |
| Operating (loss) earnings (Note 11)     | (9.9)               | (1.8)               | 9.6                 | (20.0)              |
| Income tax expense                      | —                   | —                   | 0.1                 | 0.1                 |
| Net (loss) earnings                     | \$ (9.9)            | \$ (1.8)            | \$ 9.5              | \$ (20.1)           |
| Net (loss) earnings per share - basic   | \$ (0.49)           | \$ (0.09)           | \$ 0.47             | \$ (1.00)           |
| Net (loss) earnings per share - diluted | \$ (0.49)           | \$ (0.09)           | \$ 0.47             | \$ (1.00)           |

See accompanying notes to condensed financial statements.

**KLX ENERGY SERVICES HOLDINGS, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(In millions)

|  | NINE MONTHS ENDED   |                     |
|--|---------------------|---------------------|
|  | OCTOBER 31,<br>2018 | OCTOBER 31,<br>2017 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                     |
| Net earnings (loss)  | \$ 9.5              | \$ (20.1)           |
| Adjustments to reconcile net earnings (loss) to net cash flows provided by (used in) operating activities: |                     |                     |
| Depreciation and amortization  | 28.3                | 25.1                |
| Non-cash compensation  | 19.2                | 8.6                 |
| Provision for doubtful accounts  | (0.1)               | (0.4)               |
| Loss on disposal of property, equipment and other  | 1.7                 | 0.4                 |
| Changes in operating assets and liabilities:   |                     |                     |
| Accounts receivable  | (13.4)              | (37.7)              |
| Inventories  | (3.6)               | 0.3                 |
| Other current and non-current assets   | (9.3)               | (7.5)               |
| Accounts payable   | 7.1                 | 12.0                |
| Other current and non-current liabilities  | 12.2                | 6.1                 |
| Net cash flows provided by (used in) operating activities  | <u>51.6</u>         | <u>(13.2)</u>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                     |
| Capital expenditures   | (55.0)              | (33.7)              |
| Net cash flows used in investing activities  | <u>(55.0)</u>       | <u>(33.7)</u>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                     |                     |
| Proceeds from long-term debt   | 250.0               | —                   |
| Debt origination costs   | (8.3)               | —                   |
| Capital contribution from Former Parent  | 50.0                | —                   |
| Net transfers from Former Parent   | 24.9                | 46.9                |
| Net cash flows provided by financing activities  | <u>316.6</u>        | <u>46.9</u>         |
| <b>Net change in cash and cash equivalents</b>   | 313.2               | —                   |
| <b>Cash and cash equivalents, beginning of period</b>  | —                   | —                   |
| <b>Cash and cash equivalents, end of period</b>  | <u>\$ 313.2</u>     | <u>\$ —</u>         |
| <b>Supplemental schedule of non-cash activities:</b>   |                     |                     |
| Accrued capital expenditures   | \$ 6.3              | \$ 1.1              |

See accompanying notes to condensed financial statements.

**KLX ENERGY SERVICES HOLDINGS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(Unaudited – In millions)**

Note 1. Description of Business and Basis of Presentation

*Description of Business*

On September 14, 2018, KLX Inc. (the “Former Parent” or “KLX”) created an independent, publicly-traded company through a spin-off of its Energy Services Group business to Former Parent’s stockholders (“Spin-Off”). As a result of the Spin-Off, KLX Energy Services Holdings, Inc. (the “Company” or “KLX Energy Services”) now operates as an independent, publicly-traded company. Basic and diluted earnings per common share and the average number of common shares outstanding were calculated using the number of KLX Energy Services common shares outstanding immediately following the Spin-Off.

The Company is a provider of completion, intervention and production services and products to the major onshore oil and gas producing regions of the United States.

*Basis of Presentation*

Prior to the Spin-Off on September 14, 2018, the Company’s unaudited condensed financial statements were derived from the Former Parent’s condensed consolidated financial statements and accounting records as if it was operated on a stand-alone basis and were prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). All intercompany transactions and account balances within the Company have been eliminated.

The condensed statements of (loss) earnings reflect allocations of general corporate expenses from the Former Parent, including, but not limited to, executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement and other shared services. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenues generated, costs incurred, headcount or other measures. Management of the Company considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, the Company. The allocations may not, however, reflect the expense the Company would have incurred as a stand-alone company for the periods presented. Actual costs that may have been incurred if the Company had been a stand-alone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

*Former Parent Company Investment* – Former Parent company investment in the condensed balance sheet as of January 31, 2018 represents Former Parent’s historical investment in the Company, the net effect of cost allocations from transactions with Former Parent and net transfers of cash and assets from Former Parent. See Note 4 for a further description of the transactions between the Company and Former Parent.

*Financial Statement Preparation* – The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. 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 financial statements. The results of operations for the periods presented are not necessarily indicative of the results expected for the full fiscal year or for any future period.

Note 2. Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-09, Compensation—Stock Compensation (Topic 718). This ASU was issued to provide clarity and reduce diversity in practice regarding the application of guidance on the modification of equity awards. The ASU states that an entity should account for the effects of a modification unless all of the following are met: the fair value, vesting conditions and the classification of the instrument as equity or liability of the modified award is the same as that of the original award immediately before such award is modified. The guidance became effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual reporting periods. The adoption of ASU 2017-09 did not have a material impact on the Company’s condensed financial statements as the Company historically has accounted for all modifications in accordance with Topic 718 and has not been subject to the exception described under this ASU.

In January 2017, the FASB issued ASU 2017-01, Business Combinations. This update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of ASU 2017-01 is not expected to have a material impact on the Company’s condensed financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments related to how certain cash receipts and payments are presented and classified in the statement of cash flows. These cash flow issues include debt prepayment or extinguishment costs, settlement of zero-coupon debt, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted, and should be applied retrospectively. The Company does not expect a material impact upon adoption of this ASU to its condensed financial statements as the Company’s condensed statements of cash flows are not impacted by the eight issues listed above.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation—Stock Compensation. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments, including that excess tax benefits and shortfalls be recorded as income tax benefit or expense in the statement of earnings, rather than equity, and requires excess tax benefits from stock-based compensation to be classified in cash flows from operations. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company does not expect a material impact upon adoption of this ASU to its condensed financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes ASC Topic 840, Leases, and creates a new topic, ASC Topic 842, Leases. This update is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Earlier adoption is permitted. ASU 2016-02 requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. ASU 2016-02 will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the effect of this update on its condensed financial statements.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers, which updated the guidance in ASC Topic 606, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB deferred the effective date for implementation of ASU 2014-09 by one year and during 2016, the FASB issued various related accounting standard updates, which clarified revenue accounting principles and provided supplemental adoption guidance. The guidance under ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. To assess the impact of this guidance, the Company has established a cross functional implementation project team, inventoried its revenue streams and contracts with customers and applied the principles of the guidance against a selection of contracts to assist in the determination of potential revenue accounting differences. Based on its preliminary assessment, the Company may be required to provide additional disclosures to comply with the ASU but does not expect significant changes to its balance sheet or prior period statements of (loss) earnings.

Note 3. Property and Equipment, Net

Property and equipment consist of the following:

|                                  | <u>Useful<br/>Life (Years)</u> | <u>October 31,<br/>2018</u> | <u>January 31,<br/>2018</u> |
|----------------------------------|--------------------------------|-----------------------------|-----------------------------|
| Land, buildings and improvements | 3 - 30                         | \$ 33.7                     | \$ 29.6                     |
| Machinery                        | 5 - 20                         | 138.7                       | 125.6                       |
| Furniture and equipment          | 5                              | 182.3                       | 153.2                       |
|                                  |                                | 354.7                       | 308.4                       |
| Less accumulated depreciation    |                                | 148.4                       | 128.9                       |
|                                  |                                | <u>\$ 206.3</u>             | <u>\$ 179.5</u>             |

Depreciation expense was \$10.0 and \$8.1 for the three months ended October 31, 2018 and 2017, respectively, and \$28.1 and \$24.9 for the nine months ended October 31, 2018 and 2017, respectively.

Note 4. Related Party Transactions

The condensed statements of (loss) earnings for the three and nine months ended October 31, 2018 and 2017 include an allocation of general corporate expenses from KLX. These costs were allocated to the Company on a systematic and reasonable basis utilizing a direct usage basis when identifiable, with the remainder allocated on the basis of revenue generated, costs incurred, headcount or other measures.

Allocations for general corporate expenses, including management costs and corporate support services provided to the Company, totaled \$3.2 and \$4.8 for the three months ended October 31, 2018 up through the date of the Spin-Off and October 31, 2017, respectively, and \$16.6 and \$13.4 for the nine months ended October 31, 2018 up through the date of the Spin-Off and 2017, respectively, and were reported in the Company's selling, general and administrative expenses on its condensed statements of (loss) earnings. These amounts include costs for allocations related to Former Parent's strategic alternatives review process in the first quarter of 2018, the Company's Spin-Off process in the second and third quarters of 2018 as well as for functions including executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement and other shared services.

In connection with the consummation of the Spin-Off, KLX Energy Services entered into a number of agreements with KLX, including a transition services agreement, distribution agreement, an employee matters agreement and an IP matters agreement. These agreements govern the relationship between us and KLX and provide for the allocation between us and KLX of various assets, liabilities and obligations (including



employee benefits, information technology and insurance). All services under the transition services agreement with Former Parent were terminated prior to October 31, 2018, and amounts under such agreement were not material for the three and nine months ended October 31, 2018.

Note 5. Accrued Liabilities

Accrued liabilities consist of the following:

|   | October 31,<br>2018 | January 31,<br>2018 |
|---|---------------------|---------------------|
| Accrued salaries, vacation and related benefits | \$ 13.3             | \$ 6.8              |
| Accrued incentive compensation                  | 5.8                 | 6.3                 |
| Accrued property taxes                          | 2.3                 | 1.1                 |
| Other accrued liabilities                       | 6.7                 | 2.0                 |
|   | <u>\$ 28.1</u>      | <u>\$ 16.2</u>      |

Note 6. Long-Term Debt

As of October 31, 2018, 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 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 issue costs for the Notes, total debt was \$243.0.

As of October 31, 2018, 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, the date of the Spin-Off, and matures in September 2023. On October 22, 2018, we amended the ABL Facility primarily to permit the Company to issue the Notes and acquire Motley Services, LLC ("Motley") and also amended the required ratio (as defined in the ABL Facility).

Borrowings under the ABL Facility bear interest at a rate equal to the London interbank offered rate (as defined in the ABL Facility) plus the applicable margin (as defined). No amounts were outstanding under the ABL Facility as of October 31, 2018.

The ABL Facility is tied to a borrowing base formula and has no maintenance financial covenants. 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, all of which were met as of October 31, 2018.

Letters of credit issued under the ABL Facility aggregated \$0.8 at October 31, 2018.

Note 7. 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 no debt outstanding under the ABL Facility as of October 31, 2018. The fair value of the Company's Notes, based on market prices for publicly-traded debt (which the Company classifies as Level 2 inputs), was \$251.9 as of October 31, 2018.

Note 8. Commitments, Contingencies and Off-Balance-Sheet Arrangements

*Lease Commitments* – The Company finances its use of certain facilities and equipment under committed lease arrangements provided by various institutions. Since the terms of these arrangements meet the accounting definition of operating lease arrangements, the aggregate sum of future minimum lease payments is not reflected on the condensed balance sheets. At October 31, 2018, future minimum lease payments under these arrangements approximated \$50.7, of which \$23.8 is related to long-term real estate leases.

*Litigation* – The Company is 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 financial statements.

*Indemnities, Commitments and Guarantees* – During its normal 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 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 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 financial statements. Accordingly, no significant amounts have been accrued for indemnities, commitments and guarantees.

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

Pursuant to the distribution agreement, the Company will indemnify KLX to the extent that KLX determines that it has recognized any gain on the distribution, as calculated in the manner described in the distribution agreement. Management does not expect to be required to indemnify KLX as preliminary calculations, which will be finalized at January 31, 2019, resulting in no gain being recognized.

Note 9. Accounting for Stock-Based Compensation

The Company has a Long-Term Incentive Plan ("LTIP") under which its 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 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.

