
**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 September 30, 2023

or

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

For the transition period from _____ to _____

Commission File Number 001-38066

SELECT WATER SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

81-4561945
(IRS Employer
Identification Number)

1233 W. Loop South, Suite 1400
Houston, TX
(Address of principal executive offices)

77027
(Zip Code)

(713) 235-9500

(Registrant's telephone number, including area code)

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

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|--|-----------------------|--|
| Class A common stock, par value \$0.01 per share | WTTR | New York Stock Exchange |

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

As of October 30, 2023, the registrant had 103,916,906 shares of Class A common stock and 16,221,101 shares of Class B common stock outstanding.

SELECT WATER SOLUTIONS, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the “Quarterly Report”) includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact, included in this Quarterly Report regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project,” “preliminary,” “forecast,” and similar expressions or variations are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Risk Factors” included in our most recent Annual Report on Form 10-K, in this Quarterly Report and those set forth from time to time in our other filings with the Securities and Exchange Commission (the “SEC”). These forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events.

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

- global economic distress, including that resulting from the sustained Russia-Ukraine war and related economic sanctions, the conflict in the Israel-Gaza region and continued hostilities in the Middle East, rising interest rates, and potential energy insecurity in Europe, each of which may decrease demand for oil and demand for our services or contribute to volatility in the prices for oil and natural gas;
- actions taken by the members of the Organization of the Petroleum Exporting Countries (“OPEC”) and Russia (together with OPEC and other allied producing countries, “OPEC+”) with respect to oil production levels and announcements of potential changes in such levels, including the ability of the OPEC+ countries to agree on and comply with announced supply limitations, which may be exacerbated by the recent Middle East conflict;
- actions taken by the Biden Administration or state governments, such as executive orders or new or expanded regulations, that may negatively impact the future production of oil and natural gas in the U.S. or our customers’ access to federal and state lands for oil and gas development operations, thereby reducing demand for our services in the affected areas;
- the level of capital spending and access to capital markets by oil and gas companies in response to changes in commodity prices or reduced demand;
- the ability to source certain raw materials and other critical components or manufactured products globally on a timely basis from economically advantaged sources;
- the impact of central bank policy actions and disruptions in the bank and capital markets, including those resulting from bank failures and the inability to access liquidity by banking and financial services firms;
- the severity and duration of world health events, including the coronavirus (“COVID-19”) pandemic and associated repercussions, and any resulting impact on commodity prices and supply and demand considerations;
- the potential deterioration of our customers’ financial condition, including defaults resulting from actual or potential insolvencies;

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- the degree to which consolidation among our customers may affect spending on U.S. drilling and completions;
- trends and volatility in oil and gas prices, and our ability to manage through such volatility;
- the impact of current and future laws, rulings and governmental regulations, including those related to hydraulic fracturing, accessing water, disposing of wastewater, transferring produced water, interstate freshwater transfer, chemicals, carbon pricing, pipeline construction, taxation or emissions, leasing, permitting or drilling on federal lands and various other environmental matters;
- regional impacts to our business, including our key infrastructure assets within the Bakken, the Northern Delaware and Midland Basin portions of the Permian Basin, and the Haynesville;
- capacity constraints on regional oil, natural gas and water gathering, processing and pipeline systems that result in a slowdown or delay in drilling and completion activity, and thus a decrease in the demand for our services in our core markets;
- regulatory and related policy actions intended by federal, state and/or local governments to reduce fossil fuel use and associated carbon emissions, or to drive the substitution of renewable forms of energy for oil and gas, may over time reduce demand for oil and gas and therefore the demand for our services, including as a result of the Inflation Reduction Act of 2022 (“IRA 2022”) or otherwise;
- changes in global political or economic conditions, generally, and in the markets we serve, including the rate of inflation and potential economic recession;
- growing demand for electric vehicles that may result in reduced demand for refined products deriving from crude oil such as gasoline and diesel fuel, and therefore the demand for our services;
- our ability to hire and retain key management and employees, including skilled labor;
- our access to capital to fund expansions, acquisitions and our working capital needs and our ability to obtain debt or equity financing on satisfactory terms, including as a result of sustained increases in cost of capital resulting from Federal Reserve policies and otherwise;
- our health, safety and environmental performance;
- the impact of competition on our operations;
- the degree to which our E&P customers may elect to operate their water-management services in-house rather than source these services from companies like us;
- our level of indebtedness and our ability to comply with covenants contained in our Sustainability-Linked Credit Facility (as defined herein) or future debt instruments;
- delays or restrictions in obtaining permits by us or our customers;
- constraints in supply or availability of equipment used in our business;
- the impact of advances or changes in well-completion technologies or practices that result in reduced demand for our services, either on a volumetric or time basis;

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- acts of terrorism, war or political or civil unrest in the U.S. or elsewhere, such as the Russia-Ukraine war, the conflict in the Israel-Gaza region and/or other instability in the Middle East;
- accidents, weather, natural disasters or other events affecting our business; and
- the other risks identified in our most recent Annual Report on Form 10-K and under the headings “Part I—Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II—Item 1A. Risk Factors” in this Quarterly Report.

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**SELECT WATER SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)**

| | <u>September 30, 2023</u> | <u>December 31, 2022</u> |
|---|---------------------------|--------------------------|
| | <u>(unaudited)</u> | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 25,043 | \$ 7,322 |
| Accounts receivable trade, net of allowance for credit losses of \$5,762 and \$4,918, respectively | 355,532 | 429,983 |
| Accounts receivable, related parties | 287 | 5,087 |
| Inventories | 44,880 | 41,164 |
| Prepaid expenses and other current assets | 44,490 | 34,380 |
| Total current assets | <u>470,232</u> | <u>517,936</u> |
| Property and equipment | 1,151,654 | 1,084,005 |
| Accumulated depreciation | (628,293) | (584,451) |
| Total property and equipment, net | <u>523,361</u> | <u>499,554</u> |
| Right-of-use assets, net | 39,950 | 47,662 |
| Goodwill | 4,683 | — |
| Other intangible assets, net | 120,851 | 138,800 |
| Other long-term assets, net | 23,411 | 18,901 |
| Total assets | <u>\$ 1,182,488</u> | <u>\$ 1,222,853</u> |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 54,500 | \$ 61,539 |
| Accrued accounts payable | 74,302 | 67,462 |
| Accounts payable and accrued expenses, related parties | 3,554 | 3,305 |
| Accrued salaries and benefits | 20,573 | 28,686 |
| Accrued insurance | 20,244 | 26,180 |
| Sales tax payable | 3,074 | 3,056 |
| Accrued expenses and other current liabilities | 29,061 | 23,292 |
| Current operating lease liabilities | 15,274 | 17,751 |
| Current portion of finance lease obligations | 87 | 19 |
| Total current liabilities | <u>220,669</u> | <u>231,290</u> |
| Long-term operating lease liabilities | 38,837 | 46,388 |
| Long-term debt | — | 16,000 |
| Other long-term liabilities | 43,983 | 45,447 |
| Total liabilities | <u>303,489</u> | <u>339,125</u> |
| Commitments and contingencies (Note 9) | | |
| Class A common stock, \$0.01 par value; 350,000,000 shares authorized and 103,917,951 shares issued and outstanding as of September 30, 2023; 350,000,000 shares authorized and 109,389,528 shares issued and outstanding as of December 31, 2022 | 1,039 | 1,094 |
| Class A-2 common stock, \$0.01 par value; 40,000,000 shares authorized; no shares issued or outstanding as of September 30, 2023 and December 31, 2022 | — | — |
| Class B common stock, \$0.01 par value; 150,000,000 shares authorized and 16,221,101 shares issued and outstanding as of September 30, 2023 and December 31, 2022 | 162 | 162 |
| Preferred stock, \$0.01 par value; 50,000,000 shares authorized; no shares issued and outstanding as of September 30, 2023 and December 31, 2022 | — | — |
| Additional paid-in capital | 1,022,406 | 1,075,915 |
| Accumulated deficit | (264,386) | (311,194) |
| Total stockholders' equity | <u>759,221</u> | <u>765,977</u> |
| Noncontrolling interests | 119,778 | 117,751 |
| Total equity | <u>878,999</u> | <u>883,728</u> |
| Total liabilities and equity | <u>\$ 1,182,488</u> | <u>\$ 1,222,853</u> |

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------|---------------------------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue | | | | |
| Water Services | \$ 251,870 | \$ 264,271 | \$ 791,145 | \$ 693,393 |
| Water Infrastructure | 58,375 | 31,368 | 169,118 | 80,686 |
| Chemical Technologies | 79,028 | 79,433 | 250,230 | 231,665 |
| Total revenue | 389,273 | 375,072 | 1,210,493 | 1,005,744 |
| Costs of revenue | | | | |
| Water Services | 200,361 | 204,650 | 626,878 | 558,041 |
| Water Infrastructure | 34,992 | 20,392 | 103,718 | 51,424 |
| Chemical Technologies | 63,005 | 64,519 | 200,017 | 194,670 |
| Other | — | (1) | — | — |
| Depreciation and amortization | 34,650 | 26,672 | 102,776 | 82,425 |
| Total costs of revenue | 333,008 | 316,232 | 1,033,389 | 886,560 |
| Gross profit | 56,265 | 58,840 | 177,104 | 119,184 |
| Operating expenses | | | | |
| Selling, general and administrative | 38,983 | 29,782 | 109,147 | 84,792 |
| Depreciation and amortization | 512 | 543 | 1,846 | 1,636 |
| Impairments and abandonments | 32 | — | 11,554 | — |
| Lease abandonment costs | (12) | 83 | 73 | 336 |
| Total operating expenses | 39,515 | 30,408 | 122,620 | 86,764 |
| Income from operations | 16,750 | 28,432 | 54,484 | 32,420 |
| Other income (expense) | | | | |
| Gain (loss) on sales of property and equipment and divestitures, net | 23 | (479) | 1,688 | 1,905 |
| Interest expense, net | (765) | (616) | (4,290) | (1,830) |
| Foreign currency loss, net | (1) | (6) | (4) | (9) |
| Bargain purchase gain | — | (3,273) | — | 13,768 |
| Other | 768 | 1,153 | 2,486 | 2,277 |
| Income before income tax expense | 16,775 | 25,211 | 54,364 | 48,531 |
| Income tax expense | (483) | (276) | (1,068) | (672) |
| Equity in losses of unconsolidated entities | (978) | (218) | (1,716) | (576) |
| Net income | 15,314 | 24,717 | 51,580 | 47,283 |
| Less: net income attributable to noncontrolling interests | (968) | (3,393) | (4,772) | (6,654) |
| Net income attributable to Select Water Solutions, Inc. | \$ 14,346 | \$ 21,324 | \$ 46,808 | \$ 40,629 |
| Net income per share attributable to common stockholders (Note 15): | | | | |
| Class A—Basic | \$ 0.14 | \$ 0.23 | \$ 0.46 | \$ 0.44 |
| Class B—Basic | \$ — | \$ — | \$ — | \$ — |
| Net income per share attributable to common stockholders (Note 15): | | | | |
| Class A—Diluted | \$ 0.14 | \$ 0.22 | \$ 0.45 | \$ 0.43 |
| Class B—Diluted | \$ — | \$ — | \$ — | \$ — |

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

SELECT WATER SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in thousands)

| | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|---|---|------------------|--|------------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| Net income | \$ 15,314 | \$ 24,717 | \$ 51,580 | \$ 47,283 |
| Comprehensive income | 15,314 | 24,717 | 51,580 | 47,283 |
| Less: comprehensive income attributable to noncontrolling interests | (968) | (3,393) | (4,772) | (6,654) |
| Comprehensive income attributable to Select Water Solutions, Inc. | <u>\$ 14,346</u> | <u>\$ 21,324</u> | <u>\$ 46,808</u> | <u>\$ 40,629</u> |

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

SELECT WATER SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2023 and 2022
(unaudited)
(in thousands, except share data)

| | Class A Stockholders | | Class B Stockholders | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity | Noncontrolling Interests | Total |
|--|----------------------|----------------------|----------------------|----------------------|----------------------------|---------------------|----------------------------|--------------------------|------------|
| | Shares | Class A Common Stock | Shares | Class B Common Stock | | | | | |
| Balance as of December 31, 2022 | 109,389,528 | \$ 1,094 | 16,221,101 | \$ 162 | \$ 1,075,915 | \$ (311,194) | \$ 765,977 | \$ 117,751 | \$ 883,728 |
| Equity-based compensation | — | — | — | — | 11,080 | — | 11,080 | 1,707 | 12,787 |
| Issuance of restricted shares | 1,633,849 | 16 | — | — | 1,449 | — | 1,465 | (1,465) | — |
| Issuance of shares for acquisitions | (48,688) | — | — | — | (401) | — | (401) | (9) | (410) |
| Repurchase of common stock | (6,984,375) | (70) | — | — | (49,747) | — | (49,817) | (88) | (49,905) |
| Restricted shares forfeited | (72,363) | (1) | — | — | (46) | — | (47) | 47 | — |
| Distributions to noncontrolling interests | — | — | — | — | — | — | — | (1,581) | (1,581) |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | 1,153 | 1,153 |
| NCI income tax adjustment | — | — | — | — | 76 | — | 76 | (76) | — |
| Dividend and distribution declared: | | | | | | | | | |
| Class A common stock (\$0.05 per share) | — | — | — | — | (15,287) | — | (15,287) | — | (15,287) |
| Unvested restricted stock (\$0.05 per share) | — | — | — | — | (633) | — | (633) | — | (633) |
| Class B common stock (\$0.05 per share) | — | — | — | — | — | — | — | (2,433) | (2,433) |
| Net income | — | — | — | — | — | 46,808 | 46,808 | 4,772 | 51,580 |
| Balance as of September 30, 2023 | 103,917,951 | \$ 1,039 | 16,221,101 | \$ 162 | \$ 1,022,406 | \$ (264,386) | \$ 759,221 | \$ 119,778 | \$ 878,999 |

| | Class A Stockholders | | Class B Stockholders | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity | Noncontrolling Interests | Total |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------------|---------------------|----------------------------|--------------------------|------------|
| | Shares | Class A Common Stock | Shares | Class B Common Stock | | | | | |
| Balance as of December 31, 2021 | 94,172,920 | \$ 942 | 16,221,101 | \$ 162 | \$ 950,464 | \$ (359,472) | \$ 592,096 | \$ 103,078 | \$ 695,174 |
| ESPP shares issued | 4,681 | — | — | — | 34 | — | 34 | 1 | 35 |
| Equity-based compensation | — | — | — | — | 9,454 | — | 9,454 | 1,569 | 11,023 |
| Issuance of restricted shares | 2,529,231 | 25 | — | — | 2,220 | — | 2,245 | (2,245) | — |
| Stock options exercised | 70,000 | 1 | — | — | 583 | — | 584 | 24 | 608 |
| Issuance of shares for acquisitions | 4,203,323 | 42 | — | — | 34,456 | — | 34,498 | 1,356 | 35,854 |
| Repurchase of common stock | (2,794,983) | (28) | — | — | (20,109) | — | (20,137) | (438) | (20,575) |
| Restricted shares forfeited | (87,242) | (1) | — | — | (78) | — | (79) | 79 | — |
| NCI income tax adjustment | — | — | — | — | 39 | — | 39 | (39) | — |
| Net income | — | — | — | — | — | 40,629 | 40,629 | 6,654 | 47,283 |
| Balance as of September 30, 2022 | 98,097,930 | \$ 981 | 16,221,101 | \$ 162 | \$ 977,063 | \$ (318,843) | \$ 659,363 | \$ 110,039 | \$ 769,402 |

