BASIC ENERGY SERVICES INC
Form 10-Q
November 05, 2018
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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, 2018
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 001-32693

Basic Energy Services, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**54-2091194**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
801 Cherry Street, Suite 2100 Fort Worth, Texas	**76102**
(Address of principal executive offices)	**(Zip code)**

(817) 334-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No
There were 26,561,124 shares of the registrant's common stock outstanding as of November 5, 2018.

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CAUTIONARY STATEMENT
REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things, the risk factors discussed in this quarterly report, and in our most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q, and other factors, most of which are beyond our control.

The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “plan,” “expect,” “indicate” and similar expressions are intended to identify forward-looking statements. All statements other than statements of current or historical fact contained in this quarterly report are forward-looking statements. Although we believe that the forward-looking statements contained in this quarterly report are based upon reasonable assumptions, the forward-looking events and circumstances discussed in this quarterly report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Important factors that may affect our expectations, estimates or projections include:

- a decline in, or substantial volatility of, oil or natural gas prices, and any related changes in expenditures by our customers;
- the effects of future acquisitions on our business;
- changes in customer requirements in markets or industries we serve;
- the ability to operate our business following emergence from bankruptcy;
- availability and cost of equipment;
- competition within our industry;
- general economic and market conditions;
- our access to current or future financing arrangements;
- operational hazards inherent in the oil and gas industry;
- our ability to replace or add workers at economic rates;
- liquidity, including our ability to satisfy our short or long-term liquidity needs;
- our borrowing capacity, covenant compliance under instruments governing any of our existing or future indebtedness and cash flows; and
- environmental and other governmental regulations.

Our forward-looking statements speak only as of the date of this quarterly report. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements contained herein. Unless otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This quarterly report includes market share data, industry data and forecasts that we obtained from internal company surveys (including estimates based on our knowledge and experience in the industry in which we operate), market research, consultant surveys, publicly available information, industry publications and surveys. These sources include Baker Hughes Incorporated, the Association of Energy Service Companies, and the Energy Information Administration of the U.S. Department of Energy. Industry surveys and publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. Although we believe such information is accurate and reliable, we have not independently verified any of the data from third-party sources cited or used for our management’s industry estimates, nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our position relative to our competitors or as to market share refer to the most recent available data.

PART I — FINANCIAL INFORMATION
ITEM 1. ***FINANCIAL STATEMENTS***

Basic Energy Services, Inc.
Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2018 (Unaudited)		December 31, 2017	
ASSETS				
Current assets:				
Cash and cash equivalents	$	30,847	$	38,520
Restricted cash	44,997		47,703	
Trade accounts receivable, net of allowance of $1,801 and $1,523, respectively	156,165		148,444	
Accounts receivable - related parties	—		22	
Income tax receivable	1,588		1,878	
Inventories	36,090		36,403	
Prepaid expenses	19,847		22,353	
Other current assets	5,688		4,292	
Total current assets	295,222		299,615	
Property and equipment, net	465,553		502,579	
Deferred debt costs, net of amortization	2,535		2,497	
Intangible assets, net of amortization	3,043		3,221	
Other assets	12,617		12,568	
Total assets	$	778,970	$	820,480
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	89,929	$	80,518
Accrued expenses	67,678		51,973	
Current portion of long-term debt, net of discounts of $658 and $1,657, respectively	39,419		55,997	
Other current liabilities	6,102		2,469	

Total current liabilities	203,128		190,957	
Long-term debt, net of discounts and deferred financing costs of $7,496 and $10,244, respectively	278,319		259,242	
Deferred tax liabilities	—		78	
Other long-term liabilities	36,513		31,550	
Stockholders' equity:				
Preferred stock; $0.01 par value; 5,000,000 shares authorized; none designated or issued at September 30, 2018 and December 31, 2017	—		—	
Common stock; $0.01 par value; 80,000,000 shares authorized; 26,765,089 shares issued and 26,547,471 shares outstanding at September 30, 2018; 26,371,572 shares issued and 26,219,129 shares outstanding at December 31, 2017	268		264	
Additional paid-in capital	459,477		439,517	
Accumulated deficit	(194,595)		(96,674)	
Treasury stock, at cost, 217,618 and 152,443 shares at September 30, 2018 and December 31, 2017, respectively	(4,140)		(4,454)	
Total stockholders' equity	261,010		338,653	
Total liabilities and stockholders' equity	$	778,970	$	820,480

See accompanying notes to unaudited consolidated financial statements.

Basic Energy Services, Inc.
Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Completion and remedial services	$ 115,978	$ 123,650	$ 360,523	$ 311,466
Well servicing	67,246	54,629	189,188	156,302
Water logistics	59,539	52,333	175,727	153,279
Contract drilling	3,571	2,848	8,930	7,728
Total revenues	246,334	233,460	734,368	628,775
Expenses:				
Completion and remedial services	89,777	84,481	279,963	232,932
Well servicing	55,106	43,219	152,977	125,931
Water logistics	42,785	41,281	127,716	124,399
Contract drilling	2,731	2,547	7,017	6,818
General and administrative, including stock-based compensation of $5,570 and $5,891 in the three months ended September 30, 2018 and 2017 and $21,995 and $16,615 for the nine months ended September 30, 2018 and 2017, respectively	39,599	39,235	132,038	109,478
Depreciation and amortization	32,754	29,478	94,150	80,846
(Gain) loss on disposal of	191	26	3,891	(664)

assets								
Total expenses	262,943		240,267		797,752		679,740	
Operating loss	(16,609)		(6,807)		(63,384)		(50,965)	
Other income (expense):								
Interest expense	(10,896)		(8,892)		(34,985)		(27,181)	
Interest income	88		5		175		23	
Other income	81		109		492		344	
Loss before income taxes	(27,336)		(15,585)		(97,702)		(77,779)	
Income tax benefit (expense)	—		1,740		(219)		1,366	
Net loss	$	(27,336)	$	(13,845)	$	(97,921)	$	(76,413)
Loss per share of common stock:								
Basic	$	(1.03)	$	(0.53)	$	(3.70)	$	(2.94)
Diluted	$	(1.03)	$	(0.53)	$	(3.70)	$	(2.94)

See accompanying notes to unaudited consolidated financial statements.

Basic Energy Services, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands, except share data)

	Common Stock Outstanding Shares	Treasury Shares	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity
Balance - December 31, 2017	26,371,572	152,443	$ 264	$ 439,517	$ (4,454)	$ (96,674)	$ 338,653
Issuances of restricted stock	393,517	—	4	(2)	—	—	2
Amortization of share-based compensation	—	—	—	21,995	—	—	21,995
Treasury stock, net	—	65,175	—	(2,033)	314	—	(1,719)
Net loss	—	—	—	—	—	$ (97,921)	(97,921)
Balance - September 30, 2018 (unaudited)	26,765,089	217,618	$ 268	$ 459,477	$ (4,140)	$ (194,595)	$ 261,010

See accompanying notes to unaudited consolidated financial statements.