Compensation cost recognized during the three and nine months ended October 31, 2018 and 2017 primarily related to grants of restricted stock and restricted stock units granted or approved by our Former Parent. The vesting of all unvested shares of restricted stock was accelerated upon the sale of our Former Parent to the Boeing Company on October 9, 2018, resulting in approximately \$10.7 of share based compensation expense during the three months ended October 31, 2018. As a result, share based

compensation was \$14.1 and \$2.8 for the three months ended October 31, 2018 and 2017, respectively, and \$19.2 and \$8.6 for the nine months ended October 31, 2018 and 2017, respectively. Unrecognized compensation cost related to restricted stock awards made during the current quarter to three key executives and the Company's Board of Directors in lieu of cash compensation was \$61.9 at October 31, 2018.

The Company has established a qualified Employee Stock Purchase Plan, the terms of which allow for qualified employees (as defined in the Plan) to participate in the purchase of designated shares of the Company's common stock at a price equal to 85% of the closing price on the last business day of each semi-annual stock purchase period. The fair value of the employee purchase rights represents the difference between the closing price of the Company's shares on the date of purchase and the purchase price of the shares. Compensation cost relates to the Former Parent's employee stock purchase plan as the Company has not yet opened its first option period. Compensation cost was not material for the three months ended October 31, 2017, and was \$0.1 and \$0.1 for the nine months ended October 31, 2018 and 2017, respectively. Former Parent's final option period ended on June 30, 2018; as a result, there was no compensation cost for the three months ended October 31, 2018.

#### Note 10. Income Taxes

The Company had no provision for income tax in the current period due to a pre-tax loss. For the nine month period ended October 31, 2018 and 2017, the provision for income taxes was reduced by a reduction in the valuation allowance established for its net deferred tax asset. The effective income tax rate varies from the federal statutory rate of 21% in 2018 (35% in 2017) primarily due to the fact that the Company has established a full valuation allowance against its net deferred tax asset. The 2018 federal statutory rate is lower than the rate in the prior year as a result of recently enacted tax legislation.

#### Note 11. 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 Southwest (the Permian Basin and Eagle Ford Shale), the Rocky Mountains (the Bakken formation, Williston, DJ, Uinta and Piceance Basins and Niobrara Shale) and the Northeast (the Marcellus and Utica Shales as well as the Mid-Continent STACK and SCOOP and Haynesville). 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"). This group is comprised of the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer. As a result, the CODM has determined the Company has three reportable segments.

The following table presents revenues and operating (losses) earnings by reportable segment:

|                                     | <b>Three Months Ended</b>   |                             | <b>Nine Months Ended</b>    |                             |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                     | <b>October 31,<br/>2018</b> | <b>October 31,<br/>2017</b> | <b>October 31,<br/>2018</b> | <b>October 31,<br/>2017</b> |
| Revenues                            |                             |                             |                             |                             |
| Southwest                           | \$ 38.2                     | \$ 31.2                     | \$ 118.6                    | \$ 77.1                     |
| Rocky Mountains                     | 48.1                        | 35.8                        | 136.1                       | 90.6                        |
| Northeast                           | 36.9                        | 22.2                        | 96.7                        | 58.5                        |
| Total revenues                      | 123.2                       | 89.2                        | 351.4                       | 226.2                       |
| Operating (loss) earnings(1)        |                             |                             |                             |                             |
| Southwest                           | (6.0)                       | (1.2)                       | (0.8)                       | (10.4)                      |
| Rocky Mountains                     | (3.2)                       | 1.3                         | 3.3                         | (0.5)                       |
| Northeast                           | (0.7)                       | (1.9)                       | 7.1                         | (9.1)                       |
| (Loss) earnings before income taxes | \$ (9.9)                    | \$ (1.8)                    | \$ 9.6                      | \$ (20.0)                   |

- (1) Operating (loss) earnings include an allocation of employee benefits and general and administrative costs primarily based on each segment's percentage of total revenues for the three and nine months ended October 31, 2018 and 2017. During the three and nine months ended October 31, 2018, the Company incurred approximately \$23.0 and \$28.7, respectively, of costs related to the completion of the merger of the Aerospace Solutions business of KLX Inc.

with The Boeing Company, the Spin-Off of the energy services business into an independent public company, including \$10.7 of non-cash compensation expense related to the acceleration of unvested shares held by the Company's employees, the amendment of the \$100.0 asset based lending facility, the issuance of \$250.0 of Notes and the acquisition of Motley completed on November 5, 2018 (see Note 13 – Subsequent Events).

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

|                       | Three Months Ended |                |                |                 |                  |                |                |                |
|-----------------------|--------------------|----------------|----------------|-----------------|------------------|----------------|----------------|----------------|
|                       | October 31, 2018   |                |                |                 | October 31, 2017 |                |                |                |
|                       | Rocky              |                |                |                 | Rocky            |                |                |                |
|                       | Southwest          | Mountains      | Northeast      | Total           | Southwest        | Mountains      | Northeast      | Total          |
| Completion revenues   | \$ 22.1            | \$ 25.9        | \$ 17.9        | \$ 65.9         | \$ 17.5          | \$ 14.9        | \$ 10.9        | \$ 43.3        |
| Intervention revenues | 9.9                | 9.6            | 9.1            | 28.6            | 9.2              | 11.2           | 5.4            | 25.8           |
| Production revenues   | 6.2                | 12.6           | 9.9            | 28.7            | 4.5              | 9.7            | 5.9            | 20.1           |
| Total revenues        | <u>\$ 38.2</u>     | <u>\$ 48.1</u> | <u>\$ 36.9</u> | <u>\$ 123.2</u> | <u>\$ 31.2</u>   | <u>\$ 35.8</u> | <u>\$ 22.2</u> | <u>\$ 89.2</u> |

|                       | Nine Months Ended |                 |                |                 |                  |                |                |                 |
|-----------------------|-------------------|-----------------|----------------|-----------------|------------------|----------------|----------------|-----------------|
|                       | October 31, 2018  |                 |                |                 | October 31, 2017 |                |                |                 |
|                       | Rocky             |                 |                |                 | Rocky            |                |                |                 |
|                       | Southwest         | Mountains       | Northeast      | Total           | Southwest        | Mountains      | Northeast      | Total           |
| Completion revenues   | \$ 67.4           | \$ 70.4         | \$ 47.6        | \$ 185.4        | \$ 42.7          | \$ 34.6        | \$ 26.9        | \$ 104.2        |
| Intervention revenues | 32.1              | 31.5            | 24.7           | 88.3            | 22.8             | 31.9           | 15.9           | 70.6            |
| Production revenues   | 19.1              | 34.2            | 24.4           | 77.7            | 11.6             | 24.1           | 15.7           | 51.4            |
| Total revenues        | <u>\$ 118.6</u>   | <u>\$ 136.1</u> | <u>\$ 96.7</u> | <u>\$ 351.4</u> | <u>\$ 77.1</u>   | <u>\$ 90.6</u> | <u>\$ 58.5</u> | <u>\$ 226.2</u> |

The following table presents capital expenditures by reportable segment:

|                 | Three Months Ended |                  | Nine Months Ended |                  |
|-----------------|--------------------|------------------|-------------------|------------------|
|                 | October 31, 2018   | October 31, 2017 | October 31, 2018  | October 31, 2017 |
| Southwest       | \$ 7.6             | \$ 3.6           | \$ 14.9           | \$ 8.0           |
| Rocky Mountains | 4.9                | 6.3              | 18.2              | 18.4             |
| Northeast       | 7.0                | 2.7              | 21.9              | 7.3              |
|                 | <u>\$ 19.5</u>     | <u>\$ 12.6</u>   | <u>\$ 55.0</u>    | <u>\$ 33.7</u>   |

Capital expenditures for the administrative office and functions have been allocated to the above segments based on each segment's percentage of total capital expenditures.

The following table presents total assets by reportable segment:

|                 | October 31, 2018 | January 31, 2018 |
|-----------------|------------------|------------------|
| Southwest       | \$ 156.9         | \$ 68.8          |
| Rocky Mountains | 280.4            | 124.9            |
| Northeast       | 203.9            | 80.1             |
|                 | <u>\$ 641.2</u>  | <u>\$ 273.8</u>  |

Assets for the administrative office and functions have been allocated to the above segments based on each segment's percentage of total assets.

**Note 12. Net Earnings Per Common Share**

Basic net (loss) earnings per common share is computed using the weighted average common shares outstanding during the period. Diluted net (loss) earnings 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 October 31, 2018 and 2017, 0.1 and no shares of the Company's common stock, respectively, and no shares for the nine months ended October 31, 2018 and 2017 were excluded from the determination of diluted net (loss) earnings per common share because their effect would have been anti-dilutive. The computations of basic and diluted net (loss) earnings per share for the three and nine months ended October 31, 2018 and 2017 are as follows:

|   | <b>Three Months Ended</b>   |                             | <b>Nine Months Ended</b>    |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>October 31,<br/>2018</b> | <b>October 31,<br/>2017</b> | <b>October 31,<br/>2018</b> | <b>October 31,<br/>2017</b> |
| Net (loss) earnings <sup>(1)</sup>                          | \$ (9.9)                    | \$ (1.8)                    | \$ 9.5                      | \$ (20.1)                   |
| (Shares in millions)  |                             |                             |                             |                             |
| Basic weighted average common shares                        | 20.1                        | 20.1                        | 20.1                        | 20.1                        |
| Effect of dilutive securities - dilutive securities         | -                           | -                           | 0.1                         | -                           |
| Diluted weighted average common shares                      | 20.1                        | 20.1                        | 20.2                        | 20.1                        |
| Basic net (loss) earnings per common share <sup>(2)</sup>   | \$ (0.49)                   | \$ (0.09)                   | \$ 0.47                     | \$ (1.00)                   |
| Diluted net (loss) earnings per common share <sup>(2)</sup> | \$ (0.49)                   | \$ (0.09)                   | \$ 0.47                     | \$ (1.00)                   |

- (1) During the three and nine months ended October 31, 2018, the Company incurred approximately \$23.0 and \$28.7, respectively, of costs related to the completion of the merger of the Aerospace Solutions business of KLX Inc. with The Boeing Company, the Spin-Off of the energy services business into an independent public company, including \$10.7 of non-cash compensation expense related to the acceleration of unvested shares held by the Company's employees, the amendment of the \$100.0 asset based lending facility, the issuance of \$250.0 of Notes and the acquisition of Motley completed on November 5, 2018 (see Note 13 – Subsequent Events).
- (2) On September 14, 2018, the distribution date, KLX stockholders of record as of the close of business on September 3, 2018 received 0.4 shares of KLX Energy Services common stock for every 1.0 share of KLX common stock held as of the record date. October 31, 2017 basic and diluted earnings per common share and the average number of common shares outstanding were calculated using the number of KLX Energy Services common shares outstanding immediately following the distribution.

**Note 13. Subsequent Events**

On November 5, 2018, the Company acquired Motley, a premier provider of well completion and intervention services for complex, long lateral, horizontal wells for \$139.2 in cash, subject to certain purchase price adjustments, and \$9.0 of shares of the Company's common stock payable to certain employees of Motley. The valuation of the acquired assets and liabilities is not yet complete, and as such the Company has not yet finalized its allocation of the purchase price for the acquisition.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **(\$ In millions)**

The following discussion and analysis addresses the results of our operations for the three and nine months ended October 31, 2018 as compared to our results of operations for the three and nine months ended October 31, 2017. In addition, the discussion and analysis addresses our liquidity, financial condition and other matters for these periods.

#### **Company Overview**

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

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

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

We offer a variety of targeted services that are differentiated by the technical competence and experience of our field service engineers and their deployment of a broad portfolio of specialized tools and equipment. Our innovative and adaptive approach to proprietary tool design has been employed by our in-house research and development ("R&D") organization and, in selected instances, by our technology partners, to develop tools covered by 12 patents and 26 U.S. and foreign pending patent applications as well as 20 additional proprietary tools. Our technology partners include manufacturing and engineering companies that produce tools, which we design and utilize in our service offerings.

We utilize outside, dedicated manufacturers to produce our products, which, in many cases, our engineers have developed from input and requests from our customers and customer-facing managers, thereby maintaining the integrity of our intellectual property while avoiding manufacturing startup and maintenance costs. We have found that doing so leverages our technical strengths as well as those of our technology partners. The PSLs that we offer are modest in cost to the customer relative to other well construction expenditures but have a high cost of failure and are, therefore, "mission critical" to our customers' outcomes. We believe our customers have come to depend on our decades of combined field experience to execute on some of the most challenging problems they face. We believe we are well

positioned as a company for continued growth, as the oil and gas industry continues to drill and complete thousands of increasingly complex wells each year and as thousands of older legacy wells require remediation.