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

SELECT WATER SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended September 30, 2023 and 2022
(unaudited)
(in thousands, except share data)

| | Class A Stockholders | | Class B Stockholders | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity | Noncontrolling Interests | Total |
|--|----------------------|----------------------|----------------------|----------------------|----------------------------|---------------------|----------------------------|--------------------------|------------|
| | Shares | Class A Common Stock | Shares | Class B Common Stock | | | | | |
| Balance as of June 30, 2023 | 103,799,815 | \$ 1,038 | 16,221,101 | \$ 162 | \$ 1,023,370 | \$ (278,732) | \$ 745,838 | \$ 118,115 | \$ 863,953 |
| Equity-based compensation | — | — | — | — | 4,336 | — | 4,336 | 678 | 5,014 |
| Issuance of restricted shares | 172,905 | 1 | — | — | 119 | — | 120 | (120) | — |
| Repurchase of common stock | (33,525) | 1 | — | — | (242) | — | (241) | (34) | (275) |
| Restricted shares forfeited | (21,244) | (1) | — | — | 1 | — | — | (1) | (1) |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | 1,000 | 1,000 |
| NCI income tax adjustment | — | — | — | — | 17 | — | 17 | (17) | — |
| Dividend and distribution declared: | | | | | | | | | |
| Class A common stock (\$0.05 per share) | — | — | — | — | (4,987) | — | (4,987) | — | (4,987) |
| Unvested restricted stock (\$0.05 per share) | — | — | — | — | (208) | — | (208) | — | (208) |
| Class B common stock (\$0.05 per share) | — | — | — | — | — | — | — | (811) | (811) |
| Net income | — | — | — | — | — | 14,346 | 14,346 | 968 | 15,314 |
| Balance as of September 30, 2023 | 103,917,951 | \$ 1,039 | 16,221,101 | \$ 162 | \$ 1,022,406 | \$ (264,386) | \$ 759,221 | \$ 119,778 | \$ 878,999 |

| | Class A Stockholders | | Class B Stockholders | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity | Noncontrolling Interests | Total |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------------|---------------------|----------------------------|--------------------------|------------|
| | Shares | Class A Common Stock | Shares | Class B Common Stock | | | | | |
| Balance as of June 30, 2022 | 98,160,573 | \$ 982 | 16,221,101 | \$ 162 | \$ 974,066 | \$ (340,167) | \$ 635,043 | \$ 106,102 | \$ 741,145 |
| ESPP shares issued | 1,541 | — | — | — | 10 | — | 10 | — | 10 |
| Equity-based compensation | — | — | — | — | 3,265 | — | 3,265 | 539 | 3,804 |
| Repurchase of common stock | (40,060) | (1) | — | — | (268) | — | (269) | (2) | (271) |
| Restricted shares forfeited | (24,124) | — | — | — | (22) | — | (22) | 22 | — |
| NCI income tax adjustment | — | — | — | — | 12 | — | 12 | (15) | (3) |
| Net income | — | — | — | — | — | 21,324 | 21,324 | 3,393 | 24,717 |
| Balance as of September 30, 2022 | 98,097,930 | \$ 981 | 16,221,101 | \$ 162 | \$ 977,063 | \$ (318,843) | \$ 659,363 | \$ 110,039 | \$ 769,402 |

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

SELECT WATER SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

| | Nine months ended September 30, | |
|--|---------------------------------|-----------|
| | 2023 | 2022 |
| Cash flows from operating activities | | |
| Net income | \$ 51,580 | \$ 47,283 |
| Adjustments to reconcile net income to net cash used in operating activities | | |
| Depreciation and amortization | 104,622 | 84,061 |
| Gain on disposal of property and equipment and divestitures | (1,688) | (1,905) |
| Equity in losses of unconsolidated entities | 1,716 | 576 |
| Bad debt expense | 3,987 | 2,091 |
| Amortization of debt issuance costs | 366 | 539 |
| Inventory adjustments | 557 | (612) |
| Equity-based compensation | 12,787 | 11,023 |
| Impairments and abandonments | 11,554 | — |
| Bargain purchase gain | — | (13,768) |
| Other operating items, net | (956) | (710) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 70,467 | (141,468) |
| Prepaid expenses and other assets | (18,797) | (200) |
| Accounts payable and accrued liabilities | (34,033) | 10,983 |
| Net cash provided by (used in) operating activities | 202,162 | (2,107) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (102,401) | (50,815) |
| Purchase of equity-method investments | (500) | (6,767) |
| Collection of note receivable | — | 184 |
| Distribution from cost method investment | — | 60 |
| Acquisitions, net of cash and restricted cash received | (13,418) | 5,707 |
| Proceeds received from sales of property and equipment | 11,380 | 21,433 |
| Other | — | 705 |
| Net cash used in investing activities | (104,939) | (29,493) |
| Cash flows from financing activities | | |
| Borrowings from revolving line of credit | 105,250 | 82,000 |
| Payments on revolving line of credit | (121,250) | (82,000) |
| Payments on current and long-term debt | — | (18,780) |
| Payments of finance lease obligations | (55) | (108) |
| Payment of debt issuance costs | — | (2,144) |
| Dividends and distributions paid | (17,907) | — |
| Proceeds from share issuance | — | 35 |
| Distributions to noncontrolling interests | (1,581) | — |
| Contributions from noncontrolling interests | 5,950 | — |
| Repurchase of common stock | (49,905) | (19,967) |
| Net cash used in financing activities | (79,498) | (40,964) |
| Effect of exchange rate changes on cash | (4) | (15) |
| Net increase (decrease) in cash and cash equivalents | 17,721 | (72,579) |
| Cash and cash equivalents, beginning of period | 7,322 | 85,801 |
| Cash and cash equivalents, end of period | \$ 25,043 | \$ 13,222 |
| Supplemental cash flow disclosure: | | |
| Cash paid for interest | \$ 4,364 | \$ 1,255 |
| Cash paid (refunds received) for income taxes, net | \$ 1,759 | \$ (452) |
| Supplemental disclosure of noncash investing activities: | | |
| (Recoupment) issuance of shares for acquisitions | \$ (410) | \$ 35,854 |
| Conversion of notes receivable to equity-method investment | \$ — | \$ 4,442 |
| Capital expenditures included in accounts payable and accrued liabilities | \$ 38,581 | \$ 19,896 |

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

SELECT WATER SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—BUSINESS AND BASIS OF PRESENTATION

Description of the business: Select Water Solutions, Inc. (“we,” “Select Inc.” or the “Company”), formerly Select Energy Services, Inc., was incorporated as a Delaware corporation on November 21, 2016. On May 8, 2023, Select Energy Services, Inc.’s Fifth Amended and Restated Certificate of Incorporation became effective upon filing with the Secretary of State of the State of Delaware which, among other things, changed the name of the company from Select Energy Services, Inc. to Select Water Solutions, Inc. to reflect its strategic focus as a water-focused company. We retained our stock ticker “WTTR” trading on the New York Stock Exchange. The Company is a holding company whose sole material asset consists of common units (“SES Holdings LLC Units”) in SES Holdings, LLC (“SES Holdings”).

We are a leading provider of sustainable water-management and chemical solutions to the energy industry in the United States (“U.S.”). As a leader in the water solutions industry, we place the utmost importance on safe, environmentally responsible management of oilfield water throughout the lifecycle of a well. Additionally, we believe that responsibly managing water resources through our operations to help conserve and protect the environment in the communities in which we operate is paramount to our continued success.

Class A and Class B common stock: As of September 30, 2023, the Company had both Class A and Class B common shares issued and outstanding. Holders of shares of our Class A common stock, par value \$0.01 per share (“Class A common stock”) and Class B common stock, par value \$0.01 per share (“Class B common stock”) are entitled to one vote per share and vote together as a single class on all matters presented to our stockholders for their vote or approval.

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

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

This Quarterly Report relates to the three and nine months ended September 30, 2023 (the “Current Quarter” and the “Current Period”, respectively) and the three and nine months ended September 30, 2022 (the “Prior Quarter” and the “Prior Period”, respectively). The Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Form 10-K”), filed with the SEC on February 22, 2023, includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Quarterly Report. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results for the interim periods have been reflected. The results for the Current Quarter and Current Period may not be indicative of the results to be expected for the full year.

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

For investments in subsidiaries that are not wholly owned, but where the Company exercises control, the equity held by the minority owners and their portion of net income or loss are reflected as noncontrolling interests. Investments in entities in which the Company exercises significant influence over operating and financial policies are accounted for using the equity-method, and investments in entities for which the Company does not have significant control or influence are accounted for using the cost method or other appropriate basis as applicable. As of September 30, 2023, the Company had three equity-method investments. The Company's investments are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. When circumstances indicate that the fair value of its investment is less than its carrying value and the reduction in value is other than temporary, the reduction in value is recognized in earnings. Our investments in unconsolidated entities are summarized below and are included in the assets of our Water Services segment:

| Type of Investment | Year attained | Accounting method | Balance Sheet Location | As of September 30, | As of December 31, |
|-----------------------|---------------|-------------------|-----------------------------|---------------------|--------------------|
| | | | | 2023 | 2022 |
| | | | | (in thousands) | |
| 21% minority interest | 2020 | Equity-method | Other long-term assets, net | \$ 4,313 | \$ 4,686 |
| 40% minority interest | 2021 | Equity-method | Other long-term assets, net | 4,158 | 4,985 |
| 47% minority interest | 2021 | Equity-method | Other long-term assets, net | 3,430 | 3,446 |

Dividends: During the Current Period, the Company paid \$15.3 million in dividends accounted for as a reduction to additional paid-in capital, \$2.4 million of distributions accounted for as a reduction to noncontrolling interests and \$0.2 million as a reduction to accrued expenses and other current liabilities. As of September 30, 2023, the Company had a \$0.6 million dividends payable balance included in accrued expenses and other current liabilities and other long-term liabilities in connection with unvested restricted stock awards. All future dividend payments are subject to quarterly review and approval by the board of directors.

Segment reporting: The Company has three reportable segments. Reportable segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company's current reportable segments are Water Services, Water Infrastructure, and Chemical Technologies. See "Note 16—Segment Information" for additional information.

Effective June 1, 2023, our CODM began to strategically view and manage certain water sourcing and transfer operations, previously included in our Water Infrastructure segment, as part of our Water Services segment. These changes were driven by a number of factors, including the preponderance of our water sourcing business that integrates with our water transfer operations, the continued transition of completions water demand from fresh and brackish water to recycled water, as well as the diversifying demand for these water transfer services beyond the immediate vicinity of our pipeline infrastructure. Due to these changes, the Water Services segment management is best suited to manage these operations and due to their expertise, we anticipate more efficient sharing and utilization of resources and to realize potential synergies. Prior periods have been recast to include the water sourcing and transfer operations within the Water Services segment and remove the results of those operations from the Water Infrastructure segment.

Concurrently, the Company also decided to rename its Oilfield Chemicals segment as Chemical Technologies. This change was based on a number of factors, including the continued success of our chemicals business in delivering customized, specialty chemicals products developed through our own research and development efforts and the de-emphasis of certain traditional commoditized chemistry products within the oil and gas industry, as well as the continued investments in time and resources we make to manufacture and sell our specialty chemical products into non-oilfield industrial-related applications. We believe these segment changes better align the business with the current and future state of the Company's operations and capital allocation and strategic objectives. This change was a naming convention only change that did not impact any Current Period or Prior Period numbers.

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The Water Services segment consists of the Company's services businesses, including water sourcing, water transfer, flowback and well testing, fluids hauling, water monitoring, water containment and water network automation, primarily serving exploration and production ("E&P") companies. Additionally, this segment includes the operations of our accommodations and rentals business.

The Water Infrastructure segment consists of the Company's fixed infrastructure assets, including operations associated with our water distribution pipeline infrastructure, our water recycling solutions, and our produced water gathering systems and saltwater disposal wells, as well as solids disposal facilities, primarily serving E&P companies.

The Chemical Technologies segment provides technical solutions, products and expertise related to chemical applications in the oil and gas industry. We develop, manufacture, manage logistics and provide a full suite of chemicals used in hydraulic fracturing, stimulation, cementing and well completions for customers ranging from pressure pumpers to major integrated and independent oil and gas producers. This segment also utilizes its chemical experience and lab testing capabilities to customize tailored water treatment solutions designed to optimize the fracturing fluid system in conjunction with the quality of water used in well completions.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies: The Company's significant accounting policies are disclosed in Note 2 of the consolidated financial statements for the year ended December 31, 2022, included in the 2022 Form 10-K.

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

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

Allowance for credit losses: The Company's allowance for credit losses relates to trade accounts receivable. The Company treats trade accounts receivable as one portfolio and records an initial allowance calculated as a percentage of revenue recognized based on a combination of historical information and future expectations. Additionally, the Company adjusts this allowance based on specific information in connection with aged receivables. Historically, most bad debt has been incurred when a customer's financial condition significantly deteriorates, which in some cases leads to bankruptcy. Market volatility is highly uncertain and, as such, the impact on expected losses is subject to significant judgment and may cause variability in the Company's allowance for credit losses in future periods.

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The change in the allowance for credit losses is as follows:

| | <u>Nine months ended September 30, 2023</u> (in thousands) | |
|--|---|--------------|
| Balance as of December 31, 2022 | \$ | 4,918 |
| Increase to allowance based on a percentage of revenue | | 2,420 |
| Adjustment based on aged receivable analysis | | 1,515 |
| Charge-offs | | (3,109) |
| Recoveries | | 18 |
| Balance as of September 30, 2023 | \$ | <u>5,762</u> |

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

| | <u>Nine months ended September 30, 2023</u> (in thousands) | |
|--|---|---------------|
| Balance as of December 31, 2022 | \$ | 43,576 |
| Accretion expense, included in depreciation and amortization expense | | 764 |
| Acquired AROs | | 975 |
| Divested | | (646) |
| Payments | | (5,364) |
| Balance as of September 30, 2023 | \$ | <u>39,305</u> |
| Short-term ARO liability | | 5,059 |
| Long-term ARO liability | | 34,246 |
| Balance as of September 30, 2023 | \$ | <u>39,305</u> |

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

Lessor Income: The Company is a lessor for a nominal number of owned facilities and also recognizes income related to multiple facility subleases that are accounted for as follows:

| Category | Classification | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|-----------------|--|---|-------------|--|-------------|
| | | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| (in thousands) | | | | | |
| Lessor income | Costs of revenue | \$ 63 | \$ 74 | \$ 218 | \$ 238 |
| Sublease income | Lease abandonment costs and Costs of revenue | 374 | 369 | 1,214 | 1,076 |

The Company also generates short-term equipment rental revenue. See “Note 4—Revenue” for a discussion of revenue recognition for the accommodations and rentals business.

Defined Contribution Plan: The Company sponsors a defined contribution 401(k) Profit Sharing Plan for the benefit of substantially all employees of the Company. The Company incurred \$1.3 million, \$0.5 million, \$4.4 million and \$1.7 million match expense in the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

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Recent accounting pronouncements: In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. As the London Interbank Offered Rate ("LIBOR") will no longer be available beginning July 2023, this standard update provides practical expedients for contract modifications made as part of the transition from LIBOR to alternative reference rates. The guidance was effective upon issuance and at present can generally be applied through December 31, 2024. The Company adopted this ASU in the Current Period, and it had no impact on the consolidated financial statements.

NOTE 3—ACQUISITIONS

Asset Acquisitions

During the Current Period, Select acquired certain assets, revenue-producing contracts and associated liabilities, primarily in the Permian Basin, from multiple entities for \$13.4 million inclusive of \$0.2 million of acquisition-related costs. The allocation of the purchase price for these assets was a combined \$11.6 million in property and equipment, \$1.0 million in water inventory, \$1.9 million in customer relationships and \$1.1 million in asset retirement obligations and other liabilities. Many of the assets acquired are adjacent to the Big Spring Recycling System ("BSRS"), with connectivity into BSRS providing future revenue and cost synergies.

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Breakwater Acquisition

On November 1, 2022, the Company completed the acquisition of Breakwater Energy Services, LLC (“Breakwater”) in a stock-for-stock transaction for total consideration of \$105.3 million based on the closing price of the Company’s shares of Class A common stock on October 31, 2022 (the “Breakwater Acquisition”). The consideration transferred consisted of 9,181,144 shares of Class A common stock, \$10.5 million of debt that was paid off at closing as part of consideration exchanged, \$3.8 million in change-of-control payments and \$2.4 million in seller transaction costs. The acquisition strengthened Select’s geographic footprint with a unique set of water logistics and infrastructure assets, particularly in the Permian region.

The Breakwater Acquisition was accounted for as a business combination under the acquisition method of accounting. When determining the fair values of assets acquired and liabilities assumed, management made estimates, judgments and assumptions. The Company engaged third-party valuation experts to assist in the purchase price allocation. These estimates, judgments and assumptions and valuation of the property and equipment acquired, intangible assets, current assets, current liabilities and long-term liabilities were finalized as of September 30, 2023. The total consideration paid exceeded the fair value of the net assets acquired by \$4.7 million, with the excess recorded as goodwill. The goodwill recognized was driven primarily by the ability to connect Breakwater’s infrastructure with the Company’s infrastructure and expand revenue-producing capabilities and market share. The acquired goodwill is deductible for tax purposes. The assets acquired and liabilities assumed are included in the Company’s Water Services and Water Infrastructure segments. The Company incurred \$0.1 million, \$0.1 million \$1.8 million and \$0.1 million of transaction-related costs related to this acquisition in the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively, and such costs are included in selling, general and administrative within the consolidated statements of operations.