Basic Energy Services, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine Months Ended September 30,			
	2018		**2017**	
Cash flows from operating activities:				
Net loss	$	(97,921)	$	(76,413)
Adjustments to reconcile net loss to net cash				
provided by operating activities:				
Depreciation and amortization	94,150		80,846	
Accretion on asset retirement obligation	115		119	
Change in allowance for doubtful accounts	278		1,907	
Amortization of deferred financing costs	586		14	
Amortization of debt discounts	3,708		5,649	
Non-cash compensation	21,995		16,615	
(Gain) loss on disposal of assets	3,891		(664)	
Deferred income taxes	(78)		389	
Changes in operating assets and liabilities, net of acquisitions:				
Accounts receivable	(7,977)		(61,463)	
Inventories	313		437	
Income tax receivable	291		(1,740)	
Prepaid expenses and other current assets	7,010		(9,446)	

Other assets	(49)		(1,083)	
Accounts payable	5,736		32,865	
Other liabilities	8,629		3,046	
Accrued expenses	15,705		10,747	
Net cash provided by operating activities	56,382		1,825	
Cash flows from investing activities:				
Purchase of property and equipment	(48,588)		(48,295)	
Proceeds from sale of assets	1,942		7,834	
Net cash used in investing activities	(46,646)		(40,461)	
Cash flows from financing activities:				
Payments of debt	(50,313)		(33,649)	
Proceeds from debt	32,500		64,000	
Shares added to treasury stock as a result of net share settlements due to vesting of restricted stock	(1,717)		(38)	
Deferred loan costs and other financing activities	(585)		(2,133)	
Net cash provided by (used in) financing activities	(20,115)		28,180	
Net decrease in cash, cash equivalents and restricted cash	(10,379)		(10,456)	
Cash, cash equivalents and restricted cash - beginning of period	86,223		101,304	
	$	75,844	$	90,848

Cash, cash equivalents and restricted cash - end of period		
Noncash investing and financing activity:		
Capital leases and notes issued for equipment	16,565	61,040
Change in accrued property and equipment	3,675	8,726

See accompanying notes to unaudited consolidated financial statements.

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BASIC ENERGY SERVICES, INC.
Notes to Consolidated Financial Statements
September 30, 2018 (unaudited)

1. Basis of Presentation and Nature of Operations

Basis of Presentation

The accompanying unaudited consolidated financial statements of Basic Energy Services, Inc. and subsidiaries (“Basic” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Certain information relating to our organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in this Quarterly Report on Form 10-Q in accordance with GAAP and financial statement requirements promulgated by the U.S. Securities and Exchange Commission (“SEC”). The notes to the consolidated financial statements (unaudited) should be read in conjunction with the notes to the consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for a fair presentation have been made in the accompanying unaudited financial statements.

Liquidity and Capital Resources

As of September 30, 2018, our primary capital resources were cash flows from operations, utilization of capital leases and borrowings under our accounts receivable securitization facility (the “Prior ABL Facility”) which had aggregate commitments of $150.0 million as of September 30, 2018. As of September 30, 2018, we had $90.0 million in borrowings under the Prior ABL Facility compared to $64.0 million at December 31, 2017. At September 30, 2018, we had unrestricted cash and cash equivalents of $30.8 million compared to $38.5 million as of December 31, 2017. An additional amount of $45.0 million of our cash was classified as restricted cash as of September 30, 2018. For further discussion see Note 5, "Long-Term Debt and Interest Expense".

On October 2, 2018, the Company issued in a private placement offering $300.0 million aggregate principal amount of 10.75% senior secured notes due 2023 (the “Senior Notes”) at 99.042% of par and entered into a new $150.0 million senior secured revolving credit facility (the “New ABL Facility”). In connection with the closing of the Senior Notes, the Company repaid the balances outstanding under the Prior ABL Facility and our Amended and Restated Term Loan Credit Agreement (the "Term Loan Agreement") in their entirety and terminated both facilities. The term loan repayment was made prior to the maturity date defined in the Term Loan Agreement, and the Company incurred repayment penalties of approximately $17.5 million associated with the term loan repayment. For additional information regarding our New ABL Facility and Senior Notes, see Note 5, “Long-Term Debt and Interest Expense”.

Nature of Operations

Basic provides a wide range of well site services in the United States to oil and natural gas drilling and producing companies, including well servicing, water logistics, completion and remedial services and contract drilling. These services are primarily provided using Basic’s fleet of equipment. Basic’s operations are concentrated in the major United States onshore oil and gas producing regions in Texas, New Mexico, Oklahoma, North Dakota, Wyoming, Montana, Arkansas, Kansas, Louisiana, California and Colorado.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of our wholly owned subsidiaries and our variable interest entity for which we hold a majority voting interest. All intercompany transactions and balances have been eliminated.

Estimates, Risks and Uncertainties

Preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue, and expenses. Critical accounting estimates are those in which significant judgment is used, and the impact of any changes in estimates would have a significant effect on our consolidated financial statements. Actual results and outcomes may vary from management's estimates and assumptions. Areas where critical accounting estimates are made by management include litigation and self-insured risk reserves.

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2. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets that sum to the total of the same amounts shown in the unaudited statements of cash flows (in thousands):

	September 30,			
	2018		2017	
Cash and cash equivalents	$	30,847	$	43,168
Restricted cash	44,997		47,680	
Total cash, cash equivalents and restricted cash	$	75,844	$	90,848

The Company’s restricted cash at September 30, 2018 and 2017, respectively, included cash balances which are legally or contractually restricted to use. The Company’s restricted cash is included in current assets as of September 30, 2018 and 2017, respectively, and includes primarily cash used to collateralize insurance reserves.

3. Property and Equipment

Property and equipment consisted of the following (in thousands):

	September 30, 2018		December 31, 2017	
Land	$	21,442	$	21,217
Buildings and improvements	40,524		40,043	
Well service units and equipment	120,424		113,657	
Frac equipment/test tanks	122,464		111,172	
Pumping equipment	101,539		116,127	
Water logistics equipment	78,888		79,711	
Disposal facilities	57,947		51,363	
Rental equipment	62,366		34,643	
Light vehicles	25,399		19,869	
Contract drilling equipment	11,508		10,967	
Other	4,986		4,092	
Construction equipment	355		2,338	

Brine and fresh water stations	3,107	2,704
Software	831	817
	651,780	608,720
Less accumulated depreciation and amortization	186,227	106,141
Property and equipment, net	$ 465,553	$ 502,579

Basic is obligated under various capital leases for certain vehicles and equipment that expire at various dates during the next five years. The gross amount of property and equipment and related accumulated amortization recorded under capital leases and included above consists of the following (in thousands):

	September 30, 2018	**December 31, 2017**
Pumping equipment	$ 53,979	$ 56,225
Water logistics equipment	38,824	40,097
Light vehicles	17,431	12,160
Contract drilling equipment	323	783
Well service units and equipment	233	262
Construction and other equipment	667	378
Rental equipment	978	—
	112,435	109,905
Less accumulated amortization	32,812	18,445
Property and equipment under capital lease, net	$ 79,623	$ 91,460

Amortization of assets held under capital leases is included in depreciation and amortization expense in the consolidated statements of operations. Amortization amounts consisted of the following (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,
	2018	2017	2018	2017
Lease amortization expense	$ 7,287	$ 5,657	$ 21,649	$ 13,245

4. Intangible Assets

Basic had trade names of $3.4 million as of September 30, 2018 and December 31, 2017. Trade names have a 15-year life and are tested for impairment when triggering events are identified.

Basic's intangible assets were as follows (in thousands):

	September 30, 2018	December 31, 2017
Trade names	$ 3,410	$ 3,410
Other intangible assets	48	48
Intangible assets	3,458	3,458
Less accumulated amortization	415	237
Intangible assets subject to amortization, net	$ 3,043	$ 3,221

Amortization expense of intangible assets for the three and nine months ended September 30, 2018 and 2017 was as follows (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,
	2018	2017	2018	2017
Intangible amortization expense	$ 60	$ 60	$ 178	$ 178

5. Long-Term Debt and Interest Expense

Long-term debt consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Credit facilities:		

Term Loan	$	161,288	$	162,525
ABL Facility	90,000		64,000	
Capital leases and other notes	74,604		100,615	
Unamortized discounts, premiums, and deferred financing costs	(8,154)		(11,901)	
Total principal amount of debt instruments, net	317,738		315,239	
Less current portion	39,419		55,997	
Long-term debt	$	278,319	$	259,242

Debt Discounts

The following discounts on debt represent the unamortized discount to fair value of the Term Loan Agreement and the short-term and long-term portions of the fair value discount of capital leases (in thousands):

	September 30, 2018		December 31, 2017	
Unamortized discount on Term Loan	$	7,369	$	9,187
Unamortized discount on Capital Leases - short-term	658		1,657	
Unamortized discount on Capital Leases - long-term	—		891	
Unamortized deferred financing costs	127		166	
Total unamortized discounts and deferred financing costs	$	8,154	$	11,901

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On April 11, 2018, the Company entered into Amendment No. 2 (“Amendment No. 2”) to the Prior ABL Facility. Among other things, Amendment No. 2 (i) increased the aggregate commitments under our Credit and Security Agreement (the "Credit Agreement") from $120 million to $150 million and (ii) added Morgan Stanley Senior Funding, Inc. as a lender and amended the commitment schedule to the Credit Agreement to reflect the same.
On May 14, 2018, the Company entered into Amendment No. 3 (“Amendment No. 3”) to the Prior ABL Facility. Among other things, Amendment No. 3 (i) revised the formula for calculation of the borrowing base and (ii) revised the timing of the Company’s delivery of borrowing base reports.