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

We invest in innovative technology and equipment designed for modern production techniques that increase efficiencies and production for our customers. North American unconventional onshore wells are increasingly characterized by extended lateral lengths, tighter spacing between hydraulic fracturing stages, increased cluster density and heightened proppant loads. Drilling and completion activities for wells in unconventional resource plays are extremely complex, and downhole challenges and operating costs increase as the complexity and lateral length of these wells increase. For these reasons, E&P companies with complex wells increasingly prefer service providers with the scale and resources to deliver best-in-class solutions that evolve in real time with the technology used for extraction. We believe we offer best-in-class service execution at the wellsite and innovative downhole technologies, positioning us to benefit from our ability to service the most technical, complex wells where the potential for increased operating leverage is high due to the large number of stages per well in addition to customer focus on execution rather than price. We have been awarded 12 U.S. patents, have 26 U.S. and foreign pending patent applications and utilize 20 additional proprietary tools, some of which have been developed in conjunction with our technology partners, which we believe differentiates us from our regional competition and also allows us to deliver more focused service and better outcomes in our specialized services than larger national competitors who do not discretely dedicate their resources to the services we provide.

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

We operate in three segments determined on a geographic basis: the Southwest Region (the Permian Basin and the Eagle Ford Shale), the Rocky Mountains Region (the Bakken formation, Williston, DJ, Uinta and Piceance Basins and Niobrara Shale) and the Northeast Region (the Marcellus and Utica Shale as well as the Mid-Continent STACK and SCOOP and Haynesville). As noted above, our revenues, operating profits and identifiable assets are primarily attributable to these three reportable geographic segments.

Demand for services in the oil and natural gas industry is cyclical. For example, the domestic E&P industry in the United States underwent a substantial downturn in 2015 and much of 2016, placing unprecedented pressure on both our customers and competitors. However, we believe our company is well positioned to operate successfully as a standalone company as a result of the numerous initiatives we undertook during the integration of the seven businesses acquired while we were part of KLX Inc. (the "Former Parent" or "KLX"). We believe our operating cost structure is now materially lower than during the historical financial reporting periods and that there is greater flexibility to respond to changing industry conditions. We improved our cost structure by centralizing a number of common functions, as evidenced by our higher level of cash provided by operating activities. The implementation of integrated, company-wide management information systems and processes provide more transparency to current operating performance and trends within each market where we compete and help us more acutely scale our cost structure and pricing strategies on a market-by-market basis. Profitability levels are dependent more directly on pricing for our services rather than utilization rates; as such, our ability to differentiate ourselves on the basis of quality contributes to revenue growth and profitability even in a stable or declining market environment through market share gains and growing business with existing customers.

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. We believe our services often generate margins superior to our competitors based upon the differential quality of our performance, and that these margins also support strong free cash flow generation. The required investment in our business includes both working capital (principally for account receivables growth tied to increasing revenues) and capital expenditures for both maintenance of existing assets and growth. Our required maintenance capital expenditures tend to be lower than other oilfield service providers due to the generally asset-lite nature of our services, the average age of our assets of less than three years and our ability to charge back a portion of asset maintenance to customers for a number of our assets. In addition to these internal expenditures, we may also pursue selected acquisition opportunities. We believe industry conditions are likely to continue to support existing activity levels of oilfield service providers, but that the pace of industry consolidation will pick up, as weakened private company competitors look to take advantage of the market activity to exit.

### **The Spin-Off**

On September 14, 2018, we completed our Spin-Off from KLX and became an independent, publicly-traded company. In connection with the consummation of the Spin-Off, KLX Energy Services entered into a number of agreements with KLX, including a distribution agreement, an employee matters agreement and an IP matters agreement. These agreements govern the relationship between us and KLX and provide for the allocation between us and KLX of various assets, liabilities and obligations (including employee benefits, information technology and insurance). All services under the transition services agreement with Former Parent were terminated prior to October 31, 2018, and amounts under such agreement were not material for the three and nine months ended October 31, 2018. In addition, our undrawn \$100.0 asset-based revolving credit facility ("ABL Facility") is available for borrowing for working capital and other general corporate purposes. The approximately \$69.0 availability under the ABL Facility is tied to the aggregate amount of our accounts receivable and inventory that satisfy specified criteria. We issued \$250.0 principal amount of 11.5% senior secured notes due 2025 ("Notes") and, depending on market conditions, we may incur other indebtedness in the future to make additional acquisitions and/or provide for additional cash on the balance sheet, which could be used for future acquisitions.

### **Factors Affecting the Comparability of our Results of Operations**

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

- *Expenses Associated with Former Parent's Strategic Alternatives Review:* During the first quarter of fiscal 2018, \$3.8 of costs and expenses were allocated to us by our former parent associated with its strategic alternatives review.



- *Initial Expenses to Become a Stand-Alone Public Company:* During the second and third quarters of fiscal 2018, \$8.8 of costs and expenses were allocated to us by our former parent associated with the Spin-Off. In addition, we expect to incur approximately \$3.0 to \$5.0 of costs and expenses within 6 to 12 months of the distribution associated with our transition to being a stand-alone public company and incurred \$3.7 of such costs during the third quarter of fiscal 2018. These expenses primarily relate to accounting, tax and professional costs, signage, branding and employee retention expenses, and costs related to information technology and systems.
- *SG&A Allocation:* Selling, general and administrative ("SG&A") expense historically included allocations of general corporate expenses from KLX. The historical statements of (loss) earnings reflect allocations of general corporate expenses from KLX, including, but not limited to, executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement and other shared services. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenues generated, costs incurred, headcount or other measures. Our management considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to, KLX Energy Services. The allocations may not, however, reflect the expense we would have incurred as a stand-alone company for the periods presented. Actual costs that may have been incurred if we had been a stand-alone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure. Please see Note 1 to our condensed financial statements, "Description of Business and Basis of Presentation," for a description of the costs allocated, the methods of allocation, the reasons for the allocations and how future actual costs may differ from the amounts allocated under the ownership of KLX.
- *KLX Restricted Stock:* We incurred approximately \$10.7 of non-cash compensation expense associated with the acceleration of unvested shares of KLX common stock held by KLX Energy Services employees related to the sale of KLX to Boeing on October 9, 2018.
- *Ongoing Stand-Alone Public Company Expenses:* We expect to incur direct, incremental expenses as a result of being a publicly-traded company, including, but not limited to, costs associated with hiring a dedicated corporate management team, annual and quarterly reports, quarterly tax provision preparation, independent auditor fees, expenses relating to compliance with the rules and regulations of the SEC and Nasdaq, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. These direct, incremental expenses are not included in our historical results of operations. We expect recurring annual costs to be approximately \$8.0 higher than the expenses historically allocated to us from KLX, reflecting 100% allocation of dedicated corporate resources and the expected higher revenues.

### **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, which is intended to help us grow stockholder value. The metrics we regularly monitor within each of our geographic reporting regions include:

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

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

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

**RESULTS OF OPERATIONS****THREE MONTHS ENDED OCTOBER 31, 2018  
COMPARED TO THREE MONTHS ENDED OCTOBER 31, 2017  
(\$ in Millions)**

The following is a summary of revenues by segment:

|                 | <b>Three Months Ended</b>   |                             | <b>Percent<br/>Change</b> |
|-----------------|-----------------------------|-----------------------------|---------------------------|
|                 | <b>October 31,<br/>2018</b> | <b>October 31,<br/>2017</b> |                           |
| Southwest       | \$ 38.2                     | \$ 31.2                     | 22.4 %                    |
| Rocky Mountains | 48.1                        | 35.8                        | 34.4 %                    |
| Northeast       | 36.9                        | 22.2                        | 66.2 %                    |
| Total revenues  | <u>\$ 123.2</u>             | <u>\$ 89.2</u>              | 38.1 %                    |

Third quarter 2018 revenues of \$123.2 increased \$34.0, or 38.1%, as compared with the prior year period. Our revenue growth was driven by a 22.4% increase in Southwest revenues, a 34.4% increase in Rocky Mountains revenues and a 66.2% increase in Northeast revenues reflecting a higher level of activity throughout each operating region. On a product line basis, as compared to the same period in the prior year, completion revenues grew 52.2%, production revenues grew 42.8% and intervention services revenues grew 10.9%.

Third quarter 2018 cost of sales was \$90.2, or 73.2% of sales, as compared to the prior year period cost of sales of \$72.8, or 81.6% of sales. Cost of sales as a percentage of revenues improved by approximately 840 basis points, due to substantially improved results at all three segments of our business resulting from improved market conditions, increased sales of higher margin PSL's and operating leverage.

SG&A expense during the third quarter of 2018 was \$42.3, or 34.3% of revenues, including \$23.0 of costs related to the completion of the merger of the Aerospace Solutions business of KLX Inc. with The Boeing Company, the Spin-Off of the energy services business into an independent public company, including \$10.7 of non-cash compensation expense related to the acceleration of unvested shares held by the Company's employees, the amendment of the \$100.0 asset based lending facility, the issuance of \$250.0 of Notes and the acquisition of Motley Services, LLC completed on November 5, 2018 ("Motley") (collectively, "Costs as Defined"). SG&A in the prior year period was \$17.4, or 19.5%, of revenues. Excluding the \$23.0 of Costs as Defined (none in the prior year period), SG&A in the third quarter of 2018 was \$19.3, or 15.7% of revenues, and as a percentage of revenues, improved by approximately 380 basis points in the third quarter of 2018 as compared with the prior year period primarily due to increased operating leverage as the 38.1% increase in revenues significantly outpaced the 10.9% increase in SG&A. Third quarter 2018 research and development costs were \$0.6 as compared to the prior year period of \$0.8, reflecting our continued focus on in-house research and development to deploy new specialized and proprietary tools and equipment.

Operating loss was \$(9.9), including the \$23.0 of Costs as Defined discussed above, as compared to a loss of \$(1.8) in the prior year period. Exclusive of Costs as Defined, current period operating earnings were \$13.1 and increased by \$14.9 reflecting a higher level of activity by our customers throughout our geographic regions and incremental operating leverage. The continued recovery in the major oil and gas producing basins of the onshore U.S. market has resulted in increased demand for our products and services. Additionally, we believe incremental growth has been driven by differentiation in our products and services due to successful R&D initiatives and the quality and depth of our personnel.

There was no income tax expense for the three months ended October 31, 2018 and 2017 due to pre-tax losses in both periods for the reasons set forth above. The federal statutory rate in the current period was 21% (35% in the prior year period). The 2018 federal statutory rate is lower than the rate in the prior year as a result of recently enacted tax legislation.

Net loss for the three months ended October 31, 2018 was \$(9.9) as compared to a net loss of \$(1.8) in the prior year period. Net loss in the third quarter of 2018 was impacted by the \$23.0 of aforementioned Costs as Defined.

## Segment Results

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

|                                     | Three Months Ended |                  | Percent Change |
|-------------------------------------|--------------------|------------------|----------------|
|                                     | October 31, 2018   | October 31, 2017 |                |
| Southwest                           | \$ (6.0)           | \$ (1.2)         | (400.0)%       |
| Rocky Mountains                     | (3.2)              | 1.3              | (346.2)%       |
| Northeast                           | (0.7)              | (1.9)            | 63.2 %         |
| Total operating loss <sup>(1)</sup> | \$ (9.9)           | \$ (1.8)         | (450.0)%       |

- (1) During the three months ended October 31, 2018, the Company incurred approximately \$23.0 of costs related to the Spin-Off of the energy business into an independent company, the amendment of the \$100.0 ABL Facility associated with the issuance of \$250.0 of Notes and the acquisition of Motley on November 5, 2018.

The three month quarter to date 22.4% increase in Southwest segment revenues was driven by an increase in production, completion and intervention of 37.8%, 26.3% and 7.6%, respectively. Southwest segment operating loss of \$(6.0) increased by \$4.8 primarily due to \$7.0 of Costs as Defined. Although Southwest segment revenues increased 22.4% year-over-year, the segment's revenues were impacted by the Texas floods. Seventeen consecutive days of rain and the attendant floods, road and highway closures and impassable mud negatively impacted revenues.

The three month quarter to date 34.4% increase in Rocky Mountains segment revenues was driven primarily by a higher level of completion activity. Rocky Mountains segment operating earnings declined \$4.5 to \$(3.2) primarily due to \$9.3 of Costs as Defined.