The following table summarizes the consideration transferred and the estimated fair value of identified assets acquired and liabilities assumed as of the date of acquisition:

| | As Reported as of December 31, 2022 | Current Period Adjustment | Amount |
|---|---|------------------------------|------------|
| <i>Purchase price allocation</i> | | | |
| <i>Consideration transferred</i> | | | |
| Class A common stock (9,181,144 shares) ⁽¹⁾ | \$ 88,598 | \$ (410) | \$ 88,188 |
| Cash paid | 16,701 | — | 16,701 |
| Total consideration transferred | 105,299 | (410) | 104,889 |
| <i>Less: identifiable assets acquired and liabilities assumed</i> | | | |
| Working capital | 22,633 | (189) | 22,444 |
| Property and equipment | 78,912 | (9,406) | 69,506 |
| Right-of-use assets | 180 | — | 180 |
| Customer relationships | 35,558 | 4,502 | 40,060 |
| Other long-term assets | 120 | — | 120 |
| Long-term debt | (1,979) | — | (1,979) |
| Long-term lease liabilities | (125) | — | (125) |
| Noncontrolling interest ⁽²⁾ | (30,000) | — | (30,000) |
| Total identifiable net assets acquired | 105,299 | (5,093) | 100,206 |
| <i>Goodwill</i> | — | 4,683 | 4,683 |
| Fair value allocated to net assets acquired | \$ 105,299 | \$ (410) | \$ 104,889 |

(1) During the Current Period, the parties agreed that 46,888 shares of Class A common stock would be returned to Select related to working capital adjustments. These shares were cancelled during the Current Period.

(2) The noncontrolling interests acquired on November 1, 2022 were subsequently purchased on December 2, 2022, thereby giving the Company 100% ownership of BSRS.

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Cypress Acquisition

On November 1, 2022, the Company completed the acquisition of certain saltwater disposal assets from Cypress Environmental Solutions, LLC (“Cypress”) for total consideration of \$9.2 million based on the closing price of the Company’s shares of Class A common stock on October 31, 2022 (the “Cypress Acquisition”). The consideration transferred consisted of 952,753 shares of Class A common stock. The acquired Cypress operations consist of eight saltwater disposal facilities with daily permitted capacity of 85,000 barrels per day across North Dakota. The acquisition strengthened Select’s geographic footprint with a portfolio of strategic wastewater disposal facilities in the Bakken region, with the majority of Cypress’s volumes being delivered through high-volume contracted gathering pipeline infrastructure.

The Cypress Acquisition was accounted for as a business combination under the acquisition method of accounting. When determining the fair values of assets acquired and liabilities assumed, management made estimates, judgments and assumptions. These estimates, judgments and assumptions and valuation of the property and equipment acquired, current assets, current liabilities and long-term liabilities were finalized as of March 31, 2023. The assets acquired and liabilities assumed are included in the Company’s Water Infrastructure segment. The Company incurred zero and less than \$0.1 million of transaction-related costs related to this acquisition in the Current Quarter and Current Period, respectively, and such costs are included in selling, general and administrative within the consolidated statements of operations.

The following table summarizes the consideration transferred and the estimated fair value of identified assets acquired and liabilities assumed as of the date of acquisition:

| | <u>As Reported as of March 31, 2023 and December 31, 2022</u> |
|---|---|
| <i>Purchase price allocation</i> | |
| <i>Consideration transferred</i> | <i>(in thousands)</i> |
| Class A common stock (952,753 shares) | \$ 9,194 |
| Total consideration transferred | 9,194 |
| <i>Less: identifiable assets acquired and liabilities assumed</i> | |
| Working capital | (42) |
| Property and equipment | 8,192 |
| Customer relationships | 3,894 |
| Long-term ARO | (2,850) |
| Total identifiable net assets acquired | 9,194 |
| Fair value allocated to net assets acquired | \$ 9,194 |

NOTE 4—REVENUE

The Company follows ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, for most revenue recognition, which provides a five-step model for determining revenue recognition for arrangements that are within the scope of the standard: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model only to contracts when it is probable that we will collect the consideration the Company is entitled to in exchange for the goods or services the Company transfers to the customer. The accommodations and rentals revenue continues to be guided by ASC 842 – *Leases*, which is discussed further below.

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The following factors are applicable to all three of the Company's segments for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively:

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

In the Water Services and Water Infrastructure segments, performance obligations arise in connection with services provided to customers in accordance with contractual terms, in an amount the Company expects to collect. Services are generally sold based upon customer orders or contracts with customers that include fixed or determinable prices. Revenues are generated by services rendered and measured based on output generated, which is usually simultaneously received and consumed by customers at their job sites. As a multi-job site organization, contract terms, including pricing for the Company's services, are negotiated on a job site level on a per-job basis. Most jobs are completed in a short period of time, usually between one day and one month. Revenue is recognized as performance obligations are completed on a daily, hourly or per unit basis with unconditional rights to consideration for services rendered reflected as accounts receivable trade, net of allowance for credit losses. In cases where a prepayment is received before the Company satisfies its performance obligations, a contract liability is recorded in accrued expenses and other current liabilities. Final billings generally occur once all of the proper approvals are obtained. Mobilization and demobilization are factored into the pricing for services. Billings and costs related to mobilization and demobilization are not material for customer agreements that start in one period and end in another. As of September 30, 2023, the Company had fourteen revenue-producing contracts lasting over one year that include enforceable rights and obligations to fall within the scope of the model in the Topic 606 standard in place for these segments. As of September 30, 2023 and December 31, 2022, the Company had no contract assets or contract liabilities.

Accommodations and rentals revenue is included in the Water Services segment and the Company accounts for accommodations and rentals agreements as an operating lease. The Company recognizes revenue from renting equipment on a straight-line basis. Accommodations and rental contract periods are generally daily, weekly or monthly. The average lease term is less than three months and as of September 30, 2023, there were no material rental agreements in effect lasting more than one year. During the Current Quarter, Prior Quarter, Current Period and Prior Period, approximately \$19.5 million, \$21.1 million, \$63.3 million and \$54.3 million respectively, of accommodations and rentals revenue was accounted for under ASC 842 lease guidance.

In the Chemical Technologies segment, the typical performance obligation is to provide a specific quantity of chemicals to customers in accordance with the customer agreement in an amount the Company expects to collect.

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Products and services are generally sold based upon customer orders or contracts with customers that include fixed or determinable prices. Revenue is recognized as the customer takes title to chemical products in accordance with the agreement. Products may be provided to customers in packaging or delivered to the customers' containers through a hose. In some cases, the customer takes title to the chemicals upon consumption from storage containers on their property, where the chemicals are considered inventory until customer usage. In cases where the Company delivers products and recognizes revenue before collecting payment, the Company usually has an unconditional right to payment reflected in accounts receivable trade, net of allowance for credit losses. Customer returns are rare and immaterial and there were no material in-process customer agreements for this segment as of September 30, 2023, lasting greater than one year.

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

| Geographic Region | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|--------------------------------|---|-------------------|--|---------------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| | (in thousands) | | | |
| Permian Basin | \$ 190,637 | \$ 176,357 | \$ 581,153 | \$ 462,481 |
| Rockies | 61,530 | 42,139 | 169,475 | 113,756 |
| Marcellus/Utica | 38,789 | 41,160 | 123,275 | 98,913 |
| Eagle Ford | 37,023 | 40,213 | 130,836 | 113,505 |
| Mid-Continent | 22,806 | 30,758 | 76,967 | 91,548 |
| Bakken | 22,315 | 22,567 | 71,962 | 54,564 |
| Haynesville/E. Texas | 18,406 | 25,039 | 63,495 | 77,818 |
| Eliminations and other regions | (2,233) | (3,161) | (6,670) | (6,841) |
| Total | \$ 389,273 | \$ 375,072 | \$ 1,210,493 | \$ 1,005,744 |

In the Water Services segment, the most recent top three revenue-producing regions are the Permian Basin, Marcellus/Utica and Rockies, which collectively comprised 71%, 68%, 69% and 69% of segment revenue for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. In the Water Infrastructure segment, the most recent top three revenue-producing regions are the Permian Basin, Haynesville and Rockies which collectively comprised 81%, 70%, 78% and 69% of segment revenue for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. In the Chemical Technologies segment, the most recent top three revenue-producing regions are the Permian Basin, Rockies and Eagle Ford, which collectively comprised 92%, 85%, 90% and 74% of segment revenue for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

NOTE 5—INVENTORIES

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

| | <u>September 30, 2023</u> | | <u>December 31, 2022</u> | |
|----------------|---------------------------|--------|--------------------------|--------|
| | (in thousands) | | | |
| Raw materials | \$ 29,765 | | \$ 20,518 | |
| Finished goods | | 15,115 | | 20,646 |
| Total | \$ 44,880 | | \$ 41,164 | |

During the Current Quarter and Current Period, the Company recorded net charges to the reserve for excess and obsolete inventory of \$0.1 million and \$0.6 million, respectively. During the Prior Quarter and Prior Period, the Company recorded net credits to the reserve for excess and obsolete inventory of \$0.8 million and \$0.6 million, respectively. Both credits and charges to the reserve for excess and obsolete inventory were recognized within costs of revenue on the accompanying consolidated statements of operations. The Company's inventory reserve was \$3.7 million

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and \$3.1 million as of September 30, 2023 and December 31, 2022, respectively. The reserve for excess and obsolete inventories is determined based on the Company’s historical usage of inventory on hand, as well as future expectations and the amount necessary to reduce the cost of the inventory to its estimated net realizable value.

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation (and amortization of finance lease assets) is calculated on a straight-line basis over the estimated useful life of each asset. Property and equipment consists of the following as of September 30, 2023 and December 31, 2022:

| | <u>September 30, 2023</u> | <u>December 31, 2022</u> |
|---|---------------------------|--------------------------|
| | (in thousands) | |
| Machinery and equipment | \$ 675,327 | \$ 675,505 |
| Buildings and leasehold improvements | 147,091 | 145,223 |
| Gathering and disposal infrastructure | 89,499 | 87,568 |
| Pipelines | 72,829 | 72,829 |
| Vehicles and equipment | 21,600 | 27,850 |
| Land | 24,678 | 24,159 |
| Computer equipment and software | 4,188 | 6,765 |
| Office furniture and equipment | 772 | 1,183 |
| Machinery and equipment - finance lease | 519 | 519 |
| Vehicles and equipment - finance lease | 47 | 58 |
| Computer equipment and software - finance lease | 386 | 56 |
| Construction in progress | 114,718 | 42,290 |
| | <u>1,151,654</u> | <u>1,084,005</u> |
| Less accumulated depreciation ⁽¹⁾ | (628,293) | (584,451) |
| Total property and equipment, net | <u>\$ 523,361</u> | <u>\$ 499,554</u> |

(1) Includes \$0.7 million of accumulated depreciation related to finance leases as of both September 30, 2023 and December 31, 2022.

Total depreciation and amortization expense related to property and equipment and finance leases presented in the table above, as well as amortization of intangible assets presented in “Note 7— Other Intangible Assets” is as follows:

| Category | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|---|---|------------------|--|------------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| | (in thousands) | | | |
| Depreciation expense from property and equipment | \$ 30,185 | \$ 24,379 | \$ 90,578 | \$ 75,083 |
| Amortization expense from finance leases | 60 | 5 | 69 | 106 |
| Amortization expense from intangible assets | 4,663 | 2,572 | 13,211 | 8,017 |
| Accretion expense from asset retirement obligations | 254 | 259 | 764 | 855 |
| Total depreciation and amortization | <u>\$ 35,162</u> | <u>\$ 27,215</u> | <u>\$ 104,622</u> | <u>\$ 84,061</u> |

NOTE 7—GOODWILL AND OTHER INTANGIBLE ASSETS

The Company recorded \$4.7 million of goodwill in connection with the Breakwater Acquisition in the Current Period. Goodwill is evaluated for impairment annually, or more frequently if indicators of impairment exist. See “Note 3— Acquisitions” for additional information on the Current Period preliminary purchase price adjustments.

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The changes in the carrying amounts of goodwill by reportable segment as of September 30, 2023 and December 31, 2022 are as follows:

| | Water Services | Water Infrastructure (in thousands) | Total |
|----------------------------------|-------------------|---|-----------------|
| Balance as of December 31, 2022 | \$ — | \$ — | \$ — |
| Additions | 1,438 | 3,245 | 4,683 |
| Balance as of September 30, 2023 | <u>\$ 1,438</u> | <u>\$ 3,245</u> | <u>\$ 4,683</u> |

On February 21, 2023, the Company announced a rebranding initiative that occurred during the first half of 2023. As a result of this initiative, our existing trademarks are no longer considered indefinite-lived and will be measured for abandonment whenever events or changes in circumstances indicate that its carrying value may not be recoverable. The rebranding announcement qualifies as a triggering event, and the Company tested the existing trademarks for abandonment. This evaluation included significant judgment, including discount rates based on our weighted-average cost of capital and the royalty rate. This resulted in \$11.1 million of abandonment expense to trademarks using the relief-from-royalty method, which was recorded in the Chemical Technologies segment within impairments and abandonments on the accompanying consolidated statements of operations.

The components of other intangible assets, net as of September 30, 2023 and December 31, 2022 are as follows:

| | As of September 30, 2023 | | | | As of December 31, 2022 | | |
|--|--------------------------|--------------------|-----------------------------|-------------------|-------------------------|-----------------------------|-------------------|
| | Gross Value | Abandonment | Accumulated Amortization | Net Value | Gross Value | Accumulated Amortization | Net Value |
| | (in thousands) | | | | (in thousands) | | |
| Definite-lived | | | | | | | |
| Customer relationships | \$ 164,600 | \$ — | \$ (57,911) | \$ 106,689 | \$ 158,232 | \$ (48,123) | \$ 110,109 |
| Patents and other intellectual property | 12,772 | — | (6,743) | 6,029 | 12,772 | (5,701) | 7,071 |
| Trademarks | 14,360 | (11,106) | (2,278) | 976 | — | — | — |
| Other | 2,803 | — | (2,677) | 126 | 2,803 | (2,574) | 229 |
| Total definite-lived | <u>194,535</u> | <u>(11,106)</u> | <u>(69,609)</u> | <u>113,820</u> | <u>173,807</u> | <u>(56,398)</u> | <u>117,409</u> |
| Indefinite-lived | | | | | | | |
| Water rights | 7,031 | — | — | 7,031 | 7,031 | — | 7,031 |
| Trademarks | — | — | — | — | 14,360 | — | 14,360 |
| Total indefinite-lived | <u>7,031</u> | <u>—</u> | <u>—</u> | <u>7,031</u> | <u>21,391</u> | <u>—</u> | <u>21,391</u> |
| Total other intangible assets, net | <u>\$ 201,566</u> | <u>\$ (11,106)</u> | <u>\$ (69,609)</u> | <u>\$ 120,851</u> | <u>\$ 195,198</u> | <u>\$ (56,398)</u> | <u>\$ 138,800</u> |

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The weighted-average amortization period for customer relationships, patents and other intellectual property, other definite-lived assets and trademarks was 9.3 years, 4.8 years, 0.9 years and 0.3 years, respectively, as of September 30, 2023. See “Note 6—Property and Equipment” for the amortization expense during the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. The indefinite-lived water rights and trademarks are generally subject to renewal every five to ten years at immaterial renewal costs. Annual amortization of intangible assets for the next five years and beyond is as follows:

| | <u>Amount</u> | |
|-------------------------------|-----------------------|----------------|
| | <u>(in thousands)</u> | |
| Remainder of 2023 | \$ | 4,662 |
| Year ending December 31, 2024 | | 14,676 |
| Year ending December 31, 2025 | | 14,513 |
| Year ending December 31, 2026 | | 14,425 |
| Year ending December 31, 2027 | | 13,923 |
| Thereafter | | 51,621 |
| Total | \$ | <u>113,820</u> |

NOTE 8—DEBT*Sustainability-linked credit facility and revolving line of credit*

On March 17, 2022 (the “Restatement Date”), SES Holdings and Select Water Solutions, LLC (“Select LLC”), formerly Select Energy Services, LLC and a wholly-owned subsidiary of SES Holdings, entered into a \$270.0 million amended and restated senior secured sustainability-linked revolving credit facility (the “Sustainability-Linked Credit Facility”), by and among SES Holdings, as parent, Select LLC, as borrower, and certain of SES Holdings’ subsidiaries, as guarantors, each of the lenders party thereto and Wells Fargo Bank, N.A., as administrative agent, issuing lender and swingline lender (the “Administrative Agent”) (which amended and restated the Credit Agreement dated November 1, 2017 by and among SES Holdings, as parent, Select LLC, as borrower and certain of SES Holdings’ subsidiaries, as guarantors, each of the lenders party thereto and the Administrative Agent (the “Prior Credit Agreement”). Refer to “Note 10—Debt” in the Company’s Annual Report on Form 10-K for a discussion of the Prior Credit Agreement. The Sustainability-Linked Credit Facility also has a sublimit of \$40.0 million for letters of credit and \$27.0 million for swingline loans, respectively. Subject to obtaining commitments from existing or new lenders, Select LLC has the option to increase the maximum amount under the senior secured credit facility by \$135.0 million during the first three years following the Restatement Date.