On September 14, 2018, the Company entered into Amendment No. 4 (“Amendment No. 4”) to the Prior ABL Facility. Among other things, Amendment No. 4 (i) increased the Borrowing Base Availability Reserve (as defined in the Credit Agreement) to the greater of $12.5 million or 12.5% of the eligible amount, from $10.0 million and 10.0%, respectively, and (ii) revised the measurement period for calculation of the dilution volatility ratio, with respect to the period commencing on September 14, 2018 and ending on October 12, 2018, to be six months preceding the calculation date, rather than twelve months.
As of September 30, 2018, Basic had $39.8 million of letters of credit outstanding secured by restricted cash borrowed under the Prior ABL Facility. Basic had borrowings under the Prior ABL Facility of $90 million as of September 30, 2018.

Basic’s interest expense for the three and nine months ended September 30, 2018 and 2017, consisted of the following (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Cash payments for interest	$ 8,266	$ 7,611	$ 24,408	$ 16,919
Commitment and other fees paid	1,338	—	3,141	187
Amortization of debt issuance costs and discounts	1,181	1,850	4,295	5,731
Change in accrued interest	56	57	3,046	4,934
Capitalized interest	—	(660)	—	(660)
Other	55	34	95	70
Total interest expense	$ 10,896	$ 8,892	$ 34,985	$ 27,181

Senior Secured Notes
On October 2, 2018, the Company issued $300.0 million aggregate principal amount of 10.75% senior secured notes due 2023 (the “Senior Notes”) in an offering exempt from registration under the Securities Act. The Senior Notes were issued at a price of 99.042% of par to yield 11.0%. The Senior Notes will initially be secured by a first-priority lien on substantially all of the assets of the Company and the subsidiary guarantors other than accounts receivable, inventory and certain related assets. Net proceeds from the offering of approximately $290.0 million were used to repay the

Company's existing indebtedness under the Term Loan Agreement, to repay the Company's outstanding borrowings under the Prior ABL Facility, and for general corporate purposes.

New ABL Facility

On October 2, 2018, the Company terminated the Prior ABL Facility and Term Loan Agreement and entered into an ABL Credit Agreement (the "New ABL Credit Agreement") among the Company, as borrower (in such capacity, the "Borrower"), Bank of America, N.A., as administrative agent (the "Administrative Agent"), swing line lender and letter of credit issuer, UBS Securities LLC, as syndication agent, PNC Bank National Association, as documentation agent and letter of credit issuer, and the other lenders from time to time party thereto (collectively, the "New ABL Lenders"). Pursuant to the New ABL Credit Agreement, the New ABL Lenders have extended to the Borrower a revolving credit facility in the maximum aggregate principal amount of $150.0 million, subject to borrowing base capacity (the "New ABL Facility"). The New ABL Facility includes a sublimit for letters of credit of up to $50.0 million in the aggregate, and for borrowings on same-day notice under swingline loans subject to a sublimit of the lesser of (a) $15.0 million and (b) the aggregate commitments of the New ABL Lenders. The New ABL Facility also provides capacity for base rate protective advances up to $10.0 million at the discretion of the Administrative Agent and provisions relating to overadvances. The New ABL Facility contains no restricted cash requirements.

Borrowings under the New ABL Facility bear interest at a rate per annum equal to an applicable rate, plus, at Borrower's option, either (a) a base rate or (b) a LIBOR rate. The applicable rate is fixed from the closing date to April 1, 2019. After April

1, 2019, the applicable rate is determined by reference to the average daily availability as a percentage of the borrowing base during the fiscal quarter immediately preceding such applicable quarter.
Principal amounts outstanding under the New ABL Facility will be due and payable in full on the maturity date, which is five years from the closing of the facility; provided that if the Senior Notes have not been redeemed by July 3, 2023, then the maturity date shall be July 3, 2023.
Substantially all of the domestic subsidiaries of the Company guarantee the borrowings under the New ABL Facility, and Borrower guarantees the payment and performance by each specified loan party of its obligations under its guaranty with respect to swap obligations. All obligations under the New ABL Facility and the related guarantees are secured by a perfected first-priority security interest in substantially all accounts receivable, inventory, and certain other assets, not including equity interests.

6. Fair Value Measurements
The following is a summary of the carrying amounts, net of discounts, and estimated fair values of our financial instruments as of September 30, 2018 and December 31, 2017:

	Fair Value	September 30, 2018		December 31, 2017	
	Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In thousands)			
Term Loan	3	$ 153,918	$ 154,236	$ 153,338	$ 162,052

The fair value of the Term Loan Agreement is based upon our discounted cash flows model using a third-party discount rate. The carrying amount of our Prior ABL Facility approximates fair value due to its variable-rate characteristics.
The carrying amounts of cash and cash equivalents, trade accounts receivable, accounts receivable-related parties, capital leases, accounts payable and accrued expenses approximate fair value due to the short maturities of these instruments.

7. Commitments and Contingencies
Environmental
Basic is subject to various federal, state and local environmental laws and regulations that establish standards and requirements for protection of the environment. Basic cannot predict the future impact of such standards and requirements, which are subject to change and can have retroactive effectiveness. Basic continues to monitor the status of these laws and regulations. Management believes that the likelihood of any of these items resulting in a material adverse impact to Basic's financial position, liquidity, capital resources or future results of operations is remote. Currently, Basic has not been fined, cited or notified of any environmental violations that would have a material adverse effect upon its financial position, liquidity or capital resources. However, management does recognize that by the very nature of its business, material costs could be incurred in the near term to bring Basic into total compliance with the laws and regulations. The amount of such future expenditures is not determinable due to several factors, including the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions which may be required, the determination of Basic's liability in proportion to other responsible parties and the extent to which such expenditures are recoverable from insurance or indemnification.
Litigation
From time to time, Basic is a party to litigation or other legal proceedings that Basic considers to be a part of the ordinary course of business. Basic is not currently involved in any legal proceedings that it considers probable or reasonably possible, individually or in the aggregate, to result in a material adverse effect on its financial condition, results of operations or liquidity.
Sales and Use Tax Audit

In 2014, Basic was notified by the Texas State Comptroller's office that a sales and use tax audit for the period from 2010 through 2013 would be conducted. A preliminary report has been issued in the second quarter of 2018 for this audit, and Basic will appeal the preliminary report through the redetermination process. Based on our analysis, the potential liability associated with this audit ranges from \$6.0 million to \$24.0 million. An accrual for the estimated liability of \$6.0 million has been recorded in Basic's financial statements as general and administrative expense and the related interest associated with the taxes of \$1.5 million is included in interest expense for the nine months ended September 30, 2018. This range could potentially change in future periods as the appeals and redetermination process progresses.

Self-Insured Risk Accruals

Basic is self-insured up to retention limits as it relates to workers' compensation, general liability claims, and medical and dental coverage of its employees. Basic generally maintains no physical property damage coverage on its workover rig fleet, with the exception of certain of its 24-hour workover rigs and newly manufactured rigs. Basic has deductibles per occurrence for workers' compensation, general liability claims, automobile liability and medical coverage of $4.0 million, $1.0 million, $1.0 million, and $425,000, respectively. Basic maintains accruals in the accompanying consolidated balance sheets related to self-insurance retentions based upon third-party acturial data and claims history.