The three month quarter to date 66.2% increase in Northeast segment revenues was driven by an increase in intervention, production and completion revenues of 68.5%, 67.8% and 64.2%, respectively. Northeast segment operating loss of \$(0.7) decreased \$1.2 despite the \$6.7 of Costs as Defined offset by increased operating leverage and solid demand for higher margin PSLs.

**NINE MONTHS ENDED OCTOBER 31, 2018  
COMPARED TO NINE MONTHS ENDED OCTOBER 31, 2017**

The following is a summary of revenues by segment:

|                 | <b>Nine Months Ended</b>    |                             | <b>Percent<br/>Change</b> |
|-----------------|-----------------------------|-----------------------------|---------------------------|
|                 | <b>October 31,<br/>2018</b> | <b>October 31,<br/>2017</b> |                           |
| Southwest       | \$ 118.6                    | \$ 77.1                     | 53.8 %                    |
| Rocky Mountains | 136.1                       | 90.6                        | 50.2 %                    |
| Northeast       | 96.7                        | 58.5                        | 65.3 %                    |
| Total revenues  | <u>\$ 351.4</u>             | <u>\$ 226.2</u>             | 55.3 %                    |

For the nine months ended October 31, 2018, revenues were \$351.4, an increase of \$125.2, or 55.3%, as compared to the same period of the prior year. Revenue growth was driven by a 53.8% increase in Southwest revenues, a 50.2% increase in Rocky Mountains revenues and a 65.3% increase in Northeast revenues, reflecting the higher level of activity by our customers throughout the regions we serve. On a product line basis, revenue growth for completion, production and intervention services was 77.9%, 51.2% and 25.1%, respectively.

Cost of sales for the period was \$257.9, or 73.4% of sales, as compared to the prior year period of \$192.4, or 85.1% of sales. Cost of sales as a percentage of revenues improved by approximately 1,170 basis points, due to substantially improved results at all three segments of our business resulting from improved market conditions, increased sales of higher margin PSLs and operating leverage.

SG&A expense during the nine months ended October 31, 2018 was \$82.0, or 23.3% of revenues. SG&A in the prior year period was \$52.2, or 23.1% of revenues. SG&A, as a percentage of revenues, increased by approximately 20 basis points as compared with the prior year period primarily due to Costs as Defined of \$28.7. Excluding the \$28.7 of Costs as Defined (none in the prior year period), SG&A was \$53.3, or 15.2% of revenues, and as a percentage of revenues, improved approximately 790 basis points for the nine months ended October 31, 2018 as compared with the same period in the prior year primarily due to increased operating leverage as the 55.3% increase in revenues significantly outpaced the 2.1% increase in SG&A. Research and development costs for the period were \$1.9 as compared to \$1.6 in the prior year, reflecting our continued focus on in-house research and development to deploy new specialized and proprietary tools.

Operating earnings were \$9.6, including the \$28.7 of Costs as Defined discussed above, as compared to a loss of \$(20.0) in the prior year period. Exclusive of Costs as Defined, current period operating earnings were \$38.3 and increased by \$58.3 reflecting a higher level of activity by our customers throughout our geographic regions and incremental operating leverage. The continued recovery in the major oil and gas producing basins of the onshore U.S. market has resulted in increased demand for our products and services. Additionally, we believe incremental growth has been driven by differentiation in our products and services due to successful R&D initiatives and the quality and depth of our personnel.

Income tax expense for the nine months ended October 31, 2018 and 2017 was \$0.1, primarily due to the full valuation allowance against the net deferred tax asset. The 2018 federal statutory rate is lower than the rate in the prior year as a result of recently enacted tax legislation.

For the nine months ended October 31, 2018, net earnings was \$9.5 as compared to a net loss of \$(20.1) in the prior year period. Net earnings were favorably impacted by the improvements in pricing and activity driven by the overall improvement in the oil and gas sector partially offset by the \$28.7 of aforementioned Costs as Defined.

## Segment Results

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

|  | Nine Months Ended   |                     | Percent<br>Change |
|--|---------------------|---------------------|-------------------|
|  | October 31,<br>2018 | October 31,<br>2017 |                   |
| Southwest                                      | \$ (0.8)            | \$ (10.4)           | 92.3 %            |
| Rocky Mountains                                | 3.3                 | (0.5)               | 760.0 %           |
| Northeast                                      | 7.1                 | (9.1)               | 178.0 %           |
| Total operating earnings (loss) <sup>(1)</sup> | <u>\$ 9.6</u>       | <u>\$ (20.0)</u>    | 148.0 %           |

- (1) During the nine months ended October 31, 2018, the Company incurred approximately \$28.7 of costs related to the Spin-Off of the energy business into an independent company, the amendment of the \$100.0 ABL Facility associated with the issuance of \$250.0 of Notes and the acquisition of Motley on November 5, 2018.

The nine month year to date 53.8% increase in Southwest segment revenues was driven by increases in production, completion and intervention activity of approximately 64.7%, 57.8% and 40.8%, respectively. Southwest segment operating loss of \$0.8 improved by \$9.6, including the negative impact of \$9.0 of Costs as Defined, reflecting the increased demand for our products and services and operating leverage inherent in our cost and operating structure. As mentioned earlier, Southwest segment revenues increased 53.8% year-over-year, the segment's revenues were impacted by the Texas floods. Seventeen consecutive days of rain and the attendant floods, road and highway closures and impassable mud negatively impacted revenues.

The nine month year to date 50.2% increase in Rocky Mountains segment revenues was driven by increases in completion and production activity of approximately 103.5% and 41.9%, respectively. Rocky Mountains segment operating earnings of \$3.3 improved by \$3.8, including the negative impact of \$11.5 of Costs as Defined, reflecting the increased demand for our products and services and operating leverage inherent in our cost and operating structure.

The nine month year to date 65.3% increase in Northeast segment revenues was driven by an increase in completion, intervention and production activity of approximately 77.0%, 55.3% and 55.4%, respectively. Northeast segment operating earnings of \$7.1 improved by \$16.2, including the negative impact of \$8.2 of Costs as Defined, reflecting the increased demand for our products and services and operating leverage inherent in our cost and operating structure.

## LIQUIDITY AND CAPITAL RESOURCES

### Current Financial Condition

At October 31, 2018, we had \$313.2 of cash and cash equivalents, or approximately \$174.0 adjusted for the acquisition of Motley on November 5, 2018. Cash on hand at October 31, 2018 increased by \$313.2 as compared with no cash on hand at January 31, 2018 due to the centralized cash management by our former parent as well as a result of cash flows from operating activities of \$51.6, proceeds from long term debt of \$250.0, offset by \$8.3 of debt offering costs, capital contribution by our former parent prior to the Spin-Off of \$50.0 and prior net funding from our former parent of \$24.9 offset by \$55.0 of capital expenditures. Our liquidity requirements consist of working capital needs and ongoing capital expenditure requirements. Our primary requirements for working capital are directly related to the level of our operations. Our sources of liquidity were historically from advances from KLX and cash flow from operations.

Working capital as of October 31, 2018 was \$354.7, an increase of \$316.6 as compared with working capital at January 31, 2018. As of October 31, 2018, total current assets increased by \$337.1 and total current liabilities increased by \$20.5. The increase in current assets was primarily related to an increase in

cash of \$313.2. The increase in total current liabilities was primarily due to an \$11.9 increase in accrued liabilities.

### **Cash Flows**

As of October 31, 2018, our cash and cash equivalents were \$313.2 as compared to \$0 at January 31, 2018. Net cash flows provided by operating activities was \$51.6 for the nine months ended October 31, 2018 as compared to net cash used in operating activities of \$13.2 in the prior year, reflecting a \$29.6 increase in net earnings, \$13.4 increase in accounts receivable (\$37.7 increase in the prior year) and a \$19.3 increase in accounts payable and accrued liabilities in the current period (\$18.1 increase in the prior year). Cash used in investing activities consists of capital expenditures of \$55.0 and \$33.7 for the nine months ended October 31, 2018 and 2017, respectively, and reflects the higher demand levels for our services and equipment. Cash flows from financing activities of \$316.6 and \$46.9, respectively, for the nine months ended October 31, 2018 and 2017 reflect \$250.0 of proceeds from long-term debt, offset by \$8.3 of debt offering costs, and \$74.9 of aggregate pre-Spin-Off net funding from our former parent in the current period (\$46.9 in the prior year).

### **Capital Spending**

Our capital expenditures were \$55.0 and \$33.7 during the nine months ended October 31, 2018 and 2017, respectively. We expect to incur approximately \$90.0 in capital expenditures for the year ending January 31, 2019, principally related to our growth and maintenance capital expenditures as well as investments related to the large diameter coiled tubing PSL as a result of the acquisition of Motley on November 5, 2018. The nature of our capital expenditures is comprised of a base level of investment required to support our current operations and amounts related to growth and company initiatives. Capital expenditures for growth and company initiatives are discretionary. We continually evaluate our capital expenditures, and the amount we ultimately spend will depend on a number of factors, including expected industry activity levels and company initiatives. We expect to fund future capital expenditures from cash on hand, cash flow from operations and from funds available from our secured \$100.0 ABL Facility, none of which was drawn at October 31, 2018.

### **New Financing Arrangements**

In connection with the Spin-Off, we entered into a \$100.0 ABL Facility on August 10, 2018. The ABL Facility became effective on September 14, 2018, the date of the Spin-Off, and is scheduled to mature in September 2023. Borrowings under the ABL Facility bear interest at a rate equal to the London interbank offered rate ("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. 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, all of which were met as of October 31, 2018. No amounts were outstanding under the ABL Facility as of October 31, 2018. The effective interest rate under the ABL Facility would have been approximately 4.8% on October 31, 2018.

In conjunction with the acquisition of Motley, we issued \$250.0 of Notes due 2025 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 issue costs for the Notes, total net proceeds were \$243.0, which a portion was used to acquire Motley, and the balance will be used for general corporate purposes including potential acquisitions for at least the next 12 months.

We believe the \$50.0 capital contribution from our former parent, the trend in improved market conditions and cash from operating activities and our financial plans for 2018, the approximately \$69.0 of availability under our \$100 undrawn ABL Facility as well as the additional cash on hand from a portion of the proceeds from the Notes, provide us with the ability to fund our operations, make planned capital expenditures, meet our debt service obligations and provide funding for potential future acquisitions.

## Contractual Obligations

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

| Contractual Obligations                                     | Year Ending January 31, |        |        |        |        |            | Total   |
|---|-------------------------|--------|--------|--------|--------|------------|---------|
|   | 2019                    | 2020   | 2021   | 2022   | 2023   | Thereafter |         |
| Long-term debt and other non-current liabilities            | \$ 0.2                  | \$ —   | \$ 0.1 | \$ 0.1 | \$ 0.1 | \$ 250.9   | \$251.4 |
| Operating leases  | 4.7                     | 18.0   | 13.4   | 5.1    | 3.3    | 6.2        | 50.7    |
| Future interest and fees on outstanding debt <sup>(1)</sup> | 0.1                     | 29.3   | 29.3   | 29.3   | 29.3   | 86.7       | 204.0   |
| Total   | \$ 5.0                  | \$47.3 | \$42.8 | \$34.5 | \$32.7 | \$ 343.8   | \$506.1 |
| <b>Commercial Commitments</b>                               |                         |        |        |        |        |            |         |
| Letters of credit   | \$ 0.8                  | —      | —      | —      | —      | —          | \$ 0.8  |

(1) Interest payments include interest payments due on the Notes based on the stated rate of 11.5%. To the extent we incur interest on the ABL Facility, interest payments would fluctuate based on LIBOR or the prime rate pursuant to the terms of the ABL Facility.

## Off-Balance Sheet Arrangements

### Lease Arrangements

We finance our use of certain facilities and equipment under committed lease arrangements provided by various institutions. Since the terms of these arrangements meet the accounting definition of operating lease arrangements, the aggregate sum of future minimum lease payments is not reflected on our balance sheets. At October 31, 2018, future minimum lease payments under these arrangements approximated \$50.7, of which \$23.8 is related to long-term real estate leases.