The Sustainability-Linked Credit Facility permits extensions of credit up to the lesser of \$270.0 million and a borrowing base that is determined by calculating the amount equal to the sum of (i) 85% of the Eligible Billed Receivables (as defined in the Sustainability-Linked Credit Facility), plus (ii) 75% of Eligible Unbilled Receivables (as defined in the Sustainability-Linked Credit Facility), provided that this amount will not equal more than 35% of the borrowing base, plus (iii) the lesser of (A) the product of 70% multiplied by the value of Eligible Inventory (as defined in the Sustainability-Linked Credit Facility) at such time and (B) the product of 85% multiplied by the Net Recovery Percentage (as defined in the Sustainability-Linked Credit Facility) identified in the most recent Acceptable Appraisal of Inventory (as defined in the Sustainability-Linked Credit Facility), multiplied by the value of Eligible Inventory at such time, provided that this amount will not equal more than 30% of the borrowing base, minus (iv) the aggregate amount of Reserves (as defined in the Sustainability-Linked Credit Facility), if any, established by the Administrative Agent from time to time, including, if any, the amount of the Dilution Reserve (as defined in the Sustainability-Linked Credit Facility). The borrowing base is calculated on a monthly basis pursuant to a borrowing base certificate delivered by Select LLC to the Administrative Agent.

Borrowings under the Sustainability-Linked Credit Facility bear interest, at Select LLC’s election, at either the (a) one- or three-month Term Secured Overnight Financing Rate (“SOFR”) (as defined in the Sustainability-Linked Credit Facility) or (b) the greatest of (i) the federal funds rate plus 0.5%, (ii) one-month Term SOFR plus 1% and (iii) the Administrative Agent’s prime rate (the “Base Rate”), in each case plus an applicable margin, and interest shall be payable monthly in arrears. The applicable margin for Term SOFR loans ranges from 1.75% to 2.25% and the applicable margin for Base Rate loans ranges from 0.75% to 1.25%, in each case, depending on Select LLC’s average excess availability under the Sustainability-Linked Credit Facility, as set forth in the table below. During the continuance of a bankruptcy event of default, automatically, and during the continuance of any other default, upon the Administrative Agent’s or the required lenders’ election, all outstanding amounts under the Sustainability-Linked Credit Facility will bear interest at 2.00% plus the otherwise applicable interest rate. The Sustainability-Linked Credit Facility is scheduled to mature on the fifth anniversary of the Restatement Date.

| <u>Level</u> | <u>Average Excess Availability</u> | <u>Base Rate Margin</u> | <u>SOFR Margin</u> |
|--------------|---|-------------------------|--------------------|
| I | < 33.33% of the commitments | 1.25% | 2.25% |
| II | < 66.67% of the commitments and ≥ 33.33% of the commitments | 1.00% | 2.00% |
| III | ≥ 66.67% of the commitments | 0.75% | 1.75% |

| <u>Level</u> | <u>Average Revolver Usage</u> | <u>Unused Line Fee Percentage</u> |
|--------------|-------------------------------|-----------------------------------|
| I | ≥ 50% of the commitments | 0.250% |
| II | < 50% of the commitments | 0.375% |

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Under the Sustainability-Linked Credit Facility, the interest rate margin and the facility fee rates are also subject to adjustments based on Select LLC's performance of specified sustainability target thresholds with respect to (i) total recordable incident rate, as the Employee Health and Safety Metric and (ii) barrels of produced water recycled at permanent or semi-permanent water treatment and recycling facilities owned or operated, as the Water Stewardship Metric, in each case, subject to limited assurance verification by a qualified independent external reviewer. The adjustment for the interest rate margin is a range of plus and minus 2.5 basis points for each of the Employee Health and Safety Metric and the Water Stewardship Metric and the adjustment for the fee margin is a range of plus and minus 0.5 basis points for each of the Employee Health and Safety Metric and the Water Stewardship Metric, subject to the mechanics under the Sustainability-Linked Credit Facility.

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

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

In addition, the Sustainability-Linked Credit Facility restricts SES Holdings' and Select LLC's ability to make distributions on, or redeem or repurchase, its equity interests, except for certain distributions, including distributions of cash so long as, both at the time of the distribution and after giving effect to the distribution, no default exists under the Sustainability-Linked Credit Facility and either (a) excess availability at all times during the preceding 30 consecutive days, on a pro forma basis and after giving effect to such distribution, is not less than the greater of (1) 25% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (2) \$33.75 million or (b) if SES Holdings' fixed charge coverage ratio is at least 1.0 to 1.0 on a pro forma basis, and excess availability at all times during the preceding 30 consecutive days, on a pro forma basis and after giving effect to such distribution, is not less than the greater of (1) 20% of the lesser of (A) the maximum revolver amount and (B) the then-effective borrowing base and (2) \$27.0 million. Additionally, the Sustainability-Linked Credit Facility generally permits Select LLC to make distributions required under its existing Tax Receivable Agreements. See "Note 12—Related Party Transactions—Tax Receivable Agreements" for further discussion of the Tax Receivable Agreements.

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

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

The Company had no borrowings outstanding under the Sustainability-Linked Credit Facility as of September 30, 2023 and \$16.0 million outstanding as of December 31, 2022. As of September 30, 2023 and December 31, 2022, the borrowing base under the Sustainability-Linked Credit Facility was \$238.8 million and \$245.0 million, respectively. The borrowing capacity under the Sustainability-Linked Credit Facility was reduced by outstanding letters of credit of \$14.8 million and \$22.9 million as of September 30, 2023 and December 31, 2022, respectively. The Company's letters of credit have a variable interest rate between 1.75% and 2.25% based on the Company's average excess availability as

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outlined above. The unused portion of the available borrowings under the Sustainability-Linked Credit Facility was \$224.0 million as of September 30, 2023.

In connection with the entry into the Sustainability-Linked Credit Facility, the Company incurred \$2.1 million of debt issuance costs during the year ended December 31, 2022. Debt issuance costs are amortized to interest expense over the life of the debt to which they pertain. Total unamortized debt issuance costs as of September 30, 2023 and December 31, 2022, were \$1.7 million and \$2.1 million, respectively. As these debt issuance costs relate to a revolving line of credit, they are presented as a deferred charge within other assets on the consolidated balance sheets. Amortization expense related to debt issuance costs was \$0.1 million, \$0.1 million, \$0.4 million and \$0.5 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

The Company was in compliance with all debt covenants as of September 30, 2023.

NOTE 9—COMMITMENTS AND CONTINGENCIES

Litigation

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

Retentions

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

NOTE 10—EQUITY-BASED COMPENSATION

The SES Holdings 2011 Equity Incentive Plan (the “2011 Plan”) was approved by the board of managers of SES Holdings in April 2011. In conjunction with the private placement of 16,100,000 shares of the Company’s Class A common stock on December 20, 2016 (the “Select 144A Offering”), the Company adopted the Select Energy Services, Inc. 2016 Equity Incentive Plan (as amended, the “2016 Plan”) for employees, consultants and directors of the Company and its affiliates. Options that were outstanding under the 2011 Plan immediately prior to the Select 144A Offering were cancelled in exchange for new options granted under the 2016 Plan. On May 8, 2020, the Company’s stockholders approved an amendment to the 2016 Plan to increase the number of shares of the Company’s Class A common stock that may be issued under the 2016 Plan by 4,000,000 shares and to make certain other administrative changes. The 2016 Plan includes share recycling provisions that allow shares subject to an award that are withheld or surrendered to the Company in payment of any exercise price or taxes or an award that expires or is cancelled, forfeited or otherwise terminated without actual delivery of the underlying shares of Class A common stock to be considered not delivered and thus available to be granted as new awards under the 2016 Plan.

Currently, the maximum number of shares reserved for issuance under the 2016 Plan is approximately 13.3 million shares, with approximately 1.6 million shares available to be issued as of September 30, 2023. For all share-based compensation award types, the Company accounts for forfeitures as they occur.

On February 23, 2022, the Company assumed the Nuverra Environmental Solutions, Inc. 2017 Long Term Incentive Plan (the “2017 Plan”), and the Nuverra Environmental Solutions, Inc. 2018 Restricted Stock Plan for Directors (the “2018 Plan” and, together with the 2017 Plan, the “Assumed Plans”) and certain equity awards outstanding under the Assumed Plans in connection with the Company’s previously completed acquisition of Nuverra Environmental Solutions, Inc. (the “Nuverra Acquisition”). Under the 2017 Plan, the Company may grant to certain eligible participants who were employees, directors or other service providers of Nuverra prior to the Nuverra Acquisition options, stock appreciation rights, restricted stock, restricted stock units, stock awards, dividend equivalents, other stock-based awards, cash awards, substitute awards, performance awards, or any combination of the foregoing, with respect to up to 1,772,058 shares of Nuverra common stock. Under the 2018 Plan, the Company may grant to certain eligible participants who were directors of Nuverra prior to the Nuverra Acquisition restricted stock awards with respect to up to 100,000 shares of Nuverra common stock. The shares remaining available for issuance under the Assumed Plans were converted into shares of the Company’s Class A common stock at a conversion rate of one Nuverra share to 0.2551 shares of the Company’s Class A common stock such that at the time of the Nuverra Acquisition an aggregate of 131,110 shares of the Company’s Class A common stock was available for issuance with respect to assumed awards and future awards under the 2017 Plan and an aggregate of 24,984 shares of the Company’s Class A common stock was available for issuance with respect to assumed awards and future awards under the 2018 Plan. No awards have been granted under these legacy Nuverra Assumed Plans.

The aggregate number of shares of the Company’s Class A common stock available for issuance under the Assumed Plans will be reduced by one share of the Company’s Class A common stock for every one share of the Company’s Class A common stock subject to an award granted under the Assumed Plans. If any award granted under the 2017 Plan (in whole or in part) is cancelled, forfeited, exchanged, settled in cash, or otherwise terminated, the shares of the Company’s Class A common stock subject to such award will again be available at a rate of one share of the Company’s Class A common stock for every one share of the Company’s Class A common stock subject to such award, and if any award granted under the 2018 Plan (in whole or part) is forfeited, the shares of the Company’s Class A common stock subject to such award will again be available at a rate of one share of the Company’s Class A common stock for every one share of the Company’s Class A common stock subject to such award. The Company registered the securities issuable under the Assumed Plans by filing a registration statement on Form S-8 with the Securities and Exchange Commission on February 23, 2022. As of September 30, 2023, the maximum number of shares of the Company’s Class A common stock available for future issuance under the 2017 Plan is 55,769 and under the 2018 Plan is 14,736.

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Stock Option Awards

The Company has outstanding stock option awards as of September 30, 2023 but there have been no option grants since 2018. The stock options were granted with an exercise price equal to or greater than the fair market value of a share of Class A common stock as of the date of grant. The expected life of the options at the time of the grant was based on the vesting period and term of the options awarded, which was ten years.

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

| | For the nine months ended September 30, 2023 | | | |
|------------------------------------|--|---------------------------------|--|---|
| | Stock Options | Weighted-average Exercise Price | Weighted-average Grant Date Value Term (Years) | Aggregate Intrinsic Value (in thousands) ^(a) |
| Beginning balance, outstanding | 1,666,872 | \$ 17.10 | 4.2 | \$ 353 |
| Expired | (11,920) | 29.34 | | |
| Ending balance, outstanding | <u>1,654,952</u> | <u>\$ 17.01</u> | 3.4 | \$ — |
| Ending balance, exercisable | <u>1,654,952</u> | <u>\$ 17.01</u> | 3.4 | \$ — |
| Nonvested as of September 30, 2023 | <u>—</u> | <u>\$ —</u> | | |

(a) Aggregate intrinsic value for stock options is based on the difference between the exercise price of the stock options and the quoted closing Class A common stock price of \$7.95 and \$9.24 as of September 30, 2023 and December 31, 2022, respectively.

As of March 31, 2021, all equity-based compensation expense related to stock options had been recognized.

Restricted Stock Awards

The value of the restricted stock awards granted was established by the market price of the Class A common stock on the date of grant and is recorded as compensation expense ratably over the vesting term, which is generally over three years from the applicable date of grant. The Company recognized compensation expense of \$4.2 million, \$3.7 million, \$12.3 million and \$10.3 million related to the restricted stock awards for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. As of September 30, 2023, there was \$18.5 million of unrecognized compensation expense with a weighted-average remaining life of 1.7 years related to unvested restricted stock awards.

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

| | For the nine months ended September 30, 2023 | |
|------------------------------------|--|--|
| | Restricted Stock Awards | Weighted-average Grant Date Fair Value |
| Nonvested as of December 31, 2022 | 4,237,715 | \$ 7.36 |
| Granted | 1,633,849 | 7.46 |
| Vested | (1,678,652) | 7.43 |
| Forfeited | (72,363) | 7.37 |
| Nonvested as of September 30, 2023 | <u>4,120,549</u> | <u>\$ 7.37</u> |

Performance Share Units (PSUs)

During 2021, 2022 and 2023, the Company approved grants of PSUs that are subject to both performance-based and service-based vesting provisions related to (i) return on asset performance ("ROA") in comparison to thirteen peer companies and (ii) Adjusted Free Cash Flow ("FCF") performance percentage. The number of shares of Class A common stock issued to a recipient upon vesting of the PSUs will be calculated based on ROA and FCF performance

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over the applicable period from either January 1, 2021 through December 31, 2023, January 1, 2022 through December 31, 2024 or January 1, 2023 through December 31, 2025.

The target number of shares of Class A common stock subject to each remaining PSU granted in 2021, 2022 and 2023 is one; however, based on the achievement of performance criteria, the number of shares of Class A common stock that may be received in settlement of each PSU can range from zero to 1.75 times the target number. The PSUs become earned at the end of the performance period after the attainment of the performance level has been certified by the compensation committee, which will be no later than June 30, 2024 for the 2021 PSU grants, June 30, 2025 for the 2022 PSU grants, and June 30, 2026, for the 2023 PSU grants, assuming the applicable minimum performance metrics are achieved.

The target PSUs granted in 2021, 2022 and 2023 that become earned connected with the ROA in comparison to other companies will be determined based on the Company's Average Return on Assets (as defined in the applicable PSU agreement) relative to the Average Return on Assets of the peer companies (as defined in the applicable PSU agreement) in accordance with the following table, but the Company must have a positive Total Shareholder Return (as defined in the applicable PSU agreement) over the performance period. As a result of this market condition, the 2021, 2022 and 2023 PSUs will be valued each reporting period utilizing a Black-Scholes model.

| Ranking Among Peer Group | Percentage of Target Amount Earned |
|---------------------------------|---|
| Outside of Top 10 | 0% |
| Top 10 | 50% |
| Top 7 | 100% |
| Top 3 | 175% |

The target PSUs that become earned in connection with the adjusted FCF performance percentage will be determined (as defined in the applicable PSU agreement) in accordance with the following table:

| Adjusted FCF Performance Percentage | Percentage of Target Amount Earned |
|--|---|
| Less than 70% | 0% |
| 70% | 50% |
| 100% | 100% |
| 130% | 175% |

The fair value on the date the PSUs were granted during 2023, 2022 and 2021 was \$5.3 million, \$5.0 million and \$4.4 million, respectively. Compensation expense related to the PSUs is determined by multiplying the number of shares of Class A common stock underlying such awards that, based on the Company's estimate, are probable to vest by the measurement date (i.e., the last day of each reporting period date) fair value and recognized using the accelerated attribution method. The Company recognized compensation expense of \$0.8 million, \$0.1 million, \$0.5 million and \$0.7 million related to the PSUs for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

As of September 30, 2023, the unrecognized compensation cost related to our unvested PSUs is estimated to be \$6.2 million and is expected to be recognized over a weighted-average period of 2.1 years. However, this compensation cost will be adjusted as appropriate throughout the applicable performance periods.

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The following table summarizes the information about the PSUs outstanding as of September 30, 2023:

| | PSUs |
|--|------------------|
| Nonvested as of December 31, 2022 | 1,860,734 |
| Target shares granted | 828,514 |
| Target shares forfeited (1) | (711,112) |
| Target shares outstanding as of September 30, 2023 | <u>1,978,136</u> |

- (1) All PSUs granted in 2020 did not achieve the respective performance targets and were forfeited.

Employee Stock Purchase Plan (ESPP)

The Company formerly had an Employee Stock Purchase Plan (“ESPP”) under which employees that have been continuously employed for at least one year may purchase shares of Class A common stock at a discount. On November 3, 2022, our board of directors approved an amendment to the ESPP, which suspended all offerings on or after December 1, 2022. Our board of directors reserves the right to recommence offerings pursuant to its discretion and the terms of the ESPP.

Share Repurchases

During the Current Quarter, the Company repurchased 33,525 shares of Class A common stock in connection with employee minimum tax withholding requirements for shares vested under the 2016 Plan. All repurchased shares were retired. During the Current Quarter, the repurchases were accounted for as a decrease to paid-in-capital of \$0.3 million and a decrease to Class A common stock of less than \$1,000. In the Prior Quarter, the Company repurchased 40,060 shares of Class A common stock in connection with employee minimum tax withholding requirements.