At September 30, 2018 and December 31, 2017, self-insured risk accruals totaled approximately $31.5 million, net of $29,000 receivable for medical and dental coverage, and $30.3 million, net of $971,000 receivable for medical and dental coverage, respectively.

8. Stockholders' Equity

Common Stock

In February 2018, Basic granted certain members of management 203,625 performance-based restricted stock units and 203,625 restricted stock units, which each vest over a three-year period. In July and August 2018, Basic granted certain members of management 81,000 performance-based restricted stock units and 15,000 restricted stock units, which vest over a three-year period.

9. Incentive Plan

The following table reflects compensation activity related to the management incentive plan for the three and nine-month periods ended September 30, 2018 (dollar amounts in thousands):

	Compensation expense for three months ended September 30, 2018	Compensation expense for nine months ended September 30, 2018	Unrecognized compensation expense	Weighted average remaining life (years)	Fair value of share based awards vested
Restricted stock awards and restricted stock units	$ 4,775	$ 18,533	$ 18,465	1.5	$ 5,842
Stock options	795	3,462	4,247	8.3	—
Total compensation expense	$ 5,570	$ 21,995	$ 22,712		$ 5,842

Stock Option Awards

The fair value of each stock option is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. Stock options granted under the Company's management incentive plan expire ten years from the date they are granted, and vest over a three-year service period.

The following table reflects changes during the nine-month period and a summary of stock options outstanding at September 30, 2018:

	Number of Options Granted	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)	
Non-statutory stock options:						
Outstanding, beginning of period	654,016	$	39.23			
Options granted	—	—				
Options forfeited	(25,898)	39.23				
Options exercised	—	—				
Options expired	(19,430)	39.23				
Outstanding, end of period	608,688	$	39.23	8.3	$	—
Exercisable, end of period	254,728	$	39.23	8.3	$	—
Vested or expected to vest, end of period	405,764	$	39.23	8.3	$	—

There were no stock options exercised during the nine months ended September 30, 2018 and 2017.

Restricted Stock Unit Awards

A summary of the status of Basic’s non-vested restricted stock units at September 30, 2018 and changes during the nine months ended September 30, 2018 are presented in the following table:

Non-vested Units	Number of Shares	Weighted Average Grant Date Fair Value Per Share	
Non-vested at beginning of period	1,097,010	$	36.35
Granted during period	551,650	14.11	
Vested during	(405,864)	34.66	

period			
Forfeited during period	(76,916)	28.89	
Non-vested at end of period	1,165,880	$	26.91

Restricted Stock Awards

On May 21, 2018, Basic's Board of Directors (the "Board") approved grants of restricted stock awards to non-employee members of the Board. The number of restricted shares granted was 48,400. These grants are subject to vesting over a period of ten months and are subject to accelerated vesting under certain circumstances.

Phantom Stock Awards

On February 8, 2018, the Compensation Committee of the Board approved grants of phantom restricted stock awards to certain key employees. Phantom shares are recorded as a liability at their current market value and are included in other current liabilities. The number of phantom shares issued on February 8, 2018 was 82,170. These grants remain subject to vesting annually in one-third increments over a three-year period, with the first portion vesting on March 15, 2019, and are subject to accelerated vesting in certain circumstances.

10. Revenues

Our revenues are generated by services, which are consumed as provided by our customers on their sites. As a decentralized organization, contracts for our services are negotiated on a regional level and are on a per job basis, with jobs being completed in a short period of time, usually one day or up to a week. Revenue is recognized as performance obligations have been completed on a daily basis either as Accounts Receivable or Work-in-Process ("WIP"), when all of the proper approvals are obtained.

A small percentage of our jobs may require performance obligations which extend over a longer period of time and are not invoiced until all performances obligations in the contract are complete, such as, drilling or plugging a well, fishing services, and pad site preparation jobs. Because these jobs are performed on the customer's job site, and we are contractually entitled to bill for our services performed to date, revenues for these service lines are recognized on a daily basis as services are performed and recorded as Contract Assets rather than a WIP or Accounts Receivable. Contract Assets are typically invoiced within 30 to 60 days of recognizing revenue.

As of September 30, 2018, accounts receivable related to products and services were $156.2 million. At September 30, 2018 and December 31, 2017, the Company had $1.9 million and $2.4 million of contract assets, respectively, and had $2.6 million and no contract liabilities, respectively recorded on the consolidated balance sheet.

Basic does not have any long-term service contracts; nor do we have revenue expected to be recognized in any future year related to remaining performance obligations or contracts with variable consideration related to undelivered performance obligations.

The following table sets forth certain financial information with respect to Basic's disaggregation of revenues by geographic location and type (in thousands):

	Reportable Segments				
	Completion & Remedial Services	**Well Servicing**	**Water Logistics**	**Contract Drilling**	**Total**
Three Months Ended September 30, 2018					
Primary Geographical Markets					
Permian Basin	$ 32,865	$ 31,046	$ 31,648	$ 3,598	$ 99,157
ArkLaTex & Mid-Continent	52,549	17,377	10,912	—	80,838
Rocky Mountain	31,628	7,546	9,189	—	48,363
Texas Gulf Coast	—	6,636	9,156	—	15,792
Eastern USA	652	1,089	—	—	1,741
West Coast	—	8,341	—	—	8,341
Corporate (Intercompany)	(1,716)	(4,789)	(1,366)	(27)	(7,898)
Total	$ 115,978	$ 67,246	$ 59,539	$ 3,571	$ 246,334
Major Products/service lines					
Pumping Equipment	$ 72,924	$ —	$ —	$ —	$ 72,924
Well Servicing	—	55,098	—	—	55,098
Transport/Vacuum	—	—	35,889	—	35,889
Coiled Tubing	17,328	—	—	—	17,328
RAFT	23,511	—	—	—	23,511
Plugging	—	6,685	—	—	6,685
Production and Disposal Facilities	—	—	6,158	—	6,158
Hot Oiler	—	—	4,696	—	4,696
Other	2,215	5,463	12,796	3,571	24,045
Total	$ 115,978	$ 67,246	$ 59,539	$ 3,571	$ 246,334
Timing of revenue recognition					
Products transferred at a point in time	$ —	$ 2,601	$ —	$ —	$ 2,601
Products and services transferred over time	115,978	64,645	59,539	3,571	243,733
Total	$ 115,978	$ 67,246	$ 59,539	$ 3,571	$ 246,334
Three Months Ended Sep 30, 2017					
Primary Geographical Markets					

Permian Basin	37,714	23,259	27,327	2,941	91,241
ArkLaTex & Mid-Continent	49,659	15,080	9,690	—	74,429
Rocky Mountain	35,062	6,428	8,295	—	49,785
Texas Gulf Coast	910	6,804	8,117	—	15,831
Eastern USA	1,901	2,522	—	—	4,423
West Coast	—	7,454	—	—	7,454
Corporate	(1,596)	(6,918)	(1,096)	(93)	(9,703)
Total	123,650	54,629	52,333	2,848	233,460
Major Products/service lines					
Pumping Equipment	75,503	—	—	—	75,503
Well Servicing	—	46,062	—	—	46,062
Transport/Vacuum	—	—	33,021	—	33,021
Coiled Tubing	26,358	—	—	—	26,358
RAFT	17,833	—	—	—	17,833
Plugging	—	6,138	—	—	6,138
Production and Disposal Facilities	—	—	5,297	—	5,297
Hot Oiler	—	—	4,139	—	4,139
Other	3,956	2,429	9,876	2,848	19,109
Total	123,650	54,629	52,333	2,848	233,460
Timing of revenue recognition					
Products transferred at a point in time	—	—	—	—	—
Products and services transferred over time	123,650	54,629	52,333	2,848	233,460
Total	123,650	54,629	52,333	2,848	233,460