### Indemnities, Commitments and Guarantees

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

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

### Seasonality

Our operations are subject to seasonal factors and our overall financial results reflect seasonal variations. Specifically, we typically have experienced a pause by our customers around the holiday season in the fourth quarter, which may be compounded as our customers exhaust their annual capital spending budgets towards year end. Additionally, our operations are directly affected by weather conditions. During the winter months (first and fourth quarters) and periods of heavy snow, ice or rain, particularly in our Rocky Mountains and Northeast segments, our customers may delay operations or we may not be able to operate or



move our equipment between locations. Also, during the spring thaw, which normally starts in late March and continues through June, some areas may impose transportation restrictions to prevent damage caused by the spring thaw. Lastly, throughout the year, heavy rains adversely affect activity levels, as well locations and dirt access roads can become impassible in wet conditions. Weather conditions also affect the demand for, and prices of, oil and natural gas and, as a result, demand for our services. Demand for oil and natural gas is typically higher in the first and fourth quarters, resulting in higher prices in these quarters.

### **Backlog**

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

### **Effect of Inflation**

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

### **Critical Accounting Policies**

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described in Note 1 “Description of Business and Summary of Significant Accounting Policies” included in our Registration Statement on Form 10 filed with the SEC on August 24, 2018. There have been no changes to our critical accounting policies since August 24, 2018.

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

### *Emerging Growth Company Status*

We are an “emerging growth company” and are entitled to take advantage of certain relaxed disclosure requirements. We operate under the reduced reporting requirements and exemptions, including the longer phase-in periods for the adoption of new or revised financial accounting standards, until we are no longer an emerging growth company. Our election to use the phase-in periods permitted by this election may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the longer phase-in periods and who will comply with new or revised financial accounting standards. If we were to subsequently elect instead to comply with these public company effective dates, such election would be irrevocable.

### *Revenue Recognition*

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

### *Accounts Receivable*

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain an allowance for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. The allowance for doubtful accounts at October 31, 2018 and January 31, 2018 was \$2.2 and \$2.3, respectively.

### *Long-Lived Assets*

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

### **Recent Accounting Pronouncements**

See Note 2 "Recent Accounting Pronouncements" for a discussion of recently issued accounting pronouncements. As an "emerging growth company" under the JOBS Act, we are offered an opportunity to use an extended transition period for the adoption of new or revised financial accounting standards. We 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.

### **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 "Form 10-Q") 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. We have tried to identify these forward-looking statements by using forward-looking words including "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "might," "should," "could," "will" or the negative of these terms or similar expressions.

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” and “Special Note About Forward-Looking Statements” in our Form 10 filed with the SEC on August 24, 2018, including the following factors:

- regulation of and dependence upon the energy industry;
- the cyclical nature of the energy industry;
- market prices for fuel, oil and natural gas;
- competitive conditions;
- legislative or regulatory changes and potential liability under federal and state laws and regulations;
- decreases in the rate at which oil or natural gas reserves are discovered or developed;
- the impact of technological advances on the demand for our products and services;
- delays of customers obtaining permits for their operations;
- hazards and operational risks that may not be fully covered by insurance;
- the write-off of a significant portion of intangible assets;
- the need to obtain additional capital or financing, and the availability and/or cost of obtaining such capital or financing;
- limitations that our organizational documents, debt instruments and U.S. federal income tax requirements may have on our financial flexibility, our ability to engage in strategic transactions or our ability to declare and pay cash dividends on our common stock;
- our credit profile;
- changes in supply and demand of equipment;
- oilfield anti-indemnity provisions;
- severe weather;
- reliance on information technology resources and the inability to implement new technology;
- increased labor costs or the unavailability of skilled workers;
- the inability to successfully consummate acquisitions or inability to manage potential growth; and
- the inability to achieve some or all of the benefits of the Spin-Off.

In light of these risks and uncertainties, you are cautioned not to put undue reliance on any forward-looking statements in this Form 10-Q. These statements should be considered only after carefully reading this entire Form 10-Q. 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 Form 10-Q not to occur.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

*Interest Rate Risk* – We will have interest rate exposure arising from variable interest with respect to our ABL Facility as any borrowings would be impacted by changes in short-term interest rates.

As of October 31, 2018, we maintained a portfolio of cash and securities consisting mainly of taxable, interest-bearing deposits with weighted average maturities of less than three months. If short-term interest rates were to increase or decrease by 10%, we estimate interest income would increase or decrease by approximately \$0.3.

*Commodity Price Risk* – Our fuel purchases expose us to commodity price risk. Our fuel costs consist primarily of diesel fuel used by our various trucks and other motorized equipment. The prices for fuel are

volatile and are impacted by changes in supply and demand, as well as market uncertainty and regional shortages. Recently we have been able to pass along price increases to our customers, but we may be unable to do so in the future. We generally do not engage in commodity price hedging activities.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and Senior Vice President and Chief Financial Officer, of the effectiveness, as of October 31, 2018, of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based upon that evaluation, our Chairman and Chief Executive Officer and Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2018.

##### **Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the third fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 6. EXHIBITS

#### Exhibit 2 – Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession

- 2.1 [Unit Purchase Agreement, dated as of October 22, 2018, by and among KLX Energy Services Holdings, Inc., KLX Energy Services LLC, District 5 Investments, LP, 3M Capital, Inc. and Marco D. Davis \(incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on October 22, 2018\)](#)

#### Exhibit 3(i) – Articles of Incorporation

- 3.1 [Amended and Restated Articles of Incorporation of KLX Energy Services Holdings, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-8 \(File No. 333-227321\) filed with the SEC on September 13, 2018\)](#)

#### Exhibit 3(ii) – Bylaws

- 3.2 [Amended and Restated Bylaws of KLX Energy Services Holdings, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on October 15, 2018\)](#)

#### Exhibit 4 – Instruments Defining the Rights of Security Holders, including Indentures

- 4.1 [Indenture, dated October 31, 2018, among KLX Energy Services Holdings, Inc., as the issuer, KLX Energy Services LLC, KLX RE Holdings LLC and Wilmington Trust, National Association, as trustee and collateral agent \(incorporated by reference to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on November 1, 2018\)](#)
- 4.2 [Form of 11.500% Senior Secured Notes due 2025 \(included in Exhibit 4.1\)](#)

#### Exhibit 10 – Material Contracts

- 10.1 [Credit Agreement, dated as of August 10, 2018, by and among KLX Energy Services Holdings, Inc., the several Lenders and JPMorgan Chase Bank, N.A. as Administrative Agent and Collateral Agent \(incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Company's Registration Statement on Form 10 \(File No. 001-38609\) filed with the SEC on August 15, 2018\)](#)
- 10.1.1 [First Amendment, dated as of October 22, 2018, to Credit Agreement, dated as of August 10, 2018, by and among KLX Energy Services Holdings, Inc., the Subsidiary Guarantors party thereto, the several Lenders and JPMorgan Chase Bank, N.A. as Administrative Agent and Collateral Agent \(incorporated by reference to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on October 22, 2018\)](#)
- 10.2 [KLX Energy Services Holdings, Inc. Long-Term Incentive Plan \(incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 \(File No. 333-227321\) filed with the SEC on September 13, 2018\)](#)
- 10.3 [Form of KLX Energy Services Holdings, Inc. Long-Term Incentive Plan Restricted Stock Award Agreement \(incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 \(File No. 333-227321\) filed with the SEC on September 13, 2018\)](#)

- 10.4 [Form of KLX Energy Services Holdings, Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement \(incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 \(File No. 333-227321\) filed with the SEC on September 13, 2018\)](#)
- 10.5 [KLX Energy Services Holdings, Inc. Employee Stock Purchase Plan \(incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 \(File No. 333-227321\) filed with the SEC on September 13, 2018\)](#)
- 10.6 [KLX Energy Services Holdings, Inc. Non-Employee Directors Stock and Deferred Compensation Plan \(incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8 \(File No. 333-227321\) filed with the SEC on September 13, 2018\)](#)
- 10.7 [KLX Energy Services Holdings, Inc. 2018 Deferred Compensation Plan \(incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 \(File No. 333-227327\) filed with the SEC on September 13, 2018\)](#)
- 10.8 [Guaranty, dated September 14, 2018, of KLX Energy Services LLC and KLX RE Holdings LLC \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)
- 10.9 [Letter Agreement, dated September 14, 2018, between Amin J. Khoury and KLX Energy Services Holdings, Inc. \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)
- 10.10 [Letter Agreement, dated September 14, 2018, between Thomas P. McCaffrey and KLX Energy Services Holdings, Inc.](#)
- 10.11 [Consulting Agreement, dated September 14, 2018, between Amin J. Khoury and KLX Energy Services Holdings, Inc. \(incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)
- 10.12 [Amended and Restated Employment Agreement, dated September 14, 2018, between Gary J. Roberts and KLX Energy Services Holdings, Inc. \(incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)
- 10.13 [Medical Care Reimbursement Plan for Executives of KLX Energy Services Holdings, Inc. \(incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)
- 10.14 [KLX Energy Services Holdings, Inc. Executive Retiree Medical and Dental Plan \(incorporated by reference to Exhibit 10.12 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)
- 10.15 [Registration Rights Agreement, dated September 14, 2018, between KLX Energy Services Holdings, Inc. and Amin J. Khoury \(incorporated by reference to Exhibit 10.15 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)
- 10.16 [Registration Rights Agreement, dated September 14, 2018, between KLX Energy Services Holdings, Inc. and Thomas P. McCaffrey \(incorporated by reference to Exhibit 10.16 to the Company's Current Report on Form 8-K \(File No. 001-38609\) filed with the SEC on September 19, 2018\)](#)

**Exhibit 31 – Rule 13a-14(a)/15d-14(a) Certifications**

31.1 [Certification of Chief Executive Officer](#)

31.2 [Certification of Chief Financial Officer](#)

**Exhibit 32 – Section 1350 Certifications**

32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350](#)

32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350](#)

**Exhibit 101 – Interactive Data Files**

101.INS XBRL Instance Document

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

**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.**

Date: December 6, 2018

By: /s/ Amin J. Khoury  
Amin J. Khoury  
Chairman, Chief Executive Officer and President

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



**KLX Energy Services Holdings, Inc.**  
1300 Corporate Center Way  
Wellington, FL 33414

September 14, 2018

Mr. Thomas P. McCaffrey  
Senior Vice President and Chief Financial Officer  
1300 Corporate Center Way  
Wellington, FL 33414

Re: Terms of Employment

Dear Mr. McCaffrey:

This letter agreement confirms the terms and conditions of your employment with KLX Energy Services Holdings, Inc. (the **Company**) as set forth below:

**Start Date:** September 14, 2018.

**Title and Reporting:** During the term of your employment with the Company, you will serve as Senior Vice President and Chief Financial Officer of the Company and its subsidiaries, and you will report directly to the Company's Chief Executive Officer.

**Duties and Responsibilities:** You will have the duties and responsibilities that are normally associated with the position described above. In addition, you are hereby expressly permitted to continue to serve as an employee, executive officer, director or consultant of KLX Inc.

**Cash Compensation:** During the period of your employment with the Company, the Company will pay you a cash base salary at the annual rate of one dollar (\$1) in accordance with the usual payroll practices of the Company and subject to any applicable withholdings and deductions. In addition, during the period of your employment with the Company, you may receive cash incentive compensation in the discretion of the Compensation Committee of the Company's Board of Directors (the **Committee**), but you will not have any contractual entitlement to receive any such cash incentive compensation.

**Incentive Equity:** Promptly following completion of the Company's spin-off from KLX Inc., the Company will grant you a restricted stock award on the common stock of the Company pursuant to the Company's Long-Term Incentive Plan (the **LTIP**) (i) representing three percent (3%) of the Company's common stock on a fully diluted basis as of the effective date of the Company's spin-off from KLX Inc., (ii) to become vested in four (4) equal annual installments on each of the first four (4) anniversaries of the effective date of the Company's spin-off from KLX Inc., subject to your continued employment or other service with the Company on each applicable vesting date (and subject to the following clause (iii)), (iii) to become fully vested (A) upon an involuntary termination of your employment by the Company, (B) upon your death or "Disability" (as defined in the LTIP), (C) upon your voluntary retirement from the Company, subject to the consent of the Committee, or (D) upon the occurrence of a "Change in Control" (as defined in the LTIP) of the Company, and (iv) to be subject to such other terms and conditions as are set forth in the form of restricted stock award agreement as set forth on **Exhibit A** hereto. You will also be considered to receive additional equity or other long-term incentive awards from the Company in the future. The level of such participation, if any, will be determined in the sole discretion of the Company's Board of Directors (or the Committee) from time to time.

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**Monthly Automobile Allowance:** During the period of your employment with the Company, you will receive either an automobile owned or leased by the Company or a monthly automobile allowance, as reasonably determined by the Company, which automobile or allowance will be at least equivalent (i.e., the same make and model, or equivalent value thereof) to that which KLX Inc. is currently providing to you. To the extent that the Company elects to provide a monthly automobile allowance, such allowance will be paid in accordance with Company policy, but in any event, no later than on a monthly basis in arrears.