During the Current Period, the Company repurchased 6,487,490 shares of Class A common stock in the open market and 496,885 shares of Class A common stock in connection with employee minimum tax withholding requirements for shares vested under the 2016 Plan. All repurchased shares were retired. During the Current Period, the repurchases were accounted for as a decrease to paid-in-capital of \$49.8 million and a decrease to Class A common stock of less than \$70,000. In the Prior Period, the Company repurchased 2,297,985 shares of Class A common stock in the open market and repurchased 496,998 shares of Class A common stock in connection with employee minimum tax withholding requirements.

The IRA 2022 provides for, among other things, the imposition of a new 1% U.S. federal excise tax on certain repurchases of stock by publicly traded U.S. corporations such as us after December 31, 2022. Accordingly, this excise tax will apply to our share repurchase program in 2023 and in subsequent taxable years. The Biden administration has proposed increasing the amount of the excise tax from 1% to 4%; however, it is unclear whether such a change in the amount of the excise tax will be enacted and, if enacted, how soon any such change could take effect.

NOTE 11—FAIR VALUE MEASUREMENT

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

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

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

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

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

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers into, or out of, the three levels of the fair value hierarchy for the nine months ended September 30, 2023 or the year ended December 31, 2022. The following table presents information about the Company’s assets measured at fair value on a non-recurring basis as of September 30, 2023:

| | | | Fair Value Measurements Using | | | Carrying Value ⁽¹⁾ | Abandonment ⁽²⁾ |
|---------------------------|---------------|----------|-------------------------------|---------|----------|-------------------------------|----------------------------|
| | | | Level 1 | Level 2 | Level 3 | | |
| (in thousands) | | | | | | | |
| <i>Nine Months Ended</i> | | | | | | | |
| <i>September 30, 2023</i> | | | | | | | |
| Trademark | Non-recurring | March 31 | \$ — | \$ — | \$ 2,929 | \$ 14,360 | \$ 11,106 |

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

(2) See “Note 7—Other Intangible Assets” for a discussion of the Trademark abandonment recorded in the Current Period.

Other fair value considerations

The carrying values of the Company’s current financial instruments, which include cash and cash equivalents, accounts receivable trade and accounts payable, approximate their fair value as of September 30, 2023 and December 31, 2022, due to the short-term nature of these instruments. The carrying value of debt as of December 31, 2022 approximates fair value due to variable market rates of interest. The estimated fair values of the Company’s financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange.

NOTE 12—RELATED-PARTY TRANSACTIONS

The Company considers its related parties to be those stockholders who are beneficial owners of more than 5.0% of its common stock, executive officers, members of its board of directors or immediate family members of any of the foregoing persons, an investment in a company that is significantly influenced by another related party, and cost-method and equity-method investees. The Company has entered into a number of transactions with related parties. In accordance with the Company's related persons transactions policy, the audit committee of the Company's board of directors regularly reviews these transactions. However, the Company's results of operations may have been different if these transactions were conducted with non-related parties.

During the Current Quarter, sales to related parties were less than \$0.1 million and purchases from related-party vendors were \$4.1 million. These purchases consisted of \$3.1 million relating to the rental of certain equipment or other services used in operations, \$0.6 million relating to property and equipment and \$0.4 million relating to management, consulting and other services.

During the Prior Quarter, sales to related parties were \$0.5 million and purchases from related-party vendors were \$3.3 million. These purchases consisted of \$2.9 million relating to the rental of certain equipment or other services used in operations, \$0.3 million relating to management, consulting and other services and \$0.1 million relating to property and equipment, inventory and consumables.

During the Current Period, sales to related parties were \$0.4 million and purchases from related-party vendors were \$12.6 million. These purchases consisted of \$9.2 million relating to the rental of certain equipment or other services used in operations, \$2.4 million relating to property and equipment, \$0.9 million relating to management, consulting and other services and \$0.1 million relating to inventory and consumables.

During the Prior Period, sales to related parties were \$1.6 million and purchases from related-party vendors were \$8.8 million. These purchases consisted of \$7.4 million relating to the rental of certain equipment or other services used in operations, \$1.0 million relating to management, consulting and other services and \$0.4 million relating to property and equipment, inventory and consumables.

Tax Receivable Agreements

In connection with the Select 144A Offering, the Company entered into two tax receivable agreements (the "Tax Receivable Agreements") with Legacy Owner Holdco and certain other affiliates of the then holders of SES Holdings LLC Units (each such person and any permitted transferee thereof, a "TRA Holder," and together, the "TRA Holders").

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

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

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operating losses available to the Company as a result of certain reorganization transactions entered into in connection with the Select 144A Offering and (ii) imputed interest deemed to be paid by the Company as a result of any payments the Company makes under such Tax Receivable Agreement.

On June 23, 2023, the Tax Receivable Agreements were amended to replace references to one year LIBOR with references to the 12-month term SOFR published by CME Group Benchmark Administration Limited plus 71.513 basis points, which is the benchmark replacement rate and additional margin that, under the Adjustable Interest Rate (LIBOR) Act of 2021, would have otherwise been inserted in place of references to LIBOR in the Tax Receivable Agreements following June 30, 2023.

The Company has not recognized a liability associated with the Tax Receivable Agreements as of September 30, 2023 or December 31, 2022. The liability is based on the actual cash tax savings expected to be realized by the Company, and the likelihood of a payment to be made under the Tax Receivable Agreements has been determined to not be probable or reasonably estimable. However, given the Company's current and anticipated future earnings trends and other matters further described in Note 13 – Income Taxes below, there is a potential that within the next 12 months the Company may be in a position to reasonably estimate an amount and may determine that a future payment to be made under the terms of the Tax Receivable Agreements to be probable and we would therefore record a liability at that time.

NOTE 13—INCOME TAXES

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------|-------------------------------------|--------|---------------------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Current income tax expense | \$ 537 | \$ 284 | \$ 1,165 | \$ 729 |
| Deferred income tax benefit | (54) | (8) | (97) | (57) |
| Total income tax expense | \$ 483 | \$ 276 | \$ 1,068 | \$ 672 |
| Effective Tax Rate | 2.9% | 1.1% | 2.0% | 1.4% |

We regularly review our deferred tax assets for realization and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. We have maintained a full valuation allowance against our deferred tax assets as of both September 30, 2023, and December 31, 2022. We intend to continue maintaining a full valuation allowance until there is sufficient evidence to support the reversal of all or some portion of the valuation allowance. The Company considers all available evidence (both positive and negative) in determining whether realization of the tax benefit is more likely than not. This evidence includes historical income/loss, projected future income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Given our current earnings and anticipated future earnings, we believe that there is a potential that within the next 12 months, sufficient positive evidence may become available to allow us to release all or a portion of the valuation allowance. The release of a valuation allowance would result in the recognition of certain deferred tax assets and a decrease to deferred income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of future profitability that we are able to actually achieve and as there are changes to available evidence (both positive and negative) including projected income amounts and future economic conditions.

NOTE 14—NONCONTROLLING INTERESTS

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

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

| | <u>As of</u> <u>September 30, 2023</u> | <u>As of</u> <u>December 31, 2022</u> |
|---|---|--|
| | (in thousands) | |
| Noncontrolling interests attributable to joint ventures formed for water-related services | \$ 1,267 | \$ 4,167 |
| Noncontrolling interests attributable to holders of Class B common stock | 118,511 | 113,584 |
| Total noncontrolling interests | <u>\$ 119,778</u> | <u>\$ 117,751</u> |

During the Current Period, the Company received \$6.0 million in cash contributions from a noncontrolling interest for business development. Additionally, the Company divested a formerly consolidated joint venture resulting in a \$1.6 million reduction to noncontrolling interest. Further, for all periods presented, there were changes in Select Inc.’s ownership interest in SES Holdings. The effects of the changes in Select Inc.’s ownership interest in SES Holdings are as follows:

| | <u>Nine months ended September 30,</u> | |
|--|--|------------------|
| | <u>2023</u> | <u>2022</u> |
| | (in thousands) | |
| Net income attributable to Select Water Solutions, Inc. | \$ 46,808 | \$ 40,629 |
| Transfers from (to) noncontrolling interests: | | |
| Increase (decrease) in additional paid-in capital as a result of issuing shares for business combinations | 9 | (1,356) |
| Decrease in additional paid-in capital as a result of stock option exercises | — | (24) |
| Increase in additional paid-in capital as a result of restricted stock issuance, net of forfeitures | 1,418 | 2,166 |
| Increase in additional paid-in capital as a result of the repurchase of SES Holdings LLC Units | 88 | 438 |
| Decrease in additional paid-in capital as a result of the Employee Stock Purchase Plan shares issued | — | (1) |
| Change to equity from net income attributable to Select Water Solutions, Inc. and transfers from noncontrolling interests | <u>\$ 48,323</u> | <u>\$ 41,852</u> |

NOTE 15—INCOME PER SHARE

Income per share is based on the amount of income allocated to the stockholders and the weighted-average number of shares outstanding during the period for each class of common stock. Outstanding options to purchase 1,654,952, 1,677,927, 1,654,952 and 1,677,927 shares of Class A common stock are not included in the calculation of diluted weighted-average shares outstanding for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively, as their effect is antidilutive.

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

| | Three months ended September 30, 2023 | | | Three months ended September 30, 2022 | | |
|---|---------------------------------------|-------------|------------|---------------------------------------|------------|------------|
| | Select Water Solutions, Inc. | Class A | Class B | Select Water Solutions, Inc. | Class A | Class B |
| Numerator: | | | | | | |
| Net income | \$ 15,314 | | | \$ 24,717 | | |
| Net income attributable to noncontrolling interests | (968) | | | (3,393) | | |
| Net income attributable to Select Water Solutions, Inc. — basic | \$ 14,346 | \$ 14,346 | \$ — | \$ 21,324 | \$ 21,324 | \$ — |
| Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of restricted stock | 33 | 33 | — | 30 | 30 | — |
| Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of performance units | 17 | 17 | — | 20 | 20 | — |
| Net income attributable to Select Water Solutions, Inc. — diluted | \$ 14,396 | \$ 14,396 | \$ — | \$ 21,374 | \$ 21,374 | \$ — |
| Denominator: | | | | | | |
| Weighted-average shares of common stock outstanding — basic | | 99,777,776 | 16,221,101 | | 94,014,963 | 16,221,101 |
| Dilutive effect of restricted stock | | 1,636,808 | — | | 893,562 | — |
| Dilutive effect of performance share units | | 839,354 | — | | 611,763 | — |
| Dilutive effect of ESPP | | — | — | | 77 | — |
| Weighted-average shares of common stock outstanding — diluted | | 102,253,938 | 16,221,101 | | 95,520,365 | 16,221,101 |
| Income per share: | | | | | | |
| Basic | | \$ 0.14 | \$ — | | \$ 0.23 | \$ — |
| Diluted | | \$ 0.14 | \$ — | | \$ 0.22 | \$ — |
| | | | | | | |
| | Nine months ended September 30, 2023 | | | Nine months ended September 30, 2022 | | |
| | Select Water Solutions, Inc. | Class A | Class B | Select Water Solutions, Inc. | Class A | Class B |
| Numerator: | | | | | | |
| Net income | \$ 51,580 | | | \$ 47,283 | | |
| Net income attributable to noncontrolling interests | (4,772) | | | (6,654) | | |
| Net income attributable to Select Water Solutions, Inc. — basic | \$ 46,808 | \$ 46,808 | \$ — | \$ 40,629 | \$ 40,629 | \$ — |
| Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of restricted stock | 76 | 76 | — | 62 | 62 | — |
| Add: Reallocation of net income attributable to noncontrolling interests for the dilutive effect of performance units | 40 | 40 | — | 33 | 33 | — |
| Net income attributable to Select Water Solutions, Inc. — diluted | \$ 46,924 | \$ 46,924 | \$ — | \$ 40,724 | \$ 40,724 | \$ — |
| Denominator: | | | | | | |
| Weighted-average shares of common stock outstanding — basic | | 102,076,174 | 16,221,101 | | 93,231,711 | 16,221,101 |
| Dilutive effect of restricted stock | | 1,208,009 | — | | 973,378 | — |
| Dilutive effect of performance share units | | 641,706 | — | | 509,336 | — |
| Dilutive effect of ESPP | | — | — | | 234 | — |
| Weighted-average shares of common stock outstanding — diluted | | 103,925,889 | 16,221,101 | | 94,714,659 | 16,221,101 |
| Income per share: | | | | | | |
| Basic | | \$ 0.46 | \$ — | | \$ 0.44 | \$ — |
| Diluted | | \$ 0.45 | \$ — | | \$ 0.43 | \$ — |

NOTE 16—SEGMENT INFORMATION

Select Inc. is a leading provider of comprehensive water-management and chemical solutions to the oil and gas industry in the U.S. The Company’s services are offered through three reportable segments. Reportable segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the CODM in deciding how to allocate resources and assess performance. The Company’s CODM assesses performance and allocates resources on the basis of the three reportable segments. Corporate and other expenses that do not individually meet the criteria for segment reporting are reported separately as Corporate or Other.

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

Water Services — The Water Services segment consists of the Company’s services businesses, including water sourcing, water transfer, flowback and well testing, fluids hauling, water monitoring, water containment and water network automation, primarily serving E&P companies. Additionally, this segment includes the operations of our accommodations and rentals business.

Water Infrastructure — The Water Infrastructure segment consists of the Company’s fixed infrastructure assets, including operations associated with our water distribution pipeline infrastructure, our water recycling solutions, and our produced water gathering systems and saltwater disposal wells, as well as solids disposal facilities, primarily serving E&P companies.

Chemical Technologies — The Chemical Technologies segment provides technical solutions, products and expertise related to chemical applications in the oil and gas industry. We develop, manufacture, manage logistics and provide a full suite of chemicals used in hydraulic fracturing, stimulation, cementing and well completions for customers ranging from pressure pumpers to major integrated and independent oil and gas producers. This segment also utilizes its chemical experience and lab testing capabilities to customize tailored water treatment solutions designed to optimize the fracturing fluid system in conjunction with the quality of water used in well completions.

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

| | For the three months ended September 30, 2023 | | | | |
|------------------------|--|---|---|--|---------------------------------|
| | Revenue | Impairments and abandonments | Income before taxes (in thousands) | Depreciation and Amortization | Capital Expenditures |
| Water Services | \$ 252,488 | \$ — | \$ 18,268 | \$ 22,822 | \$ 10,236 |
| Water Infrastructure | 59,756 | 32 | 10,909 | 9,192 | 30,197 |
| Chemical Technologies | 79,532 | — | 9,163 | 2,638 | 3,523 |
| Other | — | — | (3) | — | — |
| Eliminations | (2,503) | — | — | — | — |
| Income from operations | | | 38,337 | | |
| Corporate | — | — | (21,587) | 510 | 264 |
| Interest expense, net | — | — | (765) | — | — |
| Other income, net | — | — | 790 | — | — |
| | <u>\$ 389,273</u> | <u>\$ 32</u> | <u>\$ 16,775</u> | <u>\$ 35,162</u> | <u>\$ 44,220</u> |

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| | For the three months ended September 30, 2022 | | | |
|------------------------|---|---------------------|-------------------------------|----------------------|
| | Revenue | Income before taxes | Depreciation and Amortization | Capital Expenditures |
| | (in thousands) | | | |
| Water Services | \$ 264,968 | \$ 29,308 | \$ 20,567 | \$ 15,330 |
| Water Infrastructure | 33,018 | 5,777 | 3,830 | 2,543 |
| Chemical Technologies | 79,705 | 8,657 | 2,275 | 1,121 |
| Other | — | (3) | — | — |
| Eliminations | (2,619) | — | — | — |
| Income from operations | | 43,739 | | |
| Corporate | — | (15,307) | 543 | 527 |
| Interest expense, net | — | (616) | — | — |
| Bargain purchase gain | — | (3,273) | — | — |
| Other income, net | — | 668 | — | — |
| | <u>\$ 375,072</u> | <u>\$ 25,211</u> | <u>\$ 27,215</u> | <u>\$ 19,521</u> |

| | For the nine months ended September 30, 2023 | | | | |
|------------------------|--|------------------------------|---------------------|-------------------------------|----------------------|
| | Revenue | Impairments and abandonments | Income before taxes | Depreciation and Amortization | Capital Expenditures |
| | (in thousands) | | | | |
| Water Services | \$ 793,484 | \$ 60 | \$ 64,046 | \$ 68,562 | \$ 43,773 |
| Water Infrastructure | 172,495 | 388 | 28,427 | 26,825 | 68,392 |
| Chemical Technologies | 251,042 | 11,106 | 19,313 | 7,390 | 8,672 |
| Other | — | — | (3) | — | — |
| Eliminations | (6,528) | — | — | — | — |
| Income from operations | | | 111,783 | | |
| Corporate | — | — | (57,299) | 1,845 | 2,356 |
| Interest expense, net | — | — | (4,290) | — | — |
| Other income, net | — | — | 4,170 | — | — |
| | <u>\$ 1,210,493</u> | <u>\$ 11,554</u> | <u>\$ 54,364</u> | <u>\$ 104,622</u> | <u>\$ 123,193</u> |

| | For the nine months ended September 30, 2022 | | | |
|------------------------|--|---------------------|-------------------------------|----------------------|
| | Revenue | Income before taxes | Depreciation and Amortization | Capital Expenditures |
| | (in thousands) | | | |
| Water Services | \$ 695,633 | \$ 49,186 | \$ 59,185 | \$ 36,685 |
| Water Infrastructure | 84,268 | 8,656 | 16,013 | 16,858 |
| Chemical Technologies | 232,120 | 18,027 | 7,228 | 2,017 |
| Other | — | (111) | — | — |
| Eliminations | (6,277) | — | — | — |
| Income from operations | | 75,758 | | |
| Corporate | — | (43,338) | 1,635 | 3,031 |
| Interest expense, net | — | (1,830) | — | — |
| Bargain purchase gain | — | 13,768 | — | — |
| Other income, net | — | 4,173 | — | — |
| | <u>\$ 1,005,744</u> | <u>\$ 48,531</u> | <u>\$ 84,061</u> | <u>\$ 58,591</u> |