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	Completion & Remedial Services		Well Servicing		Water Logistics		Contract Drilling		Total	
Nine Months Ended September 30, 2018										
Primary Geographical Markets										
Permian Basin	$	114,354	$	88,423	$	94,302	$	9,220	$	306,299
ArkLaTex & Mid-Continent	157,993		41,327		33,234		—		232,554	
Rocky Mountain	88,615		20,681		25,798		—		135,094	
Texas Gulf Coast	1,037		21,289		26,644		—		48,970	
Eastern USA	3,609		5,560		—		—		9,169	
West Coast	—		22,520		—		—		22,520	
Corporate (Intercompany)	(5,085)		(10,612)		(4,251)		(290)		(20,238)	
Total	$	360,523	$	189,188	$	175,727	$	8,930	$	734,368
Major Products/service lines										
Pumping Equipment	$	232,229	$	—	$	—	$	—	$	232,229
Well Servicing	—		157,766		—		—		157,766	
Transport/Vacuum	—		—		107,932		—		107,932	
Coiled Tubing	52,487		—		—		—		52,487	
RAFT	66,153		—		—		—		66,153	
Plugging	—		19,219		—		—		19,219	
Production and Disposal Facilities	—		—		17,853		—		17,853	
Hot Oiler	—		—		15,084		—		15,084	
Other	9,654		12,203		34,858		8,930		65,645	
Total	$	360,523	$	189,188	$	175,727	$	8,930	$	734,368
Timing of revenue recognition										
Products transferred at a point in time	$	—	$	3,331	$	—	$	—	$	3,331
Products and services transferred over time	360,523		185,857		175,727		8,930		731,037	
Total	$	360,523	$	189,188	$	175,727	$	8,930	$	734,368
Nine Months Ended September 30, 2017										
Primary Geographical Markets										
Permian Basin	106,620		68,333		83,469		8,016		266,438	
ArkLaTex & Mid-Continent	124,827		40,259		27,684		—		192,770	
Rocky Mountain	78,488		19,025		23,176		—		120,689	
Texas Gulf Coast	2,170		21,600		23,386		—		47,156	

Eastern USA	4,110	5,591	—	—	9,701
West Coast	—	18,912	—	—	18,912
Corporate (Intercompany)	(4,749)	(17,418)	(4,436)	(288)	(26,891)
Total	311,466	156,302	153,279	7,728	628,775
Major Products/service lines					
Pumping Equipment	196,276	—	—	—	196,276
Well Servicing	—	130,142	—	—	130,142
Transport/Vacuum	—	—	96,088	—	96,088
Coiled Tubing	58,010	—	—	—	58,010
RAFT	47,166	—	—	—	47,166
Plugging	—	19,035	—	—	19,035
Production and Disposal Facilities	—	—	14,990	—	14,990
Hot Oiler	—	—	13,484	—	13,484
Other	10,014	7,125	28,717	7,728	53,584
Total	311,466	156,302	153,279	7,728	628,775
Timing of revenue recognition					
Products transferred at a point in time	—	577	—	—	577
Products and services transferred over time	311,466	155,725	153,279	7,728	628,198
Total	311,466	156,302	153,279	7,728	628,775

11. Earnings Per Share

The following table sets forth the computation of unaudited basic and diluted loss per share (in thousands, except share and per share data):

	Three Months Ended September 30,								**Nine Months Ended September 30,**
	2018		**2017**		**2018**		**2017**		
	(Unaudited)								(Unaudited)
Numerator (both basic and diluted):									
Net loss	$	(27,336)	$	(13,845)	$	(97,921)	$	(76,413)	
Denominator:									
Denominator for basic and diluted loss per share	26,509,944		26,001,062		26,430,681		26,000,326		
Basic loss per common share:	$	(1.03)	$	(0.53)	$	(3.70)	$	(2.94)	
Diluted loss per common share:	$	(1.03)	$	(0.53)	$	(3.70)	$	(2.94)	

Stock options and warrants of 2,675,264 were excluded from the computation of diluted loss per share for the three and nine months ended September 30, 2018 because the effect would have been anti-dilutive. Unvested restricted shares of 86,761 and 37,656 were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2018, respectively, because the effect would have been anti-dilutive. Unvested stock options and warrants of 2,721,720 were excluded from the computation of diluted loss per share for the three and nine months ended September 30, 2017, because the effect would have been anti-dilutive. Unvested restricted shares of 26,700 and 12,421 were excluded from the computation of diluted loss per share for the three and nine months ended September 30, 2017, respectively, because the effect would have been anti-dilutive.

12. Business Segment Information

The following table sets forth certain financial information with respect to Basic's reportable segments (in thousands):

	Completion and Remedial Services	Well Servicing	Water Logistics	Contract Drilling	Corporate and Other	Total
Three Months Ended September 30, 2018 (Unaudited)						
Operating revenues	$ 115,978	$ 67,246	$ 59,539	$ 3,571	$ —	$ 246,334
Direct operating costs	(89,777)	$ (55,106)	$ (42,785)	$ (2,731)	$ —	(190,399)
Segment profits	$ 26,201	$ 12,140	$ 16,754	$ 840	$ —	$ 55,935
Depreciation and amortization	$ 16,563	$ 6,533	$ 7,214	$ 314	$ 2,130	$ 32,754
Capital expenditures (excluding acquisitions)	$ 10,664	$ 4,921	$ 6,710	$ 43	$ 804	$ 23,142
Three Months Ended September 30, 2017 (Unaudited)						
Operating revenues	$ 123,650	$ 54,629	$ 52,333	$ 2,848	$ —	$ 233,460
Direct operating costs	(84,481)	$ (43,219)	$ (41,281)	$ (2,547)	$ —	(171,528)
Segment profits	$ 39,169	$ 11,410	$ 11,052	$ 301	$ —	$ 61,932
Depreciation and amortization	$ 13,860	$ 5,319	$ 7,703	$ 495	$ 2,101	$ 29,478
Capital expenditures (excluding acquisitions)	$ 11,285	$ 6,884	$ 10,055	$ 12	$ 672	$ 28,908
Nine Months Ended September 30, 2018 (Unaudited)						
Operating revenues	$ 360,523	$ 189,188	$ 175,727	$ 8,930	$ —	$ 734,368
Direct operating	(279,963)	$ (152,977)	$ (127,716)	$ (7,017)	$ —	(567,673)

costs						
Segment profits	$ 80,560	$ 36,211	$ 48,011	$ 1,913	$ —	$ 166,695
Depreciation and amortization	$ 45,638	$ 18,196	$ 22,978	$ 1,097	$ 6,241	$ 94,150
Capital expenditures (excluding acquisitions)	$ 32,002	$ 17,227	$ 17,488	$ 553	$ 1,558	$ 68,828
Identifiable assets	$ 245,273	$ 105,287	$ 115,803	$ 5,203	$ 307,404	$ 778,970
Nine Months Ended September 30, 2017 (Unaudited)						
Operating revenues	$ 311,466	$ 156,302	$ 153,279	$ 7,728	$ —	$ 628,775
Direct operating costs	(232,932)	$ (125,931)	$ (124,399)	$ (6,818)	$ —	(490,080)
Segment profits	$ 78,534	$ 30,371	$ 28,880	$ 910	$ —	$ 138,695
Depreciation and amortization	$ 38,013	$ 14,589	$ 21,127	$ 1,357	$ 5,760	$ 80,846
Capital expenditures (excluding acquisitions)	$ 69,342	$ 20,377	$ 26,392	$ 30	$ 1,920	$ 118,061
Identifiable assets	$ 263,407	$ 107,511	$ 135,338	$ 8,643	$ 346,246	$ 861,145

The following table reconciles the segment profits reported above to the operating loss as reported in the consolidated statements of operations (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Segment profits	$ 55,935	$ 61,932	$ 166,695	$ 138,695
General and administrative expenses	39,599	39,235	132,038	109,478
Depreciation and amortization	32,754	29,478	94,150	80,846
(Gain) loss on disposal of	191	26	3,891	(664)

assets								
Operating loss	$	(16,609)	$	(6,807)	$	(63,384)	$	(50,965)

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13. Supplemental Schedule of Cash Flow Information
The following table reflects non-cash financing and investing activity during the following periods (in thousands):

	Nine Months Ended September 30,			
	2018		2017	
	(In thousands)			
Change in assets held-for sale	$	6,495	$	2,799
Asset retirement obligation additions	$	(148)	$	(30)

Basic paid no income taxes during the nine months ended September 30, 2018 and 2017. Basic paid interest of approximately $24.4 million and $16.9 million during the nine months ended September 30, 2018 and 2017, respectively.