**Employee Benefits, Vacation and Business Expenses:** Except to the extent equivalent benefits are provided by KLX Inc. or its successors or affiliates, during the period of your employment with the Company: (i) you will be eligible to participate in all health, welfare, life insurance and retirement plans of the Company, and reimbursement of financial and estate planning costs and expenses, and (ii) you will be entitled to all rights and benefits pursuant to the Company's travel policy, including, without limitation, personal and business use of the Company's corporate aircraft. You also will be entitled to annual paid time off in accordance with the Company's policy on accrual and use generally applicable to employees of the Company from time to time; **provided** that your prior employment and service with each of B/E Aerospace, Inc. and KLX Inc. will be taken into account with respect to your annual paid time off entitlement. Finally, upon presentation of reasonable substantiation and documentation, you will be reimbursed for all out-of-pocket business expenses incurred and paid by you during your employment with the Company and in connection with the performance of your duties hereunder in accordance with Company policy.

**Indemnification; Directors' and Officers' Liability Insurance:** Both during and after the period of your service with the Company, regardless of the reason for termination, the Company hereby agrees to indemnify you and hold you harmless to the maximum extent permitted by applicable law against and in respect of any and all actions, suits, proceedings, investigations, claims, demands, judgments, costs, expenses (including reasonable attorney's fees), losses, and damages resulting from your performance of your duties and obligations with the Company hereunder. The Company will advance to you as incurred any costs and expenses (including attorney's fees) incurred in the defense of any such action, suit, proceeding or investigation, subject to any limitation pursuant to applicable law. The Company will cover you under directors' and officers' liability insurance both during and, while potential liability exists, after the term of your service with the Company in the same amount and to the same extent as the Company covers its other active officers and directors. The foregoing obligations will survive the termination of your service with the Company.

**Proprietary Rights Agreement; Code of Conduct:** Contemporaneously with the execution of this letter agreement, you will enter into the Proprietary Rights Agreement regarding certain obligations relating to business, confidential and/or proprietary information of the Company in the form attached as **Exhibit B** hereto. You also acknowledge and agree that, during the period of your employment with the Company and thereafter, as applicable, you will be subject to the Company's Code of Conduct and other employment policies, as may be amended from time to time.

**At-Will Employment:** Your employment with the Company will be "at-will." You may resign at any time with or without notice for any (or no) reason. The Company may terminate your employment at any time, upon at least twelve (12) months' prior written notice, for any (or no) reason. You will not have any contractual right to severance benefits in connection with any termination of your employment with the Company, except for the accelerated vesting of the incentive equity award contemplated in this letter agreement, or except as may be otherwise provided in any severance plan or policy generally applying to employees of the Company, or as may be otherwise determined by the Committee in its sole discretion.

**Governing Law:** This letter agreement will be governed by, and construed under and in accordance with, the internal laws of the State of Florida, without regard to the choice of law principles thereof, except that all matters related to the LTIP and any equity awards granted thereunder, will be governed by the internal laws of the State of Delaware, without regard to the choice of law principles thereof.

**Entire Agreement:** This letter agreement constitutes the entire agreement between you and the Company with respect to the subject matter hereof and supersedes any and all prior agreements or understandings between you and the Company with respect to the subject matter hereof, whether written or oral. This letter agreement may be amended or modified only by a written instrument executed by you and the Company.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

Very truly yours,

**KLX ENERGY SERVICES HOLDINGS, INC.**

By: /s/ Amin J. Khoury

Name: Amin J. Khoury

Title: Chairman, CEO and President

The above terms and conditions accurately reflect our understanding regarding the terms and conditions of my employment with the Company, and I hereby confirm my agreement to the same.

Dated: September 14, 2018

/s/ Thomas P. McCaffrey

Thomas P. McCaffrey

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EXHIBIT A

RESTRICTED STOCK AWARD AGREEMENT

A-1

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**KLX ENERGY SERVICES HOLDINGS, INC. LONG-TERM INCENTIVE PLAN  
RESTRICTED STOCK AWARD AGREEMENT**

THIS RESTRICTED STOCK AWARD AGREEMENT (the “*Award Agreement*”) is made effective as of [ ], 2018 (the “*Date of Grant*”) by KLX Energy Services Holdings, Inc., a Delaware corporation (the “*Company*”), for the benefit of **Thomas P. McCaffrey** (the “*Participant*”). Capitalized terms not otherwise defined herein shall have the same meanings as in the KLX Energy Services Holdings, Inc. Long-Term Incentive Plan (the “*Plan*”).

WHEREAS, the Company desires to grant the Restricted Stock provided for herein to the Participant pursuant to the Plan and the terms and conditions set forth herein;

NOW THEREFORE, the Restricted Stock is hereby granted, subject to the following terms and conditions:

1. Grant of the Award. Subject to the provisions of this Award Agreement and the Plan, the Company hereby grants to the Participant, an aggregate of <# **Shares**><sup>1</sup> restricted shares of Common Stock (the “*Restricted Stock*”), subject to adjustment as set forth in the Plan.

2. Incorporation of Plan. The Company has previously provided the Participant with a copy of the Plan. This Award Agreement and the Restricted Stock shall be subject to the Plan, the terms of which are incorporated herein by reference, and in the event of any conflict or inconsistency between the Plan and this Award Agreement, the Plan shall govern. Defined terms used herein without definition shall have the meanings ascribed thereto in the Plan.

3. Vesting Schedule. Unless previously vested or canceled in accordance with the provisions of the Plan or this Award Agreement, subject to the Participant’s continued employment or other service with the Company or its subsidiaries on each applicable vesting date (except as otherwise provided herein), one fourth (1/4<sup>th</sup>) of the shares of Restricted Stock shall vest on each of the first, second, third and fourth anniversaries of the Date of Grant and shall no longer be subject to cancellation pursuant to Section 4 or the transfer restrictions set forth in Section 5.

4. Accelerated Vesting. Subject to the following sentence and consistent with the terms and conditions set forth in the Incentive Equity provision of that certain employment letter, by and between the Participant and the Company, dated as of [ ], 2018 (the “*Employment Letter*”), if, prior to the vesting of all shares of Restricted Stock hereunder, (A) the Participant’s service with the Company is: (i) involuntarily terminated by the Company for any reason, (ii) voluntarily terminated by the Participant due to the Participant’s retirement from the Company, with the express consent of the Committee, (iii) terminated due to death or Disability or (B) a Change in Control occurs while the Participant remains in the continued service of the Company, then, in each case, all of the unvested shares of Restricted Stock shall vest immediately as of the date of such termination or Change in Control, as applicable, and shall no longer be subject to cancellation or the transfer restrictions set forth in Section 5. The Participant and the Company agree to sign a mutual waiver and release of claims agreement, effective as of the date of termination, as a condition to the accelerated vesting of all then-unvested shares of the Participant’s Restricted Stock described in Section 4(A), substantially in the form attached hereto as Exhibit A (the “*Mutual Waiver and Separation Agreement*”). For the avoidance of doubt, in the event that the Participant becomes a consultant or director of the Company following termination of the Participant’s employment with the Company, no termination of service shall be deemed to occur for purposes of the continued vesting of the Restricted Stock hereunder until such time as the Participant is no longer an employee, a consultant or a director of the Company.

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<sup>1</sup> Number of restricted shares to represent three percent (3%) of the Company’s common stock on a fully diluted basis as of the effective date of the Company’s spin-off from KLX Inc.

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5. Nontransferability of Restricted Stock. Unless otherwise determined by the Committee, the Restricted Stock may not be transferred, pledged, alienated, assigned or otherwise attorned other than by last will and testament or by the laws of descent and distribution or pursuant to a domestic relations order, as the case may be; *provided, however*, that the Committee may, subject to such terms and conditions as it shall specify, permit the transfer of the Restricted Stock, including, without limitation, for no consideration to a charitable institution or a Permitted Transferee. Any shares of Restricted Stock transferred to a charitable institution may not be further transferable without the Committee's approval and any shares of Restricted Stock transferred to a Permitted Transferee shall be further transferable only by last will and testament or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant.

6. Rights as a Stockholder. The Participant shall have, with respect to the Restricted Stock, all the rights of a stockholder of the Company, including, if applicable, the right to vote the Restricted Stock and to receive any dividends or other distributions, subject to the restrictions set forth in the Plan and this Award Agreement.

7. Dividends and Distributions. Any cash, Common Stock or other securities of the Company or other consideration received by the Participant as a result of a distribution to holders of Restricted Stock or as a dividend on the Restricted Stock shall be subject to the same restrictions as the Restricted Stock, and all references to Restricted Stock hereunder shall be deemed to include such cash, Common Stock or other securities or consideration.

8. Legend on Certificates. The Committee may cause a legend or legends to be put on certificates representing the Common Stock underlying the Restricted Stock to make appropriate reference to such restrictions as the Committee may deem advisable under the Plan or as may be required by the rules, regulations, and other requirements of the Securities and Exchange Commission, any exchange that lists the Common Stock, and any applicable federal or state laws.

9. Conditions to Delivery of Common Stock Certificates. The Company shall not be required to deliver any certificate or certificates for shares of Common Stock pursuant to this Agreement prior to fulfillment of all of the following conditions:

(a) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee determines to be necessary or advisable; and

(b) The lapse of such reasonable period of time as the Committee may from time to time establish for reasons of administrative convenience.

10. Physical Custody. The Restricted Stock may be issued in certificate form or electronically in "book entry". The Secretary of the Company or such other representative as the Committee may appoint shall retain physical custody of each certificate representing Restricted Stock until all of the restrictions imposed under this Award Agreement with respect to the shares evidenced by such certificate expire or are removed. In no event shall the Participant retain physical custody of any certificates representing unvested Restricted Stock assigned to the Participant.

11. No Entitlements.

(a) No Right to Continued Service. This award is not an employment or other service agreement, and nothing in this Award Agreement or the Plan shall (i) alter the Participant's status as an "at-will" employee of the Company, (ii) be construed as guaranteeing the Participant's service with the Company or as giving the Participant any right to continue in the service of the Company during any period

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or (iii) be construed as giving the Participant any right to be reemployed by the Company following any termination of service.

(b) No Right to Future Awards. This award of Restricted Stock and all other equity-based awards under the Plan are discretionary. This award does not confer on the Participant any right or entitlement to receive another award of Restricted Stock or any other equity-based award at any time in the future or in respect of any future period, except as otherwise may be provided in the discretion of the Committee.

(c) No Effect on Future Compensation. The Company has made this award of Restricted Stock to the Participant in its sole discretion. This award does not confer on the Participant any right or entitlement to receive compensation in any specific amount for any future fiscal year, and does not diminish in any way the Company's discretion to determine the amount, if any, of the Participant's compensation. In addition, this award of Restricted Stock will not be taken into account in determining any other service-related rights the Participant may have, such as rights to any pension pay.

12. Taxes and Withholding. No later than the date as of which an amount with respect to the Restricted Stock first becomes includable in the gross income of the Participant for applicable income tax purposes, appropriate arrangements satisfactory to the Committee must be made regarding payment of any federal, state or local taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, in accordance with rules and procedures established by the Committee, the minimum required withholding obligations may be settled in Common Stock, including Common Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company to deliver the certificates for shares of Common Stock under this Award Agreement shall be conditional upon such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant, including, without limitation, by withholding shares of Common Stock to be delivered upon vesting.

13. Section 83(b) Election. If, within 30 days following the Date of Grant, the Participant makes an election under Section 83(b) of the Code, or any successor section thereto, to be taxed with respect to all or any portion of the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Committee may require the Participant to deliver a copy of such election to the Company immediately after filing such election with the Internal Revenue Service.

14. Securities Laws. In connection with the grant or vesting of the Restricted Stock, the Committee may require such written representations, warranties and agreements as the Committee may reasonably request in order to comply with applicable securities laws or with this Award Agreement.

15. General Provisions.

(a) Notices. Any notice necessary under this Award Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Notwithstanding the foregoing, the Company may deliver notices to the Participant by means of email or other electronic means that are generally used for employee communications. Any such notice shall be deemed effective upon receipt thereof by the addressee.

(b) Headings. The headings of sections and subsections are included solely for convenience of reference and shall not affect the meaning of the provisions of this Award Agreement.