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Total assets by segment as of September 30, 2023 and December 31, 2022, is as follows:

| | <u>As of</u> <u>September 30, 2023</u> | <u>As of</u> <u>December 31, 2022</u> |
|-----------------------|---|--|
| | (in thousands) | |
| Water Services | \$ 660,552 | \$ 715,113 |
| Water Infrastructure | 344,927 | 313,736 |
| Chemical Technologies | 166,428 | 183,469 |
| Other | 10,581 | 10,535 |
| | <u>\$ 1,182,488</u> | <u>\$ 1,222,853</u> |

NOTE 17—SUBSEQUENT EVENT

On October 26, 2023, our board of directors declared a quarterly cash dividend of \$0.06 per share of Class A common stock, to be paid on November 17, 2023, to holders of record as of the close of business on November 7, 2023. A comparable distribution of \$0.06 per unit has also been approved to the unitholders of SES Holdings, LLC, which will be subject to the same payment and record dates. All future dividend payments are subject to quarterly review and approval by Select's board of directors.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report, as well as the historical consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on February 22, 2023 (our “2022 Form 10-K”). This discussion and analysis contains forward-looking statements based upon our current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors as described under “Cautionary Note Regarding Forward-Looking Statements” and other cautionary statements described under the heading “Risk Factors” included in our 2022 Form 10-K and this Quarterly Report on Form 10-Q. We assume no obligation to update any of these forward-looking statements.

This discussion relates to the three and nine months ended September 30, 2023 (the “Current Quarter” and the “Current Period”, respectively) and the three and nine months ended September 30, 2022 (the “Prior Quarter” and the “Prior Period”, respectively).

Overview

We are a leading provider of sustainable water-management and chemical solutions to the energy industry in the U.S. As a leader in the water solutions industry, we place the utmost importance on safe, environmentally responsible management of oilfield water throughout the lifecycle of a well. Additionally, we believe that responsibly managing water resources through our operations to help conserve and protect the environment in the communities in which we operate is paramount to our continued success.

Sustainability

Select is committed to a corporate strategy that supports the long-term viability of our business model in a manner that focuses on our people, our customers, the environment, and the communities in which we operate. We believe this focus will help us and our customers achieve their short-term and long-term environmental, social and governance (“ESG”) goals, help us attract and retain top talent, and further our efforts to generate investor returns. We believe our commitment to foster a culture of corporate responsibility is an important part of being a company with operations spanning the contiguous U.S. Further, we believe being a good corporate steward is strategic to our growth in the energy industry and will better allow us to develop solutions that both address the needs of our customers and contribute to sustainable business practices. We have identified the following four priorities as part of our comprehensive corporate responsibility initiative: Environmental Consciousness, Health and Safety, Human Capital Management and Community Outreach. As a service company, we compete with other service providers based on various factors, including safety and operational performance, pricing, technological innovation, process efficiencies and reputational awareness. We believe there is a strong link between these corporate responsibility initiatives and our ability to provide value to our stakeholders.

We are one of the few public companies whose primary focus is on the management of water and water logistics in the energy industry with a focus on driving efficient, environmentally responsible and economic solutions that lower costs throughout the lifecycle of the well. We believe water is a valuable resource and understand that the energy industry as well as other industries and the general public are competing for this resource. As a company, we continue to provide access to water as demanded by our customers and have significantly increased our focus on the recycling and reuse of produced water, as well as assessing other industrial water sources, to meet the industry’s water demand and align our operations with the goals of our customers. We have invested significantly in recent quarters in the development and acquisition of fixed and mobile recycling facilities that support the advancement of commercialized produced water reuse solutions. By doing so, we strive to reduce the amount of produced water being reinjected into salt-water disposal wells (“SWDs”) and to reduce our usage of fresh water. We view our unique position as an opportunity to strategically transform water management by leveraging our Chemical Technologies business to develop produced water

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management solutions that increase our customers' ability to reuse this produced water and add value to their operations. By implementing our innovative approach to water solutions, Select has become a leader in recycling produced water to be re-used for energy production.

Our strong company culture includes commitments to all stakeholders, and we aim to create a work environment that fosters a diverse and inclusive company culture. Additionally, we prioritize safety in our operations through rigorous training, structured protocols and ongoing automation of our operations. Our prioritization of safety includes a commitment to safeguarding the communities in which we operate.

We believe that proper alignment of our management and our board of directors with our shareholders is critical to creating long-term value, including the alignment of management compensation and incentive structures and the continued leadership of an experienced, diverse and independent board of directors.

Recent Developments

Effective June 1, 2023, our chief operating decision maker began to strategically view and manage certain water sourcing and transfer operations, previously included in our Water Infrastructure segment, as part of our Water Services segment. These changes were driven by a number of factors, including the preponderance of our water sourcing business that integrates with our water transfer operations, the continued transition of completions water demand from fresh and brackish water to recycled water, as well as the diversifying demand for these water transfer services beyond the immediate vicinity of our pipeline infrastructure. Due to these changes, we believe the Water Services segment management is best suited to manage these operations. As a result of these changes, we anticipate more efficient sharing and utilization of resources and to realize potential synergies. Prior periods have been recast to include the water sourcing and transfer operations within the Water Services segment and remove the results of those operations from the Water Infrastructure segment.

Concurrently, the Company also decided to rename its Oilfield Chemicals segment as Chemical Technologies. This change was based on a number of factors, including the continued success of our chemicals business in delivering customized, specialty chemicals products developed through our own research and development efforts and the de-emphasis of certain traditional commoditized chemistry products within the oil and gas industry, as well as the continued investments in time and resources we make to manufacture and sell our specialty chemical products into non-oilfield industrial-related applications. We believe these segment changes better align the business with the current and future state of the Company's operations and capital allocation and strategic objectives. This change was a naming convention only change that did not impact any Current Period or Prior Period numbers.

On May 8, 2023, we announced that our stockholders approved the Company's Fifth Amended and Restated Certificate of Incorporation which, among other things, changed the name of the Company from Select Energy Services, Inc. to Select Water Solutions, Inc. to reflect its strategic focus as a water-first company. We retained our current stock ticker "WTTR" trading on the New York Stock Exchange.

The recent completion of three business combinations, four asset acquisitions and the buyout of noncontrolling interests in a recycling system joint venture has strengthened our financial results for the Current Period, as well as our competitive positioning in the water solutions market. These acquisitions enhanced our geographic footprint and significantly expanded the capacity and reach of our sustainable recycling solutions.

In February 2022, Russia launched a large-scale invasion of Ukraine that has led to significant armed hostilities. As a result, the U.S., the United Kingdom, the member states of the European Union and other public and private actors have levied severe sanctions on Russian financial institutions, businesses and individuals. In October 2023, a militia group conducted attacks in Israel and an armed conflict has ensued between Israel and such militia group. The Russia-Ukraine conflict, and the resulting sanctions and concerns regarding global energy security, has contributed to, and the conflict in the Israel-Gaza region and any potential increase in hostilities in the Middle East may contribute to, increases and volatility in the prices for oil and natural gas. Such volatility, coupled with an increased cost of capital, may lead to a more difficult investing and planning environment for us and our customers. The ultimate geopolitical and macroeconomic consequences of these conflicts and associated sanctions cannot be predicted, and such events, or any

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further hostilities elsewhere, could severely impact the world economy and may adversely affect our financial condition. An end to the Russia-Ukraine conflict and an easing or elimination of the related sanctions against Russia could result in a significant fall in commodity prices as Russian hydrocarbons become more readily accessible in global markets, which could have an adverse effect on our customers, and therefore adversely affect our customers' demand for our services.

In addition, OPEC+ countries announced production cuts of around 1.16 million barrels per day in April 2023, bringing its total volume cuts to 3.66 million barrels per day since 2021. Additionally, Saudi Arabia announced in June 2023 that it would independently cut its oil production by an additional 1.0 million barrels per day starting in July 2023 to stabilize the market on a short-term basis and in September 2023, Saudi Arabia affirmed that it would continue such production cuts through the end of 2023. The actions of OPEC+ countries with respect to oil production levels and announcements of potential changes in such levels, including agreement on and compliance with production targets, may result in volatility in the industry in which we and our customers operate. The average price of West Texas Intermediate ("WTI") crude oil decreased in the Current Quarter versus the Prior Quarter as a result of increased production coupled with a moderate decrease in global demand. During the Current Quarter, the average spot price of WTI crude oil was \$82.25 versus an average price of \$93.06 for the Prior Quarter. While WTI price levels declined during the Current Quarter relative to the Prior Quarter, these WTI price levels remain supportive of our customers' drilling and completion programs in the major shale basins. The average Henry Hub natural gas spot price during the Current Quarter was \$2.59 versus an average of \$7.99 for the Prior Quarter. Henry Hub natural gas price levels in the Current Quarter have declined materially relative to the Prior Quarter and have negatively impacted activity levels, resulting in incremental development activity cuts.

While the ongoing effects of the COVID-19 pandemic on our operations have largely ended, some impacts related to the COVID-19 pandemic, such as increased inflation and supply chain constraints, have resulted in rising interest rates and cost of capital, which in turn increase the risk of economic stagnation or an economic recession. The pandemic had a material negative impact on our financial results for prior periods and may affect the comparability of our results.

Many of our customers have demonstrated their resolve to manage their capital spending within budgets and cash flow from operations and increase redemptions of debt and/or returns of capital to investors. Additionally, consolidation among our customers can disrupt our market in the near-term and the resulting demand for our services. Overall however, the financial health of the oil and gas industry and many of our customers specifically, as reflected in debt metrics, recent capital raises, and equity valuations, has greatly improved over the course of the year ended December 31, 2022 and through the Current Period.

While the financial health of the broader oil and gas industry has continued to improve, the potential inability of broader banking and other financial services firms to access liquidity has resulted in significant disruptions to global markets. Central bank policy actions, bank failures and associated liquidity risks and other factors may negatively impact the value of our equity and that of our customers, and may reduce our and their ability to access liquidity in the bank and capital markets or result in capital being available on less favorable terms, which could negatively affect our financial condition and that of our customers.

From an operational standpoint, many of the recent trends still apply to ongoing unconventional oil and gas development. The continued trend towards multi-well pad development, executed within a limited time frame, combined with service price inflation has increased the overall complexity and cost of well completions, while increasing fracturing efficiency and the use of lower-cost in-basin sand has decreased total costs for our customers. However, we note the continued efficiency gains in the well completions process can limit the days we spend on the wellsite and, therefore, negatively impact the total revenue opportunity for certain of our services utilizing day-rate pricing models.

This multi-well pad development, combined with recent upstream acreage consolidation and the growing trends around the recycling and reuse applications of produced water provides a significant opportunity for companies like us that can deliver increasingly complex solutions for our E&P customers across the full completion and production lifecycle of wells. While these trends have advanced the most in the Permian Basin to date, they are emerging in other basins as well.

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The increased reuse of produced water requires additional chemical treatment solutions. We have a dedicated team of specialists focused every day on developing and deploying innovative water treatment and reuse services for our customers. Our FluidMatch™ design solutions enable our customers to economically use these alternative sources to optimize their fluid systems by providing water profiling and fluid assessment services working towards real-time. This trend also supports more complex “on-the-fly” solutions that treat, proportion, and blend various streams of water and chemicals at the wellsite. This complexity favors service companies able to provide advanced technology solutions. Ultimately, we intend to play an important role in the advancement of water and chemical solutions that are designed to meet the sustainability goals of key stakeholders.

Our water logistics, treatment, and chemical application expertise, in combination with advanced technology solutions, are applicable to other industries beyond oil and gas. We are working to further commercialize our services in other businesses and industries through our industrial solutions group.

Our Segments

Our services are offered through three reportable segments: (i) Water Services; (ii) Water Infrastructure; and (iii) Chemical Technologies.

- *Water Services.* The Water Services segment consists of the Company’s services businesses, including water sourcing, water transfer, flowback and well testing, fluids hauling, water monitoring, water containment and water network automation, primarily serving E&P companies. Additionally, this segment includes the operations of our accommodations and rentals business.
- *Water Infrastructure.* The Water Infrastructure segment consists of the Company’s fixed infrastructure assets, including operations associated with our water distribution pipeline infrastructure, our water recycling solutions, and our produced water gathering systems and SWDs, as well as solids disposal facilities, primarily serving E&P companies.
- *Chemical Technologies.* The Chemical Technologies segment provides technical solutions, products and expertise related to chemical applications in the oil and gas industry. We develop, manufacture, manage logistics and provide a full suite of chemicals used in hydraulic fracturing, stimulation, cementing and well completions for customers ranging from pressure pumpers to major integrated and independent oil and gas producers. This segment also utilizes its chemical experience and lab testing capabilities to customize tailored water treatment solutions designed to optimize the fracturing fluid system in conjunction with the quality of water used in well completions.

How We Generate Revenue

We currently generate most of our revenue through our water-management services associated with well completions as well as ongoing produced water management, provided through our Water Services and Water Infrastructure segments. Most of this revenue is realized through customer agreements with fixed pricing terms and is recognized when delivery of services is provided, generally at our customers’ sites. While we have some long-term pricing arrangements, particularly in our Water Infrastructure segment, most of our water and water-related services are priced based on prevailing market conditions, giving due consideration to the specific requirements of the customer.

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

Costs of Conducting Our Business

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

Labor costs associated with our employees and contract labor comprise the largest portion of our costs of doing business. We incurred labor and labor-related costs of \$140.6 million, \$122.7 million, \$419.0 million and \$338.8 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. The majority of our recurring labor costs are variable and dependent on the market environment and are incurred only while we are providing our operational services. We also incur costs to employ personnel to ensure safe operations, sell and supervise our services and perform maintenance on our assets, which is not as directly tied to our level of business activity. Additionally, we incur selling, general and administrative costs for compensation of our administrative personnel at our field sites and in our operational and corporate headquarters, as well as for third-party support, licensing and services.

We incur significant vehicle and equipment costs in connection with the services we provide, including depreciation, repairs and maintenance, rental and leasing costs. We incurred vehicle and equipment costs of \$79.8 million, \$69.8 million, \$235.9 million and \$193.4 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

We incur raw material costs in manufacturing our chemical products, as well as for water that we source for our customers. We incurred raw material costs of \$80.7 million, \$77.3 million, \$236.6 million and \$223.4 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively.

We incur variable transportation costs associated with our service lines, predominately fuel and freight. We incurred fuel and freight costs of \$27.8 million, \$31.0 million, \$88.7 million and \$86.9 million for the Current Quarter, Prior Quarter, Current Period and Prior Period, respectively. Rising fuel prices impact our transportation costs, which affects the results of our operations.

How We Evaluate Our Operations

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

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

Revenue

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

Gross Profit

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

Gross Margins

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

EBITDA and Adjusted EBITDA

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income/(loss), plus interest expense, income taxes, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus/(minus) loss/(income) from discontinued operations, plus any impairment and abandonment charges or asset write-offs pursuant to accounting principles generally accepted in the U.S. (“GAAP”), plus non-cash losses on the sale of assets or subsidiaries, nonrecurring compensation expense, non-cash compensation expense, and nonrecurring or unusual expenses or charges, including severance expenses, transaction costs, or facilities-related exit and disposal-related expenditures, plus/(minus) foreign currency losses/(gains) and plus/(minus) losses/(gains) on unconsolidated entities less bargain purchase gains from business combinations. The adjustments to EBITDA are generally consistent with such adjustments described in our Sustainability-Linked Credit Facility. See “—Comparison of Non-GAAP Financial Measures—EBITDA and Adjusted EBITDA” for more information and a reconciliation of EBITDA and Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP.