14. Recent Accounting Pronouncements

ASU 2014-09 - "*Revenue from Contracts with Customers (Topic 606)*" represents a comprehensive revenue recognition standard to supersede existing revenue recognition guidance and align GAAP more closely with International Financial Reporting Standards (IFRS).

The core principle of the new guidance is that a company should recognize revenue to match the delivery of goods or services to customers to the consideration the company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of revenue and cash flows arising from contracts with customers.

The standard allows for two transition methods: (a) a full retrospective adoption in which the standard is applied to all of the periods presented subject to certain practical expedients, or (b) a modified retrospective adoption in which the standard is applied only to the most current period presented in the financial statements, and which includes additional disclosures regarding the change in accounting principle in the current period. We have adopted the standard effective January 1, 2018 using the modified retrospective method. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the nine months ended September 30, 2018. The Company has included the disclosures required by ASU 2014-09 above.

In February 2016, the FASB issued ASU 2016-02 - "*Leases (Topic 842).*" The purpose of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This update is effective for Basic in annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Basic expects to recognize additional right-of-use assets and liabilities related to operating leases with terms longer than one year. At September 30, 2018, Basic had operating leases with terms longer than one year totaling $10.1 million.

In November 2016 the FASB issued ASU 2016-18- *"Statement of Cash Flows (Topic 230): Restricted Cash,"* which clarifies the treatment of cash inflows into and cash payments from restricted cash. Restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. The amendments of this ASU should be applied using a retrospective transition method and are effective for reporting periods beginning after December 15, 2017. Basic began presenting cash flows under this standard as of March 31, 2018 and retrospectively for all periods presented. See Note 2, "Cash, Cash Equivalents and Restricted Cash" for disclosures.

In August 2018 the SEC adopted amendments to certain disclosure requirements in Securities Act Release No. 33-10532, Disclosure Update and Simplification. The amendment provides that the Rule 3-04 of Regulation S-X requirement for reporting of changes in stockholders' equity and amount of dividends per share is extended to interim periods. The comparative requirement is in the amendments to Rules 8-03(a)(5) and 10-01(a)(7), which now require the Rule 3-04 information for current and comparative year-to-date periods, with subtotals for each interim period. The requirement is effective for all filings on or after November 5, 2018. Basic will begin presenting stockholder's equity under this amendment from December 31, 2018.

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

Management's Overview

We provide a wide range of well site services to oil and natural gas drilling and producing companies, including completion and remedial services, well servicing, water logistics and contract drilling.

Our total hydraulic horsepower ("hhp") decreased to 516,000 at the end of the third quarter of 2018 compared to 523,000 for the third quarter of 2017. Weighted average horsepower decreased to 516,000 for the third quarter of 2018 from 520,000 in the third quarter of 2017. Our weighted average number of water logistics trucks decreased to 870 in the third quarter of 2018 from 947 in the third quarter of 2017. Our weighted average number of well servicing rigs decreased to 310 during the third quarter of 2018 compared to 421 in the third quarter of 2017.

Our operating revenues from each of our segments, and their relative percentages of our total revenues, consisted of the following (dollars in millions):

	Nine Months Ended September 30,					
	2018			2017		
Revenues:						
Completion and remedial services	$	360.5	49%	$	311.5	50%
Well servicing	189.3		26%	156.3		25%
Water Logistics	175.7		24%	153.3		24%
Contract drilling	8.9		1%	7.7		1%
Total revenues	$	734.4	100%	$	628.8	100%

During 2017 and 2018, oil prices continued to gradually improve with pricing in the low-$70 range by the end of the third quarter of 2018. As a result of the overall increase in pricing, our customers' activity levels and utilization of our equipment have gradually improved. General improvement in customer confidence has caused the North American onshore drilling rig count to slowly rise, resulting in a sustained increase in completion-related activity during 2018. Additionally, production related activities, such as well servicing and water logistics, have seen increases in utilization as customers have enhanced their maintenance and workover budgets in 2018.

As a result of gradual improvements in oil pricing and high concentration of equipment and activity, utilization and pricing for our services have remained competitive in our oil-based operating areas. Natural gas prices have been depressed for a prolonged period and utilization and pricing for our services in our natural gas-based operating areas have remained challenged.

We believe that the most important performance measures for our business segments are as follows:

• *Completion and Remedial Services* — segment profits as a percent of revenues;

• *Well Servicing* — rig hours, rig utilization rate, revenue per rig hour, profits per rig hour and segment profits as a percent of revenues;

• *Water Logistics* — trucking hours, revenue per truck, segment profits per truck and segment profits as a percent of revenues; and

• *Contract Drilling* — rig operating days, revenue per drilling day, profits per drilling day and segment profits as a percent of revenues.

Segment profits are computed as segment operating revenues less direct operating costs. These measurements provide important information to us about the activity and profitability of our lines of business. For a detailed analysis of these

indicators for the Company, see "Segment Overview" below.
Selected Acquisitions and Divestitures
During the year ended December 31, 2017 and through the first nine months of 2018, we did not enter into or complete any business acquisitions or divestitures.

Segment Overview

Completion and Remedial Services

During the first nine months of 2018, our Completion and Remedial Services segment represented approximately 49% of our revenues. Revenues from our Completion and Remedial Services segment are generally derived from a variety of services designed to complete and stimulate new oil and natural gas production or place cement slurry within the wellbores. Our completion and remedial services segment includes pumping services, rental and fishing tool operations, coiled tubing services, nitrogen services, snubbing and other services.

Our pumping services provide both large and mid-sized fracturing services in selected markets, including vertical and horizontal wellbores. Cementing and acidizing services also are included in our pumping services operations. Our total hydraulic horsepower capacity for our pumping operations was 516,000 at September 30, 2018 and 523,000 at September 30, 2017, respectively. Weighted average horsepower increased to 516,000 for the third quarter of 2018 from 520,000 in the third quarter of 2017.

In this segment, we derive our revenues on a project-by-project basis in a competitive bidding process. Our bids are based on the amount and type of equipment and personnel required, with the materials consumed billed separately. Oil prices and activity increased gradually in the fourth quarter of 2016, and continued to increase gradually throughout 2017. During the first nine months of 2018, we had an increase in pricing competition along with a marginal increase in utilization.

The following is an analysis of our completion and remedial services segment for each of the quarters in 2017, the full year ended December 31, 2017 and quarters ended March 31, June 30 and September 30, 2018 (dollars in thousands):

	Total HHP	FRAC HHP	Revenues		Segment Profits %
2017:					
First Quarter	443,320	356,900	$	80,431	16%
Second Quarter	518,365	381,850	$	107,386	24%
Third Quarter	522,565	413,300	$	123,650	32%
Fourth Quarter	522,565	413,300	$	121,983	30%
Full Year	522,565	413,300	$	433,450	27%
2018:					
First Quarter	522,565	413,300	$	117,597	24%
Second Quarter	516,465	407,800	$	126,948	21%
Third Quarter	516,465	386,050	$	115,978	23%

The decrease in completion and remedial services revenue to $116.0 million in the third quarter of 2018 from $126.9 million in the second quarter of 2018 resulted primarily from pricing pressures in our coiled tubing and fracing operations. Segment profits as a percentage of revenue increased to 23% in the third quarter of 2018 from 21% in second quarter of 2018 due to decreased costs especially sand and freight costs in our pressure pumping operations.