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(c) Entire Agreement. This Award Agreement, the Employment Letter, the Mutual Waiver and Separation Agreement and the Plan constitute the entire agreement with regard to the subject matter hereof. They supersede all other agreements, representations or understandings (whether oral or written and whether express or implied) that relate to the subject matter hereof.

(d) Amendments. The Board or the Committee shall have the power to alter, amend, modify or terminate the Plan or this Award Agreement at any time; *provided, however,* that no such termination, amendment or modification may adversely affect the Participant's rights under this Award Agreement without the Participant's consent. Any amendment, modification or termination shall, upon adoption, become and be binding on all persons affected thereby without requirement for consent or other action with respect thereto by any such person.

(e) Successor. Except as otherwise provided herein, this Award Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Company, and to any Permitted Transferee pursuant to Section 5.

(f) Choice of Law. Except as to matters of federal law, this Award Agreement and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware (other than its conflict of law rules).

***[Remainder of Page Intentionally Left Blank]***

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IN WITNESS WHEREOF, the Company has executed this Award Agreement as of the date first written above.

KLX ENERGY SERVICES HOLDINGS, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

PARTICIPANT

\_\_\_\_\_  
Thomas P. McCaffrey



**EXHIBIT A**

Form of Mutual Waiver Agreement

SEPARATION AGREEMENT AND MUTUAL RELEASE

This Separation Agreement and Mutual Release (the “**Agreement**”), is made as of \_\_\_\_\_, 20\_\_\_\_, by and between KLX Energy Services Holdings, Inc., a Delaware corporation (the “**Company**”) and Thomas P. McCaffrey (“**Employee**”), for the purpose of memorializing the terms and conditions of the Employee’s departure from the Company’s employment.

Now, therefore, in consideration of the sum of one dollar (\$1.00) and the mutual promises, agreements and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, (the “**Settlement Consideration**”), the parties hereto, intending to be legally bound, hereby agree as follows:

1. **Termination; Employment Letter.** Effective \_\_\_\_\_, 20\_\_\_\_, Employee’s employment with the Company was terminated. Upon Employee’s termination, Employee and the Company shall each have those respective surviving rights, obligations and liabilities described in that certain Employment Letter, dated as of [□], by and between Employee and the Company (the “**Employment Letter**”) and that certain Restricted Stock Award Agreement, dated as of [□], by and between Employee and the Company (the “**Restricted Stock Agreement**”).

2. **Non-Released Claims.**

(a) **Employee Non-Released Claims.** It is explicitly agreed, understood and intended that the general release of claims provided for in this Agreement shall not include or constitute a waiver of the Company’s, its agent, representative or designee’s obligations to Employee (i) that are specified in the Employment Letter as surviving the termination of Employee’s employment, (ii) that arise out of or from *respondeat superior* principles, (iii) for claims for indemnification and defense under any organizational documents, agreement, insurance policy, or at law or in equity concerning either the Company, its subsidiaries, affiliates, directors, officers or employees, (iii) concerning any deferred compensation plan, 401(k) plan, equity plan or retirement plan and (iv) any claims not waivable under applicable law, collectively, the “**Employee Non-Released Company Claims**”.

(b) **Company Non-Released Claims.** It is explicitly agreed, understood and intended that the general release of claims provided for in this Agreement shall not include or constitute a waiver of (i) the Employee’s obligations to the Company concerning the Company’s confidential information and proprietary rights that survive Employee’s termination of employment, including those specified in that certain Proprietary Rights Agreement, dated as of [□], 2018, by and between Employee and the Company (the “**Proprietary Rights Agreement**”) (ii) any claim of the Company for fraud based on willful and intentional acts or omissions of Employee, other than those taken in good faith and in a manner that Employee believed to be in or not opposed to the interests of the Company, proximately causing a financial restatement by the Company and (iii) any claims not waivable by the Company under applicable law, collectively, the “**Company Non-Released Employee Claims**”.

3. **General Release in Favor of the Company:** Employee, for himself and for his heirs, executors, administrators, trustees, legal representatives and assigns (collectively, the “**Releasers**”), hereby forever releases and discharges the Company, its Board of Directors, and any of its past, present, or future parent corporations, subsidiaries, divisions, affiliates, officers, directors, agents, trustees, administrators, attorneys, employees, employee benefit and/or pension plans or funds (including qualified and non-qualified plans or funds), successors and/or assigns and any of its or their past, present or future parent corporations, subsidiaries, divisions, affiliates, officers, directors, agents, trustees, administrators, attorneys, employees, employee benefit and/or pension plans or funds (including qualified and non-qualified plans or funds), successors and/or assigns (whether acting as agents for the Company or in their individual capacities) (collectively, the “**Releasees**”) from any and all claims, demands, causes of action, and liabilities of any kind whatsoever (upon any legal or equitable theory, whether contractual, common-law, statutory, federal, state, local, or otherwise), whether known or unknown, by reason of any act, omission, transaction or occurrence which Releasers ever had, now have or hereafter can, shall or may have against Releasees up to and including the date of the execution of this Agreement, except for the Employee Non-Released Company Claims. Without limiting the generality of the foregoing, Releasers hereby release and discharge Releasees from:

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(a) any and all claims for backpay, frontpay, minimum wages, overtime compensation, bonus payments, benefits, reimbursement for expenses, or compensation of any kind (or the value thereof), and/or for liquidated damages or punitive damages (under any applicable statute or at common law);

(b) any and all claims, relating to Employee's employment by the Company, the terms and conditions of such employment, employee benefits related to Employee's employment, the termination of Employee's employment, and/or any of the events relating directly or indirectly to or surrounding such termination;

(c) any and all claims of discrimination, harassment, whistle blowing or retaliation in employment (whether based on federal, state or local law, statutory or decisional), including without limitation, all claims under the Age Discrimination in Employment Act of 1967, as amended, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Civil Rights Act of 1991, the Civil Rights Act of 1866, 42 USC §§ 1981-86, as amended, the Equal Pay Act, the Fair Labor Standards Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act, the Florida Civil Rights Act of 1992, the Florida Whistle-Blower Law (Fla. Stat. § 448.101 et seq.), the Florida Equal Pay Act, and waivable rights under the Florida Constitution;

(d) any and all claims under any contract, whether express or implied;

(e) any and all claims for unintentional or intentional torts, for emotional distress and for pain and suffering;

(f) any and all claims for violation of any statutory or administrative rules, regulations or codes;

(g) any and all claims for attorneys' fees, costs, disbursements, wages, bonuses, benefits, vacation and/or the like;

which Releasers ever had, now have or hereafter can, shall or may have against Releasees for, upon or by reason of any act, omission, transaction or occurrence up to and including the date of the execution of this Agreement, except for the Employee Non-Released Company Claims.

4. **General Release in Favor of Employee.** The Releasees, and each of them, hereby release Releasers, and each of them, from all claims or causes of action whatsoever, known or unknown, including any and all claims of the common law of the State of Florida, including but not limited to breach of contract (whether written or oral), promissory estoppel, defamation, unjust enrichment, or claims for attorneys' fees and costs and all claims which were alleged or could have been alleged against the Employee which arose from the beginning of the world to the date of this Agreement, except for the Company Non-Released Employee Claims.

5. **Reserved.**

6. **Covenants not to Sue.**

(a) Employee Covenant not to Sue. Employee represents and warrants that to date, he has not filed any lawsuit, action, complaint or charge of any kind with any federal, state, or county court or administrative or public agency against the Company or any other Releasee. Without in any way limiting the generality of the foregoing, Employee hereby covenants not to sue or to assert, prosecute, or maintain, directly or indirectly, in any form, any claim or cause of action against any person or entity being released pursuant to this Agreement with respect to any matter, cause, omission, act, or thing whatsoever, occurring in whole or in part on or at any time prior to the date of this Agreement, except for the Employee Non-Released Company Claims. Employee agrees that he will not seek or accept any award or settlement from any source or proceeding with respect to any claim or right waived in this Agreement.

(b) Company Covenant not to Sue. The Company represents and warrants that to date, it has not filed any lawsuit, action, complaint or charge of any kind with any federal, state, or county court or administrative or public agency against Employee or any other Releaser. Without in any way limiting the generality of the foregoing, the Company hereby covenants not to sue or to assert, prosecute, or maintain, directly or indirectly, in any form, any claim or cause of action against any person or entity being released pursuant to this Agreement with respect to any matter, cause, omission, act, or thing whatsoever, occurring in whole or in part on or at any time

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prior to the date of this Agreement, except for the Company Non-Released Employee Claims. The Company agrees that it will not seek or accept any award or settlement from any source or proceeding with respect to any claim or right waived in this Agreement.

7. **No Admission.** The making of this Agreement is not intended, and shall not be construed, as an admission that the Company or any of the Releasees, has violated any federal, state or local law (statutory or decisional), ordinance or regulation, breached any contract or committed any wrongdoing whatsoever.

8. **Effectiveness.** This Agreement shall not become effective until the eighth day following Employee's signing of this Agreement ("**Effective Date**") and Employee may at any time prior to the Effective Date revoke this Agreement by giving notice in writing of such revocation to:

KLX Energy Services Holdings, Inc.  
1300 Corporate Center Way,  
Wellington, FL 33414  
Attn: General Counsel

In the event that Employee revokes this Agreement prior to the eighth day after his execution thereof, this Agreement, and the promises contained herein, shall automatically be deemed null and void.

9. **Employee Acknowledgement.** Employee acknowledges that he has been advised in writing to consult with an attorney before signing this Agreement, and that Employee has been afforded the opportunity to consider the terms of this Agreement for twenty-one (21) days prior to its execution. Employee further acknowledges that he has read this Agreement in its entirety, that he fully understands all of its terms and their significance, that he has signed it voluntarily and of Employee's own free will, and that Employee intends to abide by its provisions without exception.

10. **Severability.** If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, void or unenforceable, such provision shall have no effect, however, the remaining provisions shall be enforced to the maximum extent possible.

11. **Entire Agreement.** This Agreement, the Restricted Stock Agreement, the Proprietary Rights Agreement and the Employment Letter, taken together, constitute the complete understanding between the parties and supersedes all such prior agreements between the parties and may not be changed orally. Employee acknowledges that neither the Company nor any representative of the Company has made any representation or promises to Employee other than as set forth herein or therein. No other promises or agreements shall be binding unless in writing and signed by the parties.

12. **General Provisions.**

(a) **Governing Law; Jurisdiction; Venue.** This Agreement shall be enforced, governed and interpreted by the laws of the State of Florida without regard to Florida's conflict of laws principles. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled in a court of competent jurisdiction in the State of Florida in Palm Beach County. Each party consents to the jurisdiction of such Florida court in any such civil action or legal proceeding and waives any objection to the laying of venue in such Florida court.

(b) **Prevailing Party.** In the event of any litigation, dispute or contest arising from a breach of this Agreement, the prevailing party shall be entitled to recover from the non-prevailing party all reasonable costs incurred in connection with such litigation, dispute or contest, including without limitation, reasonable attorneys' fees, disbursement and costs, and experts' fees and costs.

(c) **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed as an original, but all of which together shall constitute one and the same instrument.

(d) **Binding Effect.** This Agreement is binding upon, and shall inure to the benefit of, the parties, the Releasers and the Releasees and their respective heirs, executors, administrators, successors and assigns.

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(e) Interpretation. Should any provision of this Agreement require interpretation or construction, it is agreed by the parties that the entity interpreting or construing this Agreement shall not apply a presumption that the provisions hereof shall be more strictly construed against one party who prepared the Agreement, it being agreed that all parties have participated in the preparation of all provisions of this Agreement.

(f) Defense of Trade Secrets Act. Notwithstanding anything to the contrary in this Agreement or otherwise, Employee understands and acknowledges that the Company has informed Employee that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for (i) the disclosure of a trade secret that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law or (ii) the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding if such filing is made under seal. Additionally, notwithstanding anything to the contrary in this Agreement or otherwise, Employee understands and acknowledges that the Company has informed Employee that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to a court order.

(g) Whistleblowing. Nothing in this Agreement or any other agreement between Employee and the Company shall be interpreted to limit or interfere with Employee's right to report good faith suspected violations of law to applicable government agencies, including the Equal Employment Opportunity Commission, National Labor Relation Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other applicable federal, state or local governmental agency, in accordance with the provisions of any "whistleblower" or similar provisions of local, state or federal law. Employee may report such suspected violations of law, even if such action would require Employee to share the Company's proprietary information or trade secrets with the government agency, provided that any such information is protected to the maximum extent permissible and any such information constituting trade secrets is filed only under seal in connection with any court proceeding. Lastly, nothing in this Agreement or any other agreement between Employee and the Company will be interpreted to prohibit Employee from collecting any financial incentives in connection with making such reports or require Employee to notify or obtain approval by the Company prior to making such reports to a government agency.