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

Our future results of operations may not be comparable to our historical results of operations for the periods presented, primarily for the reasons described below and those described in “—Recent Developments” above.

Acquisition Activity

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

Between January 2022 and June 2023, we completed three business combinations, four asset acquisitions and the buyout of all noncontrolling interests in a recycling system joint venture. Our historical financial statements for periods prior to the respective date each acquisition was completed do not include the results of operations of that acquisition. See “—Recent Developments” and “Note 3—Acquisitions” for a description of these transactions.

Results of Operations

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

Current Quarter Compared to the Prior Quarter

| | Three months ended September 30, | | Change | |
|--|----------------------------------|------------------|-------------------|----------------|
| | 2023 | 2022 | Dollars | Percentage |
| | (in thousands) | | | |
| Revenue | | | | |
| Water Services | \$ 251,870 | \$ 264,271 | \$ (12,401) | (4.7)% |
| Water Infrastructure | 58,375 | 31,368 | 27,007 | 86.1 % |
| Chemical Technologies | 79,028 | 79,433 | (405) | (0.5)% |
| Total revenue | 389,273 | 375,072 | 14,201 | 3.8 % |
| Costs of revenue | | | | |
| Water Services | 200,361 | 204,650 | (4,289) | (2.1)% |
| Water Infrastructure | 34,992 | 20,392 | 14,600 | 71.6 % |
| Chemical Technologies | 63,005 | 64,519 | (1,514) | (2.3)% |
| Other | — | (1) | 1 | NM |
| Depreciation and amortization | 34,650 | 26,672 | 7,978 | 29.9 % |
| Total costs of revenue | 333,008 | 316,232 | 16,776 | 5.3 % |
| Gross profit | 56,265 | 58,840 | (2,575) | (4.4)% |
| Operating expenses | | | | |
| Selling, general and administrative | 38,983 | 29,782 | 9,201 | 30.9 % |
| Depreciation and amortization | 512 | 543 | (31) | (5.7)% |
| Impairments and abandonments | 32 | — | 32 | NM |
| Lease abandonment costs | (12) | 83 | (95) | (114.5)% |
| Total operating expenses | 39,515 | 30,408 | 9,107 | 29.9 % |
| Income from operations | 16,750 | 28,432 | (11,682) | (41.1)% |
| Other income (expense) | | | | |
| Gain (loss) on sales of property and equipment and divestitures, net | 23 | (479) | 502 | (104.8)% |
| Interest expense, net | (765) | (616) | (149) | 24.2 % |
| Foreign currency loss, net | (1) | (6) | 5 | NM |
| Bargain purchase gain | — | (3,273) | 3,273 | NM |
| Other | 768 | 1,153 | (385) | NM |
| Income before income tax expense | 16,775 | 25,211 | (8,436) | (33.5)% |
| Income tax expense | (483) | (276) | (207) | 75.0 % |
| Equity in losses of unconsolidated entities | (978) | (218) | (760) | NM |
| Net income | \$ 15,314 | \$ 24,717 | \$ (9,403) | (38.0)% |

Revenue

Our revenue increased \$14.2 million, or 3.8%, to \$389.3 million for the Current Quarter compared to \$375.1 million for the Prior Quarter. This increase was composed of a \$27.0 million increase in Water Infrastructure revenue, partially offset by a \$12.4 million decrease in Water Services revenue, and a \$0.4 million decrease in Chemical Technologies revenue. The net \$14.2 million increase was driven by incremental revenue contributions from the Breakwater and Cypress Acquisitions as well as 2023 asset acquisitions. For the Current Quarter, our Water Services, Water Infrastructure and Chemical Technologies constituted 64.7%, 15.0% and 20.3% of our total revenue, respectively, compared to 70.4%, 8.4% and 21.2%, respectively, for the Prior Quarter. The revenue changes by reportable segment are as follows:

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Water Services. Revenue decreased \$12.4 million, or 4.7%, to \$251.9 million for the Current Quarter compared to \$264.3 million for the Prior Quarter. The decrease in revenues was primarily attributable to lower customer activity levels resulting from decreased oil and natural gas prices in the Current Quarter relative to the Prior Quarter, as well as the consolidation and elimination of certain operating facilities resulting from our acquisition integration activities. Additionally, the continued growth in our produced water recycling solutions within our Water Infrastructure segment led to decreased legacy fresh water sourcing volumes within Water Services. This was partially offset by increases in water transfer revenue due to the Breakwater Acquisition and increased poly and containment revenue due to an expanded asset base.

Water Infrastructure. Revenue increased \$27.0 million, or 86.1%, to \$58.4 million for the Current Quarter compared to \$31.4 million for the Prior Quarter. The increase was primarily attributable to incremental revenue contributed by Breakwater, Cypress and other asset acquisitions. Revenue during the Current Period also benefitted by the ramp-up of recycling and treatment operations associated with two long-term agreements in the Rockies region and one long-term agreement in the Permian region.

Chemical Technologies. Revenue decreased slightly by \$0.4 million, or 0.5%, to \$79.0 million for the Current Quarter compared to \$79.4 million for the Prior Quarter.

Costs of Revenue

Costs of revenue increased \$16.8 million, or 5.3%, to \$333.0 million for the Current Quarter compared to \$316.2 million for the Prior Quarter. The increase was primarily composed of a \$4.3 million decrease in Water Services costs, a \$14.6 million increase in Water Infrastructure costs and a \$1.5 million decrease in Chemical Technologies costs due to supporting the higher revenue-producing activity discussed above.

Water Services. Costs of revenue decreased \$4.3 million, or 2.1%, to \$200.4 million for the Current Quarter compared to \$204.7 million for the Prior Quarter. Cost of revenue as a percent of revenue increased from 77.4% to 79.5% due primarily to lower water sourcing and well testing margins, which were impacted by reductions in revenue-generating activity we could not fully offset with cost reductions.

Water Infrastructure. Costs of revenue increased \$14.6 million, or 71.6%, to \$35.0 million for the Current Quarter compared to \$20.4 million for the Prior Quarter. Cost of revenue as a percent of revenue decreased from 65.0% to 59.9% due primarily to increased water treatment and recycling margins, which were favorably impacted by the Breakwater Acquisition and the ramp-up of three long-term treatment and recycling agreements.

Chemical Technologies. Costs of revenue decreased \$1.5 million, or 2.3%, to \$63.0 million for the Current Quarter compared to \$64.5 million for the Prior Quarter. Cost of revenue as a percent of revenue decreased from 81.2% to 79.7% due primarily to picking up additional higher-margin market share within our portfolio of specialty products as well as manufacturing process efficiencies.

Depreciation and Amortization. Depreciation and amortization expense increased \$8.0 million, or 29.9%, to \$34.7 million for the Current Quarter compared to \$26.7 million for the Prior Quarter, due primarily to a higher fixed asset base primarily due to the Breakwater Acquisition as well as investments made into fixed infrastructure projects.

Gross Profit

Gross profit was \$56.3 million for the Current Quarter compared to \$58.8 million for the Prior Quarter due primarily to lower revenue and gross profit in our Water Services segment coupled with higher depreciation expense, partially offset by higher revenue and gross profit in our Water Infrastructure segment resulting from increased activity levels, increased pricing and contributions from the Breakwater and Cypress Acquisitions and higher Chemical Technologies gross margins. Gross profit decreased by \$8.1 million in our Water Services segment and increased by \$12.4 million and \$1.1 million in our Water Infrastructure and Chemical Technologies segments, respectively. Also contributing to the decrease in gross profit was an \$8.0 million increase in depreciation and amortization expense. Gross margin as a percent of revenue was 14.5% and 15.7% in the Current Quarter and Prior Quarter, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$9.2 million, or 30.9%, to \$39.0 million for the Current Quarter compared to \$29.8 million for the Prior Quarter. The increase was due primarily to \$4.3 million in rebranding costs, \$3.0 million higher wages, associated payroll taxes and employer 401(k) match contributions, a \$1.0 million increase in incentive and equity-based compensation cost, \$1.0 million in higher contract labor, \$0.9 million higher legal and professional fees, \$0.4 million higher information technology costs and \$0.7 million from a combination of other expenses, partially offset by a \$1.3 million decrease in business development costs and a \$0.8 million decrease in vehicle lease costs.

Net Interest Expense

Net interest expense increased by \$0.1 million, or 24.2%, to \$0.8 million for the Current Quarter compared to \$0.6 million in the Prior Quarter due primarily to borrowings on our Sustainability-Linked Credit Facility prior to repaying such borrowings in the Current Quarter.

Bargain Purchase Gain

A reduction to bargain purchase gain of \$3.3 million in the Prior Quarter was comprised of adjustments related to a 2021 acquisition.

Net Income

Net Income decreased by \$9.4 million, or 38.0%, to \$15.3 million for the Current Quarter compared to \$24.7 million for the Prior Quarter, driven primarily by higher selling, general and administrative expenses.

Current Period Compared to the Prior Period

| | Nine months ended September 30, | | Change | |
|---|---------------------------------|------------------|-----------------|---------------|
| | 2023 | 2022 | Dollars | Percentage |
| (in thousands) | | | | |
| Revenue | | | | |
| Water Services | \$ 791,145 | \$ 693,393 | \$ 97,752 | 14.1 % |
| Water Infrastructure | 169,118 | 80,686 | 88,432 | 109.6 % |
| Chemical Technologies | 250,230 | 231,665 | 18,565 | 8.0 % |
| Total revenue | 1,210,493 | 1,005,744 | 204,749 | 20.4 % |
| Costs of revenue | | | | |
| Water Services | 626,878 | 558,041 | 68,837 | 12.3 % |
| Water Infrastructure | 103,718 | 51,424 | 52,294 | 101.7 % |
| Chemical Technologies | 200,017 | 194,670 | 5,347 | 2.7 % |
| Depreciation and amortization | 102,776 | 82,425 | 20,351 | 24.7 % |
| Total costs of revenue | 1,033,389 | 886,560 | 146,829 | 16.6 % |
| Gross profit | 177,104 | 119,184 | 57,920 | 48.6 % |
| Operating expenses | | | | |
| Selling, general and administrative | 109,147 | 84,792 | 24,355 | 28.7 % |
| Depreciation and amortization | 1,846 | 1,636 | 210 | 12.8 % |
| Impairments and abandonments | 11,554 | — | 11,554 | NM |
| Lease abandonment costs | 73 | 336 | (263) | (78.3)% |
| Total operating expenses | 122,620 | 86,764 | 35,856 | 41.3 % |
| Income from operations | 54,484 | 32,420 | 22,064 | 68.1 % |
| Other income (expense) | | | | |
| Gain on sales of property and equipment and divestitures, net | 1,688 | 1,905 | (217) | 11.4 % |
| Interest expense, net | (4,290) | (1,830) | (2,460) | 134.4 % |
| Foreign currency loss, net | (4) | (9) | 5 | NM |
| Bargain purchase gain | — | 13,768 | (13,768) | NM |
| Other | 2,486 | 2,277 | 209 | NM |
| Income before income tax expense | 54,364 | 48,531 | 5,833 | 12.0 % |
| Income tax expense | (1,068) | (672) | (396) | 58.9 % |
| Equity in losses of unconsolidated entities | (1,716) | (576) | (1,140) | NM |
| Net income | \$ 51,580 | \$ 47,283 | \$ 4,297 | 9.1 % |

Revenue

Our revenue increased \$204.7 million, or 20.4%, to \$1.2 billion for the Current Period compared to \$1.0 billion for the Prior Period. This increase was composed of a \$97.8 million increase in Water Services revenue, an \$88.4 million increase in Water Infrastructure revenue and an \$18.6 million increase in Chemical Technologies revenue. These increases were driven primarily by higher demand for our services coupled with increased pricing in comparison to the Prior Period. Included in the increases in Water Services and Water Infrastructure were incremental revenue contributions from Breakwater, Nuverra, Cypress and other asset acquisitions. For the Current Period, our Water Services, Water Infrastructure and Chemical Technologies constituted 65.3%, 14.0% and 20.7% of our total revenue, respectively, compared to 69.0%, 8.0% and 23.0%, respectively, for the Prior Period. The revenue changes by reportable segment are as follows:

Water Services. Revenue increased \$97.8 million, or 14.1%, to \$791.1 million for the Current Period compared to \$693.4 million for the Prior Period. The increase was primarily attributable to incremental revenue contributions from

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the Breakwater Acquisition and higher demand for our services coupled with increased pricing in comparison to the Prior Period. The increase in demand was due to market activity increases across most of our areas of operations, market share gains in the Permian Basin in our poly and containment business line and new service offerings in our accommodations and rentals business line.

Water Infrastructure. Revenue increased \$88.4 million, or 109.6%, to \$169.1 million for the Current Period compared to \$80.7 million for the Prior Period. The increase was primarily attributable to incremental revenue contributed by Breakwater, Nuverra, Cypress and other asset acquisitions. Revenue during the Current Period also benefitted by the ramp-up of recycling and treatment operations associated with two long-term agreements in the Rockies region and one long-term agreement in the Permian region.

Chemical Technologies. Revenue increased \$18.6 million, or 8.0%, to \$250.2 million for the Current Period compared to \$231.7 million for the Prior Period. The increase was primarily attributable to higher demand for our services in comparison to the Prior Period and was not directly impacted by acquisition activity.

Costs of Revenue

Costs of revenue increased \$146.8 million, or 16.6%, to \$1.0 billion for the Current Period compared to \$886.6 million for the Prior Period. The increase was primarily composed of a \$68.8 million increase in Water Services costs, a \$52.3 million increase in Water Infrastructure costs, and a \$5.3 million increase in Chemical Technologies costs due to supporting the higher revenue-producing activity discussed above.

Water Services. Costs of revenue increased \$68.8 million, or 12.3%, to \$626.9 million for the Current Period compared to \$558.0 million for the Prior Period. Cost of revenue as a percent of revenue decreased from 80.5% to 79.2% due primarily to higher pricing for our services and economies of scale from higher revenue activity.

Water Infrastructure. Costs of revenue increased \$52.3 million, or 101.7%, to \$103.7 million for the Current Period compared to \$51.4 million for the Prior Period. Cost of revenue as a percent of revenue decreased from 63.7% to 61.3% due primarily to increased water treatment and recycling margins, which were favorably impacted by the Breakwater Acquisition and the ramp-up of three long-term treatment and recycle agreements.

Chemical Technologies. Costs of revenue increased \$5.3 million, or 2.7%, to \$200.0 million for the Current Period compared to \$194.7 million for the Prior Period. Cost of revenue as a percent of revenue decreased from 84.0% to 79.9% due primarily to picking up additional higher-margin market share within our portfolio of products as well as manufacturing process efficiencies.

Depreciation and Amortization. Depreciation and amortization expense increased \$20.4 million, or 24.7%, to \$102.8 million for the Current Period compared to \$82.4 million for the Prior Period, due primarily to a higher fixed asset base and nine full months of depreciation related to the Breakwater, Cypress, and Nuverra Acquisitions as well as investments made into fixed infrastructure projects.

Gross Profit

Gross profit was \$177.1 million for the Current Period compared to \$119.2 million for the Prior Period due primarily to higher revenue in all three segments resulting from increased activity levels and pricing and contributions from the Breakwater and Cypress Acquisitions. Gross profit increased by \$28.9 million, \$36.1 million and \$13.2 million in our Water Services, Water Infrastructure and Chemical Technologies segments, respectively. Partially offsetting the increase in gross profit was a \$20.4 million increase in depreciation and amortization expense. Gross margin as a percent of revenue was 14.6% and 11.9% in the Current Period and Prior Period, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$24.4 million, or 28.7%, to \$109.1 million for the Current Period compared to \$84.8 million for the Prior Period. The increase was due primarily to \$6.9 million higher wages, associated payroll taxes and employer 401(k) match contributions, \$6.8 million in rebranding costs, a \$3.1

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million increase in incentive and equity-based compensation cost, a \$3.0 million increase in legal and professional fees, \$2.2 million in higher contract labor, a \$1.9 million increase in bad debt expense, \$1.5 million higher information technology costs, a \$0.6 million increase in business development costs, and \$1.8 million from a combination of other expenses partially offset by a \$2.1 million decrease in vehicle lease costs and a \$1.3 million decrease in insurance costs.

Impairments and Abandonments

\$11.1 million of trademark abandonment was recorded in the Chemical Technologies segment during the Current Period. Also, \$0.4 million of abandonment was attributable to damaged property and equipment and \$0.1 million of impairment was recorded in our Water Services segment to write-off the remaining value of a cost-method investment.

Net Interest Expense

Net interest expense increased by \$2.5 million, or 134.4%, to \$4.3 million for the Current Period compared to \$1.8 million in the Prior Period due primarily to higher average borrowings on our Sustainability-Linked Credit Facility and higher interest rates in the Current Period prior to repaying such borrowings.

Bargain Purchase Gain

A bargain purchase gain of \$13.8 million in the Prior Period was comprised of \$7.1 million related to the Nuverra Acquisition and \$6.7 million in adjustments to acquisitions that occurred in 2021.