Well Servicing

During the first nine months of 2018, our Well Servicing segment represented 26% of our revenues. Revenue in our Well Servicing segment is derived from maintenance, workover, completion and plugging and abandonment services, as well as rig manufacturing operations. We provide maintenance-related services as part of the normal, periodic upkeep of producing oil and natural gas wells. Maintenance-related services represent a relatively consistent

component of our business. Workover and completion services generate more revenue per hour than maintenance work due to the use of auxiliary equipment, but demand for workover and completion services fluctuates more with the overall activity level in the industry. We also have a rig manufacturing and servicing facility that builds new workover rigs, performs large-scale refurbishments of used workover rigs and provides maintenance services on previously manufactured rigs.
We charge our Well Servicing rig customers for services on an hourly basis at rates that are determined by the type of service and equipment required, market conditions in the region in which the rig operates, the ancillary equipment provided on the rig and the necessary personnel. We measure the activity levels of our well servicing rigs on a weekly basis by calculating a rig utilization rate based on a 55-hour work week per rig. Our weighted average number of rigs marketed decreased from 421 in 2017 to 310 at September 30, 2018. We classified 111 rigs from our current fleet as "cold-stacked" and removed these rigs from the active rig count, reducing our total active rig fleet to 310 rigs. These cold-stacked rigs will ultimately be retired and disposed of in an orderly fashion.
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The following is an analysis of our well servicing operations for each of the quarters in 2017, the full year ended December 31, 2017 and quarters ended March 31, June 30 and September 30, 2018:

	Weighted Average Number of Rigs	Rig hours	Rig Utilization Rate	Revenue Per Rig Hour		Profits Per Rig hour		Profits %
2017:								
First Quarter	421	157,600	52%	$	307	$	49	16%
Second Quarter	421	162,300	54%	$	321	$	69	21%
Third Quarter	421	165,200	55%	$	329	$	69	21%
Fourth Quarter	421	159,500	53%	$	339	$	63	19%
Full Year	421	644,600	54%	$	324	$	63	19%
2018:								
First Quarter	310	168,500	76%	$	338	$	55	16%
Second Quarter	310	181,600	82%	$	348	$	81	23%
Third Quarter	310	180,300	82%	$	357	$	67	18%

Rig utilization was 82% in the third quarter of 2018, flat with 82% in the second quarter of 2018. The utilization rate in the third quarter of 2018 resulted from a sustained improvement in customer demand and activity, primarily for our 24-hour rig packages. Our segment profit percentage decreased to 18% for the third quarter of 2018 compared to 23% in the second quarter of 2018, on increased onboarding costs and continued pricing pressures.

Water Logistics

During the first nine months of 2018, our Water Logistics segment represented approximately 24% of our revenues. Revenues in our Water Logistics segment are earned from the sale, transportation, pipelining, storage, and disposal of fluids used in the drilling, production and maintenance of oil and natural gas wells. Revenues also include water treatment, well site construction and maintenance services. The Water Logistics segment has a base level of business consisting of transporting and disposing of salt water produced as a by-product of the production of oil and natural gas. Water is transported through trucking or via pipeline.

Pipelining of water represented approximately 27% of total water disposed in the quarter ended September 30, 2018. These services are necessary for our customers and usually have a stable demand, but typically produce lower relative segment revenues than other parts of our water logistics segment. Water logistics for completion and workover projects require fresh or brine water for making drilling mud, circulating fluids or fracturing fluids used during a job, and all of these fluids require storage tanks and hauling and disposal. Because we can provide a full complement of fluid sales, trucking, storage and disposal required on most drilling and workover projects, the add-on services associated with drilling and workover activity generally enable us to generate higher segment profits. The higher segment profits are due to the relatively small incremental labor costs associated with providing these services in addition to our base water logistics operations.

Revenues from our water treatment and recycling services include the treatment, recycling and disposal of wastewater, including fracturing water and flowback, to reuse this water in the completion and production processes. Revenues from our well site construction services are derived primarily from preparing and maintaining well locations, access roads to well locations, and installing small diameter gathering lines and pipelines, constructing foundations to support drilling rigs and providing maintenance services for oil and natural gas facilities. We typically price fluid services by the job, by the hour, or by the quantities sold, disposed of or hauled.

The following is an analysis of our water logistics operations for each of the quarters in 2017, the full year ended December 31, 2017 and quarters ended March 31, June 30 and September 30, 2018 (dollars in thousands):

	Weighted Average Number of Water Logistics Trucks	Trucking Hours	Pipeline Volumes (in bbls)	Revenues		Segment Profits %
2017:						
First Quarter	935	484,300	1,609,000	$	50,206	17%
Second Quarter	943	473,500	1,191,000	$	50,740	18%
Third Quarter	947	483,300	1,560,000	$	52,333	21%
Fourth Quarter	967	492,800	1,921,000	$	55,505	20%
Full Year	948	1,933,900	6,281,000	$	208,784	19%
2018:						
First Quarter	960	479,600	1,551,000	$	56,509	28%
Second Quarter	903	486,800	2,064,000	$	59,679	26%
Third Quarter	870	448,200	2,526,000	$	59,539	28%

Revenue for the Water Logistics segment decreased marginally to $59.5 million in the third quarter of 2018 compared to $59.7 million in second quarter of 2018 on consistent levels of trucking utilization and construction and disposal services revenues. Segment profit percentage increased to 28% in the third quarter of 2018 from 26% in the second quarter of 2018 primarily due to the an increase in higher margin pipeline revenue.

Contract Drilling

During the first nine months of 2018, our Contract Drilling segment represented approximately 1% of our revenues. Revenues from our Contract Drilling segment are derived primarily from the drilling of new wells.

Within this segment, we typically charge our drilling rig customers a daily rate, or a rate based on footage at an established rate per number of feet drilled. Depending on the type of job, we may also charge by the project. We measure the activity level of our drilling rigs on a weekly basis by calculating a rig utilization rate based on a seven-day work week per rig. Our contract drilling rig fleet had a weighted average of 11 rigs during the third quarter of 2018.

The following is an analysis of our Contract Drilling segment for each of the quarters in 2017, the full year ended December 31, 2017 and quarters ended March 31, June 30 and September 30, 2018 (dollars in thousands):

	Weighted Average Number of Rigs	Rig Operating Days	Revenue Per Drilling Day		Profits Per Drilling Day		Segment Profits %
2017:							
	12	135	$	21	$	2.6	13%

First Quarter							
Second Quarter	11	91	$	23	$	2.8	12%
Third Quarter	11	92	$	31	$	3.3	11%
Fourth Quarter	11	139	$	24	$	2.5	11%
Full Year	11	457	$	24	$	2.8	11%
2018:							
First Quarter	11	175	$	17	$	2.7	16%
Second Quarter	11	91	$	26	$	6.5	25%
Third Quarter	11	129	$	28	$	6.4	24%

Revenue per drilling day increased to $27,600 in the third quarter of 2018 compared to $25,700 in the second quarter of 2018. The increase in revenue per drilling day in the third quarter of 2018 was due to a second drilling rig coming online in the third quarter. Segment profit percentage decreased to 24% in the third quarter of 2018 compared to segment profit of 25% in the second quarter of 2018.

Operating Cost Overview

Our operating costs are comprised primarily of labor costs, including workers' compensation and health insurance, repair and maintenance, fuel and insurance. The majority of our employees are paid on an hourly basis. We also incur costs to employ personnel to supervise our activities, sell our services and perform maintenance on our fleet. These costs, however, are not directly tied to our level of business activity. Repair and maintenance is performed by our crews, company maintenance personnel and outside service providers. Compensation for our administrative personnel in local operating yards and in our corporate office is accounted for as general and administrative expenses. Insurance is generally a fixed cost regardless of utilization and relates to the number of rigs, trucks and other equipment in our fleet, employee payroll and safety record.

Critical Accounting Policies and Estimates

Our unaudited consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. A complete summary of our significant accounting policies is included in Note 3. *Summary of Significant Accounting Policies* of the Financial Statements and Supplementary Data in our most recent Annual Report on Form 10-K.