[Signature Page Follows]

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Separation Agreement and Mutual Release as of the date first written above.

KLX ENERGY SERVICES HOLDINGS, INC.

\_\_\_\_\_  
Thomas P. McCaffrey

By: \_\_\_\_\_

PRINT NAME:

TITLE:

STATE OF FLORIDA )

) ss.

COUNTY OF \_\_\_\_\_ )

I HEREBY CERTIFY, that on this day, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared Thomas P. McCaffrey, to me known to be the person described in and who executed the foregoing instrument, and acknowledged to and before me that he/she executed the same. This individual is personally known to me or has produced a \_\_\_\_\_ as identification and did take an oath.

SWORN TO AND SUBSCRIBED before me this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires:

\_\_\_\_\_

**EXHIBIT B**

**PROPRIETARY RIGHTS AGREEMENT**

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## KLX ENERGY SERVICES HOLDINGS, INC. PROPRIETARY RIGHTS AGREEMENT

This Proprietary Rights Agreement (“**Agreement**”) is intended to set forth in writing my responsibility to KLX Energy Services Holdings, Inc. and/or any of its subsidiaries or affiliated businesses (collectively, the “**Company**”) during my employment, consultancy, and/or tenure as an independent contractor with the Company and thereafter. I recognize that the Company is engaged in a continuous program of research, development and production respecting its business, present and future. As part of my employment, consultancy, and/or tenure as an independent contractor with the Company, I have certain obligations relating to business, confidential and/or proprietary information of the Company.

I acknowledge and agree that:

### 1. Agreement and Effective Date

This Agreement shall be effective on, the first day of my employment, consultancy, and/or tenure as an independent contractor with the Company and shall continue in effect throughout my employment, consultancy, and/or tenure as an independent contractor (the “**Agreement Period**”). As an inducement to, and in consideration of, my acceptance and/or continuation of employment, consultancy, and/or tenure as an independent contractor with the Company, and the Company’s compensating me for services and extending to me certain other benefits of a compensatory nature, but without any obligation on the Company’s part to continue such employment, compensation or benefits for any specified period whatsoever, I agree to protect, safeguard and maintain the integrity and confidentiality of the Company’s valuable assets and legitimate business interests in accordance with the terms and conditions set forth in this Agreement.

### 2. Confidentiality

2.1. Permitted Use. I will maintain in confidence and will not disclose or use, either during or after the Agreement Period, any “**Proprietary Information**”, whether or not in written form, except to the extent required to perform my duties on behalf of the Company.

2.2. Definition of Proprietary Information. As used in this Agreement, Proprietary Information means all of the following materials and information that I use, receive, have access to, conceive or develop or have used, received, conceived or developed, in whole or in part, in connection with my employment, consultancy and/or tenure as an independent contractor with the Company:

(i) Written materials of the Company;

The names and information relating to customers and prospective customers of the Company and/or persons, firms, corporations or other entities with whom the Company has provided goods or

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services at any time, including contact persons, addresses and phone numbers, their characteristics and preferences and types of services provided to or received from those customers and prospective customers;

- (ii) The terms of various agreements between the Company and any third parties, including without limitation, the terms of customer agreements, vendor or supplier agreements, lease agreements, advertising agreements, fee arrangements, terms of dealing and the like;
  - (iii) Any data or database, trading algorithms or processes, or other information compiled by the Company, including, but not limited to, customer lists, customer information, information concerning the Company, or any business in which the Company is engaged or contemplates becoming engaged, any company with which the Company engages in business, any customer, prospective customer or other person, firm or corporation to whom or which the Company has provided goods or services or to whom or which any employee of the Company has provided goods or services on behalf of the Company, or any compilation, analysis, evaluation or report concerning or deriving from any data or database, or any other information;
  - (iv) All policies, procedures, strategies and techniques regarding the services performed by the Company or regarding the training, marketing and sales of the Company, either oral or written. The Company's internal corporate policies and practices related to its services, price lists, fee arrangements and terms of dealings with customers or potential customers or vendors. Information relating to formulas, records, research and development data, trade secrets, processes, other methods of doing business, forecasts and business and marketing plans;
  - (v) Any other information, data, know-how or knowledge of a confidential or proprietary nature observed, used, received, conceived or developed by me in connection with my employment, consultancy, and/or tenure as an independent contractor by the Company, including and not limited to the Company's methodologies, price strategies, price lists, costs and quantities sold, financial and sales information, including, but not limited to, the Company's financial condition, business interests, initiatives, objectives, plans or strategies; internal information regarding personnel identity, skills, compensation, organizational charts, budgets or costs of individual departments, and the compensation paid to those working for or who provide services to the Company; and performance of investments, funds or portfolio companies,
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including any “track record” or other financial performance information or results;

- (vi) All other non-public information regarding the amount and nature of the capital and assets owned or controlled by, or net worth of, the Company and/or any of the Company’s shareholders, members, partners, employees or investors; the investments made, directly or indirectly, by the Company (including, but not limited to, any partnerships, corporations or other entities in which the Company may invest and the assets which any of those entities acquires); the expected or actual rates of return or holding periods of any investment by the Company; the respective interest in any investment of any of its shareholders, members, partners or investors or the manner in which those interests are held; the identities of the other persons or entities who participate in any investment made by the Company; and financial statements, projections, budgets and market information;
  - (vii) All discoveries, software (including, without limitation, both source code and object code), models, drawings, photographs, specifications, trademarks, formulas, patterns, devices, compilations and all other proprietary know-how and technology, whether or not patentable or copyrightable, and all copies and tangible embodiments of any of the foregoing, and that have been or will be created for the Company by me, whether alone or with others;
  - (viii) The Company’s inventions, products, research and development, production processes, manufacturing and engineering processes, machines and equipment, finances, customers, marketing, and production and future business plans, information belonging to customers or suppliers of the Company disclosed incidental to my employment, consultancy, and/or tenure as an independent contractor and any other information which is identified as confidential by the Company; and
  - (ix) “**Trade Secrets**”, which shall include, but not be limited to, information regarding formulas, processes or methods that: (a) derive independent economic value, actual or potential, from not being generally known to or readily ascertainable by proper means, by other persons who can obtain economic value from its disclosure or use; and (b) is the subject of reasonable efforts by the Company to maintain its secrecy. “Trade Secrets” shall also include all other information or data that qualifies as a trade secret under applicable law.
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### 3. Trade Secrets

#### 3.1. Use and Return of Proprietary Information and Trade Secrets:

- (i) I agree that, upon termination of my employment (if applicable) and/or tenure as an independent contractor with the Company for any reason (regardless of whether or not the Company retains me as a consultant) or at any other time upon the Company's request, I shall return to Company, without retaining any copies, all Proprietary Information and Trade Secrets, as well as all other Company's documents and other materials, which are in my possession regardless of the form in which such materials are kept;
- (ii) I acknowledge that all documents, in hard copy or electronic form, received, created or used by me in connection with my employment, consultancy, and/or tenure as an independent contractor with the Company are and will remain the property of the Company. I agree to return all such documents (including all copies) promptly upon the termination of my employment, consultancy, and/or tenure as an independent contractor, certify that no other documents remain, and agree that, during or after my employment, consultancy, and/or tenure as an independent contractor, I will not, under any circumstances, without the written consent of the Company, disclose those documents to anyone outside the Company or use those documents for any purpose other than the advancement of the Company's interests;

3.2. Defense of Trade Secrets Act. Notwithstanding anything to the contrary, I understand and acknowledge that the Company has informed me that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for (i) the disclosure of a trade secret that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (ii) the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding if such filing is made under seal. Additionally, notwithstanding anything to the contrary, I understand and acknowledge that the Company has informed me that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to a court order.

#### 4. No Conflicting Obligations

Except as otherwise set forth in the Employment Letter, my performance of this Agreement does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by me prior to my employment, consultancy, and/or tenure as an independent contractor with the Company. I will not disclose, induce, or permit the Company to, either directly or indirectly, use, any confidential or

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proprietary information or material belonging to any previous employer or other person or entity. Except as otherwise set forth in the Employment Letter, I am not a party to any other agreement that will interfere with my full compliance with this Agreement. I will not enter into any agreement, whether written or oral, conflicting with the provisions of this Agreement.

**5. Whistleblowing**

Nothing in this Agreement or any other agreement between you and the Company shall be interpreted to limit or interfere with your right to report good faith suspected violations of law to applicable government agencies, including the Equal Employment Opportunity Commission, National Labor Relation Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other applicable federal, state or local governmental agency, in accordance with the provisions of any "whistleblower" or similar provisions of local, state or federal law. You may report such suspected violations of law, even if such action would require you to share the Company's Proprietary Information or Trade Secrets with the government agency, provided that any such Proprietary Information is protected to the maximum extent permissible and any such information constituting Trade Secrets is filed only under seal in connection with any court proceeding. Lastly, nothing in this Agreement or any other agreement between you and the Company will be interpreted to prohibit you from collecting any financial incentives in connection with making such reports nor to require you to notify or obtain approval by the Company prior to making such reports to a government agency.

**6. Survival**

Notwithstanding the termination of the Agreement Period, this Agreement shall survive such termination and continue in accordance with its terms and conditions. Unless provided otherwise in a written contract with the Company, this Agreement does not in any way restrict my right or the right of the Company to terminate my employment, consultancy, and/or tenure as an independent contractor at any time, for any reason or for no reason.

**7. Specific Performance**

A breach of any of the promises or agreements contained herein will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law, and the Company shall be entitled to injunctive relief and/or a decree for specific performance, and such other relief as may be proper (including monetary damages, if appropriate).

**8. Waiver**

The waiver by the Company of a breach of any provision of this Agreement by me will not operate or be construed as a waiver of any other or subsequent breach by me.

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**9. Severability**

If any part of this Agreement is found invalid or unenforceable, that part will be amended to achieve as nearly as possible the same economic effect as the original provision and the remainder of this Agreement will remain in full force.

**10. Governing Law**

This Agreement will be governed by and construed in accordance with the laws (other than the conflict of laws rules) of the state of Florida.

**11. Entire Agreement**

Except for the Employment Letter (and the exhibits thereto), this Agreement constitutes the entire agreement between the parties relating to this subject matter and supersede all prior or simultaneous representations, discussions, negotiations and agreements, whether written or oral, except for prior proprietary rights agreements which shall for the period prior to the effective date of this Agreement be deemed to be in addition to, and not in lieu of, this Agreement for such prior period. This Agreement may be amended or modified only with the written consent of both me and the Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

**12. Assignment**

This Agreement may be assigned by the Company. I may not assign or delegate my duties under this Agreement without the Company's prior written approval. This Agreement shall be binding upon my heirs, successors and permitted assignees.

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Date: \_\_\_\_\_

**EMPLOYEE**

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Printed Name)

**KLX ENERGY SERVICES HOLDINGS, INC.**

By: \_\_\_\_\_

Title: \_\_\_\_\_



I, Amin J. Khoury, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KLX Energy Services Holdings, Inc.;
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 Rule 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: December 6, 2018

By: /s/ Amin J. Khoury  
Amin J. Khoury  
Chairman, Chief Executive Officer and President

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**KLX ENERGY SERVICES HOLDINGS, INC.  
CERTIFICATIONS**

I, Thomas P. McCaffrey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KLX Energy Services Holdings, Inc.;
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 Rule 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: December 6, 2018

By: /s/ Thomas P. McCaffrey

Thomas P. McCaffrey  
Senior Vice President and Chief Financial Officer

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**KLX ENERGY SERVICES HOLDINGS, INC.  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS REQUIRED BY  
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 quarter ended October 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Amin J. Khoury, Chairman, Chief Executive Officer and President of the Company, certify that to the best of my knowledge:

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

Date: December 6, 2018

By: /s/ Amin J. Khoury  
Amin J. Khoury  
Chairman, Chief Executive Officer and President

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**KLX ENERGY SERVICES HOLDINGS, INC.  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS REQUIRED BY  
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 quarter ended October 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. McCaffrey Senior Vice President and Chief Financial Officer of the Company, certify that to the best of my knowledge:

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

Date: December 6, 2018

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

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