Net Income

Net Income increased by \$4.3 million, or 9.1%, to \$51.6 million for the Current Period compared to \$47.3 million for the Prior Period, driven primarily by increased revenue, including contributions from our recent acquisitions, while also being negatively impacted in the Current Period by the trademark abandonment referenced above.

Comparison of Non-GAAP Financial Measures

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income (loss), plus interest expense, income taxes, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus/(minus) loss/(income) from discontinued operations, plus any impairment and abandonment charges or asset write-offs pursuant to GAAP, plus non-cash losses on the sale of assets or subsidiaries, non-recurring compensation expense, non-cash compensation expense, and non-recurring or unusual expenses or charges, including severance expenses, transaction costs, or facilities-related exit and disposal-related expenditures, plus/(minus) foreign currency losses/(gains) and plus/(minus) losses/(gains) on unconsolidated entities less bargain purchase gains from business combinations. The adjustments to EBITDA are generally consistent with such adjustments described in our Sustainability-Linked Credit Facility. See “—Comparison of Non-GAAP Financial Measures” for more information and a reconciliation of EBITDA and Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP.

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

Note Regarding Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------------|---------------------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Net income | \$ 15,314 | \$ 24,717 | \$ 51,580 | \$ 47,283 |
| Interest expense, net | 765 | 616 | 4,290 | 1,830 |
| Income tax expense | 483 | 276 | 1,068 | 672 |
| Depreciation and amortization | 35,162 | 27,215 | 104,622 | 84,061 |
| EBITDA | 51,724 | 52,824 | 161,560 | 133,846 |
| Non-cash compensation expenses | 5,014 | 3,804 | 12,787 | 11,023 |
| Non-cash loss on sale of assets or subsidiaries ⁽¹⁾ | 583 | 1,608 | 2,832 | 3,141 |
| Non-recurring transaction costs ⁽²⁾ | 4,669 | 965 | 9,513 | 7,461 |
| Lease abandonment costs | (12) | 83 | 73 | 336 |
| Impairments and abandonments | 32 | — | 11,554 | — |
| Bargain purchase gain | — | 3,273 | — | (13,768) |
| Equity in losses of unconsolidated entities | 978 | 218 | 1,716 | 576 |
| Foreign currency loss, net | 1 | 6 | 4 | 9 |
| Adjusted EBITDA | <u>\$ 62,989</u> | <u>\$ 62,781</u> | <u>\$ 200,039</u> | <u>\$ 142,624</u> |

- (1) For all periods presented, the losses were due primarily to sales of real estate and underutilized or obsolete property and equipment.
- (2) For all periods presented, these costs were due primarily to legal-related due diligence costs and rebranding costs as well as costs related to certain acquired subsidiaries.

EBITDA was \$51.7 million for the Current Quarter compared to \$52.8 million for the Prior Quarter. The \$1.1 million decrease in EBITDA was driven primarily by a \$9.2 million increase in selling, general and administrative expense in the Current Quarter partially offset by an increase of \$5.4 million in gross profit and a \$3.3 million reduction to bargain purchase gain in the Prior Quarter. Adjusted EBITDA was \$63.0 million for the Current Quarter compared to \$62.8 million for the Prior Quarter.

EBITDA was \$161.6 million for the Current Period compared to \$133.8 million for the Prior Period. The \$27.8 million increase in EBITDA was driven primarily by an increase of \$78.3 million in gross profit partially offset by a \$13.8 million bargain purchase gain in the Prior Period, trademark abandonment costs of \$11.1 million in the Current Period and a \$24.4 million increase in selling, general and administrative expense in the Current Period. Adjusted EBITDA was \$200.0 million for the Current Period compared to \$142.6 million for the Prior Period. The \$57.4 million increase is primarily attributable to the items discussed above.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash on hand, borrowing capacity under the Sustainability-Linked Credit Facility, cash flows from operations and proceeds from the sale of excess property and equipment. As of September 30, 2023, we had no outstanding borrowings, approximately \$224.0 million of available borrowing capacity under our Sustainability-Linked Credit Facility, and cash and cash equivalents of \$25.0 million. Our primary uses of capital have been to fund current operations, maintain our asset base, implement technological advancements, make capital expenditures to support organic growth, fund acquisitions and minority investments, and when appropriate, repurchase shares of Class A common stock in the open market. Depending on available opportunities, market conditions and other factors, we may also issue debt and equity securities in the future, if needed.

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We prioritize sustained positive free cash flow and a strong balance sheet and evaluate potential acquisitions and investments in the context of those priorities, in addition to the economics of the opportunity. We believe this approach provides us with additional flexibility to evaluate larger investments as well as improved resilience in a sustained downturn versus many of our peers.

Based on our current cash and cash equivalents balance, operating cash flow, available borrowings under our Sustainability-Linked Credit Facility and the ongoing actions discussed above, we believe that we will be able to maintain sufficient liquidity to satisfy our obligations and remain in compliance with our existing debt covenants through the next twelve months and beyond, prior to giving effect to any future financing that may occur.

We intend to finance most of our capital expenditures, contractual obligations and working capital needs with cash on hand, cash generated from operations and borrowings under our Sustainability-Linked Credit Facility. For a discussion of the Sustainability-Linked Credit Facility, see “—Sustainability-Linked Credit Facility” below. Although we cannot provide any assurance, we believe that our current cash balance, operating cash flow and available borrowings under our Sustainability-Linked Credit Facility will be sufficient to fund our operations for at least the next twelve months. Capital availability will be affected by prevailing conditions in our industry, the global economy, the global markets, ESG matters and other factors, many of which are beyond our control. In this regard, the inability of banking and other financial services firms to access liquidity, which has resulted in two U.S. bank failures and ongoing uncertainty regarding the going concern of certain banks, has resulted in significant disruptions to global markets. Central bank policy actions, bank failures and associated liquidity risks and other factors may negatively impact the value of our Class A and Class B common stock and that of our customers and may reduce our and their ability to access liquidity in the bank and capital markets or result in capital being available on less favorable terms, which could negatively affect our financial condition and that of our customers.

During the fourth quarter of 2022, we initiated a quarterly dividend and distribution program of \$0.05 per share and \$0.05 per unit for holders of Class A common stock and SES Holdings, LLC Units (along with Class B shares), respectively. This resulted in a financing outflow of \$17.9 million in the Current Period, and this quarterly dividend program is expected to continue. All future dividend payments are subject to quarterly review and approval by our board of directors.

As of September 30, 2023, cash and cash equivalents totaled \$25.0 million, and we had approximately \$224.0 million of available borrowing capacity under our Sustainability-Linked Credit Facility. As of September 30, 2023, the borrowing base under the Sustainability-Linked Credit Facility was \$238.8 million, we had no outstanding borrowings and outstanding letters of credit totaled \$14.8 million. As of October 30, 2023, we had no outstanding borrowings, the borrowing base under the Sustainability-Linked Credit Facility was \$255.5 million, the outstanding letters of credit totaled \$14.5 million, and the available borrowing capacity under the Sustainability-Linked Credit Facility was \$241.0 million.

Cash Flows

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

| | Nine months ended September 30, | | Change | |
|--|---------------------------------|-------------|------------|------------|
| | 2023 | 2022 | Dollars | Percentage |
| | (in thousands) | | | |
| Net cash provided by (used in) operating activities | \$ 202,162 | \$ (2,107) | \$ 204,269 | 9694.8 % |
| Net cash used in investing activities | (104,939) | (29,493) | (75,446) | (255.8)% |
| Net cash used in financing activities | (79,498) | (40,964) | (38,534) | (94.1)% |
| Subtotal | 17,725 | (72,564) | | |
| Effect of exchange rate changes on cash and cash equivalents | (4) | (15) | 11 | NM |
| Net increase (decrease) in cash and cash equivalents | \$ 17,721 | \$ (72,579) | | |

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Analysis of Cash Flow Changes between the Nine Months Ended September 30, 2023 and 2022

Operating Activities. Net cash provided by operating activities was \$202.2 million for the Current Period, compared to net cash used in operating activities of \$2.1 million in the Prior Period. The \$204.3 million improvement is comprised of an increase of \$56.0 million of net income combined with non-cash adjustments and \$148.3 million of decreased working capital primarily due to collecting trade receivables impacted by improvements in the billing and collection process.

Investing Activities. Net cash used in investing activities was \$104.9 million for the Current Period, compared to \$29.5 million for the Prior Period. The \$75.4 million increase in net cash used in investing activities was due primarily to a \$51.6 million increase in purchases of property and equipment, an increase of \$19.1 million spent for acquisitions, net of cash and restricted cash received and a \$10.1 million decrease in proceeds received from sales of property and equipment partially offset by a decrease of \$6.0 million in investments made in non-controlled entities.

Financing Activities. Net cash used in financing activities was \$79.5 million for the Current Period compared to net cash used in financing activities of \$41.0 million for the Prior Period. The \$38.5 million increase in net cash used in financing activities was due primarily to a \$29.9 million increase in repurchases of shares of Class A common stock and \$17.9 million in dividends paid during the Current Period partially offset by \$4.4 million of cash received net of cash paid from/to noncontrolling interest holders in the Current Period, debt repayments net of borrowings decreasing \$2.8 million, and \$2.1 million in debt issuance costs paid in the Prior Period.

Sustainability-Linked Credit Facility

On March 17, 2022 (the “Restatement Date”), SES Holdings, a subsidiary of the Company, and Select Water Solutions, LLC (“Select LLC”), formerly Select Energy Services, LLC and a wholly-owned subsidiary of SES Holdings, entered into a \$270.0 million amended and restated senior secured sustainability-linked revolving credit facility (the “Sustainability-Linked Credit Facility”), by and among SES Holdings, as parent, Select LLC, as borrower and certain of SES Holdings’ subsidiaries, as guarantors, each of the lenders party thereto and Wells Fargo Bank, N.A., as administrative agent, issuing lender and swingline lender (the “Administrative Agent”) (which amended and restated the Prior Credit Agreement dated November 1, 2017). The Sustainability-Linked Credit Facility also has a sublimit of \$40.0 million for letters of credit and a sublimit of \$27.0 million for swingline loans. Subject to obtaining commitments from existing or new lenders, Select LLC has the option to increase the maximum amount under the senior secured credit facility by \$135.0 million during the first three years following the Restatement Date.

Refer to “Note 8—Debt” for further discussion of the Sustainability-Linked Credit Facility.

Contractual Obligations

Our contractual obligations include, among other things, our Sustainability-Linked Credit Facility and operating leases. Refer to “Note 6—Leases” in our 2022 Form 10-K for operating lease obligations as of December 31, 2022 and “Note 8—Debt” in Part I, Item 1 of this Quarterly Report for an update to our Sustainability-Linked Credit Facility as of September 30, 2023.

Critical Accounting Policies and Estimates

There were no changes to our critical accounting policies from those disclosed in our 2022 Form 10-K.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. As the London Interbank Offered Rate (“LIBOR”) will no longer be available beginning July 2023, this standard update provides practical expedients for contract modifications made as part of the transition from LIBOR to alternative reference rates. The guidance was

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effective upon issuance and at present can generally be applied through December 31, 2024. The Company adopted this ASU in the Current Period and it had no impact on its consolidated financial statements.

Off-Balance-Sheet Arrangements

As of September 30, 2023, we had no material off-balance-sheet arrangements. As such, we are not exposed to any material financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The demand, pricing and terms for oilfield services provided by us are largely dependent upon the level of drilling and completion activity in the U.S. oil and gas industry. The level of drilling and completion activity is influenced by numerous factors over which we have no control, including, but not limited to: the supply of and demand for oil and gas; war, economic sanctions and other constraints to global trade and economic growth; central bank policy actions, bank failures and associated liquidity risks; announcements and actions taken by the members of OPEC+ with respect to oil production levels; the magnitude and timing of capital spending by our customers; the cost of exploring for, developing, producing and delivering oil and gas; the extent to which our E&P customers choose to drill and complete new wells to offset decline from their existing wells; the extent to which our E&P customers choose to invest to grow production; discoveries of new oil and gas reserves; available storage capacity and pipeline and other transportation capacity; weather conditions; domestic and worldwide economic conditions; instability in oil-producing countries; environmental regulations; technical advances in alternative forms of energy (e.g. wind and solar electricity, electric vehicles) that encourage substitution for or displacement of oil and gas consumption in end-use markets; global health events; the price and availability of alternative fuels; the ability of oil and gas producers to raise equity capital and debt financing; merger and acquisition activity and consolidation in our industry, and other factors.

Any combination of these factors that results in sustained low oil and gas prices and, therefore, lower capital spending and / or reduced drilling and completion activity by our customers, would likely have a material adverse effect on our business, financial condition, results of operations and cash flows.

Interest Rate Risk

As of September 30, 2023, we had no outstanding borrowings under our Sustainability-Linked Credit Facility. As of October 30, 2023, we had no outstanding borrowings and \$241.0 million of available borrowing capacity under our Sustainability-Linked Credit Facility. Interest is calculated under the terms of our Sustainability-Linked Credit Facility based on our selection, from time to time, of one of the index rates available to us plus an applicable margin that varies based on certain factors. We do not currently have or intend to enter into any derivative arrangements to protect against fluctuations in interest rates applicable to our outstanding indebtedness.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

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the Exchange Act) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are a number of risks that we believe are applicable to our business and the industry in which we operate. These risks are described elsewhere in this report or our other filings with the SEC, including the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K. If any of the risks and uncertainties described within our Annual Report on Form 10-K or this Quarterly Report actually occur, our business, financial condition or results of operations could be materially adversely affected.

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

(c) Common Stock Repurchases Made in the Quarter

During the Current Quarter, we repurchased the shares of Class A Common Stock as shown in the table below, which included 33,525 shares purchased to satisfy tax withholding obligations related to restricted stock previously awarded to certain of our current and former employees.

| Period | Total Number of Weighted-Average Price Purchased as Part of Publicly Shares that May Yet be Purchased | | Total Number of Shares Announced Plans or Programs | Maximum Dollar Value of Under the Plans or Programs ⁽¹⁾ |
|---|---|----------------|--|--|
| | Shares Purchased | Paid Per Share | | |
| July 1, 2023 to July 31, 2023 | 22,560 | \$ 8.18 | — | \$ 12,463,632 |
| August 1, 2023 to August 31, 2023 | 10,965 | \$ 8.34 | — | \$ 12,463,632 |
| September 1, 2023 to September 30, 2023 | — | \$ — | — | \$ 12,463,632 |

(1) As of December 31, 2022, we had \$8.6 million of remaining authorization outstanding under our previous \$25 million authorization. On March 21, 2023, we announced a new additional share repurchase program under which we

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may repurchase up to \$50 million of outstanding shares of Class A common stock. This new authorization was in addition to the \$5.1 million remaining outstanding under our previous \$25 million authorization, as of March 21, 2023. We are not obligated to purchase any shares under the repurchase program and repurchases may be suspended or discontinued at any time without prior notice.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed, furnished or incorporated by reference, as applicable, as part of this report.

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| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|---|
| 3.1 | Fifth Amended and Restated Certificate of Incorporation of Select Water Solutions, Inc. dated as of May 8, 2023 (incorporated by reference herein to Exhibit 3.1 to Select Water Solutions, Inc.'s Current Report on Form 8-K, filed May 8, 2023). |
| 3.2 | Third Amended and Restated Bylaws of Select Water Solutions, Inc. dated as of May 8, 2023 (incorporated by reference herein to Exhibit 3.2 to Select Water Solutions, Inc.'s Current Report on Form 8-K, filed May 8, 2023). |
| *31.1 | Certification of Chief Executive Officer required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. |
| *31.2 | Certification of Chief Financial Officer required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. |
| **32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| **32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Equity, (v) Consolidated Statements of Cash Flow, and (vi) Notes to Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

*Filed herewith

**Furnished herewith

SIGNATURE

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

SELECT WATER SOLUTIONS, INC.

Date: November 1, 2023

By: /s/ John D. Schmitz
John D. Schmitz
Chairman, President and Chief Executive Officer

Date: November 1, 2023

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

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

I, John Schmitz, certify that:

1. I have reviewed this quarterly report of Select Water Solutions, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 1, 2023

/s/ John D. Schmitz

John D. Schmitz

Chairman, President and Chief Executive Officer

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

I, Nick Swyka, certify that:

1. I have reviewed this quarterly report of Select Water Solutions, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 1, 2023

/s/ Nick Swyka

Nick Swyka

Senior Vice President and Chief Financial Officer

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

In connection with the quarterly report of Select Water Solutions, Inc. (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), John Schmitz, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

Date: November 1, 2023

/s/ John D. Schmitz

John D. Schmitz

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

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

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

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

Date: November 1, 2023

/s/ Nick Swyka

Nick Swyka
Senior Vice President and Chief Financial
Officer
(Principal Financial Officer)