Results of Operations

The following is a comparison of our results of operations for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017. For additional segment-related information and trends, please read "Segment Overview" above.

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Revenues. Revenues increased by 6% to $246.3 million during the third quarter of 2018 from $233.5 million during the same period in 2017. This increase was primarily due to increased demand for our services by our customers, particularly well servicing, compared to the same period in 2017, when our customers were working with reduced capital budgets. After a prolonged period of lower oil prices, our customers have gradually increased their capital and operating spending levels.

Completion and Remedial Services revenues decreased by 6% to $116.0 million during the third quarter of 2018 compared to $123.7 million in the same period in 2017. The decrease in revenue between these periods was primarily due to competitive pricing pressures, particularly in our frac and coiled tubing lines of business. Total hydraulic horsepower decreased to 516,000 at September 30, 2018 from 523,000 at September 30, 2017. Weighted average horsepower decreased to 516,000 for the third quarter of 2018 from 520,000 in the third quarter of 2017.

Well Servicing revenues increased by 23% to $67.2 million during the third quarter of 2018 compared to $54.6 million during the same period in 2017. The increase was driven by an increase in 24-hour work and in utilization of our equipment, primarily due to increases in customer demand. Our weighted average number of well servicing rigs decreased to 310 during the third quarter of 2018 compared to 421 in the third quarter of 2017. Utilization increased to 82% in the third quarter of 2018, compared to 55% (74% based on our current fleet of 310 rigs) in the comparable quarter of 2017 due to decreased rig count and higher rig hours. Revenue per rig hour in the third quarter of 2018 was $357, increasing from $329 in the comparable quarter of 2017 due to rate increases to customers.

Water Logistics revenues increased by 14% to $59.5 million during the third quarter of 2018 compared to $52.3 million in the same period in 2017. Our revenue increase was mainly due to increases in pipelining, trucking activity and pricing. Pipeline
water volumes increased to 2.5 million barrels or 27% of total disposal volumes compared to 1.5 million barrels or 18% of total
disposal volumes in the third quarter of 2017. Our weighted average number of water logistics trucks decreased to 870 during the third quarter of 2018 compared to 947 in the same period in 2017.

Contract Drilling revenues increased by 25% to $3.6 million during the third quarter of 2018 compared to $2.8 million in the same period in 2017. The number of rig operating days increased to 129 in the third quarter of 2018 from 92 in the third quarter of 2017. The increase in revenue was due to increases in pricing and activity in the Permian Basin.

Direct Operating Expenses. Direct operating expenses, which primarily consist of labor, including workers' compensation and health insurance, repair and maintenance, fuel and insurance, increased to $190.4 million during the third quarter of 2018 from $171.5 million in the same period in 2017, primarily due to increases in activity and corresponding increases in employee headcount and wages to adapt to current activity levels.

Direct operating expenses for the Completion and Remedial Services segment increased by 6% to $89.8 million during the third quarter of 2018 compared to $84.5 million for the same period in 2017 due primarily to increased activity levels overall, especially in our pumping and coil tubing services. Segment profits decreased to 23% of revenues during the third quarter of 2018 compared to 32% for the same period in 2017, due to competitive pricing pressures.

Direct operating expenses for the Well Servicing segment increased by 28% to $55.1 million during the third quarter of 2018 compared to $43.2 million for the same period in 2017. The increase in direct operating expenses corresponds to increased workover and plugging activity levels. Segment profits decreased to 18% of revenues during the third quarter of 2018 from 21% for the same period in 2017 due to increased payroll costs and pricing pressures.

Direct operating expenses for the Water Logistics segment increased by 4% to $42.8 million during the third quarter of 2018 compared to $41.3 million for the same period in 2017. Segment profits were 28% of revenues during the third quarter of 2018 compared to 21% for the same period in 2017, due to incremental margins from a higher revenue base.

Direct operating expenses for the Contract Drilling segment increased 7% to $2.7 million during the third quarter of 2018 compared to $2.5 million for the same period in 2017, due to increased wages. Segment profits increased to 24% of revenues during the third quarter of 2018 from a segment profit of 11% during the third quarter of 2017 due to an increase in pricing.

General and Administrative Expenses. General and administrative expenses increased by 1% to $39.6 million during the third quarter of 2018 from $39.2 million for the same period in 2017. Stock-based compensation expense was $5.6 million and $5.9 million during the third quarter of 2018 and 2017, respectively. In addition, we incurred certain costs, including accrued consulting fees related to our strategic realignment of approximately $1.7 million and accrued realignment costs of approximately $0.5 million in the third quarter of 2018.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were $32.8 million during the third quarter of 2018 compared to $29.5 million for the same period in 2017.

Interest Expense. Interest expense increased to $10.9 million during the third quarter of 2018 compared to $8.9 million during the third quarter of 2017. Interest expense increases were related to interest on our Prior ABL Facility which was entered into in the third quarter of 2017.

Income Tax Expense. There was an no income tax expense during the third quarter of 2018 compared to an income tax benefit of $1.7 million for the same period in 2017. Excluding the impact of the valuation allowance, our effective tax rate during the third quarter of 2018 and 2017 was approximately 19% and 36%, respectively.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Revenues. Revenues increased by 17% to $734.4 million during the nine months ended September 30, 2018 from $628.8 million during the same period in 2017. This increase was primarily due to increased demand for our services by our customers, particularly completion and remedial services, compared to the same period in 2017, when our customers were working with reduced capital budgets. After a prolonged period of lower oil prices, our customers have gradually increased their capital and operating spending levels.

Completion and Remedial Services revenues increased by 16% to $360.5 million during the nine months ended September 30, 2018 compared to $311.5 million in the same period in 2017. The increase in revenue between these periods was primarily due to improved demand for completion related activities and slightly improved pricing for our services, particularly in our pumping services and coiled tubing lines of business. Total hydraulic horsepower decreased to 516,000 at September 30, 2018 from 523,000 at September 30, 2017. Weighted average horsepower decreased to 519,000 for the nine months ended September 30, 2018 from 520,000 for the nine months ended September 30, 2017.

Well Servicing revenues increased by 21% to $189.2 million during the nine months ended September 30, 2018 compared to $156.3 million during the same period in 2017. The increase was driven by an increase in utilization of our equipment and increased customer demand, particularly increased demand for our 24-hour rig packages. Our weighted average number of well servicing rigs decreased to 310 during the nine months ended September 30, 2018 compared to 421 in the nine months ended September 30, 2017. Utilization increased to 80% in the nine months ended September 30, 2018, compared to 54% (73% based on our current fleet of 310 rigs) in the comparable period of 2017 due to decreased rig count and higher rig hours. Revenue per rig hour in the nine months ended September 30, 2018 was $348, increasing from $319 in the comparable period of 2017 due to rate increases to customers.

Water Logistics revenues increased by 15% to $175.7 million during the nine months ended September 30, 2018 compared to $153.3 million in the same period in 2017. Our revenue increased mainly due to increases in pipelining, trucking activity and pricing. For the nine months ended September 30, 2018 pipeline water volumes increased to 6.1 million barrels or 23% of total disposal volumes compared to 4.4 million barrels or 17% of total disposal volumes for the nine months ended September 30, 2017. Our weighted average number of water logistics trucks decreased to 909 during the nine months ended September 30, 2018 compared to 942 in the same period in 2017.

Contract Drilling revenues increased by 16% to $8.9 million during the nine months ended September 30, 2018 compared to $7.7 million in the same period in 2017. The number of rig operating days increased by 24% to 395 in the nine months ended September 30, 2018 compared to 318 in the same period in 2017. The increase in revenue was due to an increase in drilling activity in the Permian Basin.

Direct Operating Expenses. Direct operating expenses, which primarily consist of labor, including workers' compensation and health insurance, repair and maintenance, fuel and insurance, increased to $567.7 million during the nine months ended September 30, 2018 from $490.1 million in the same period in 2017, primarily due to increases in activity and corresponding increases in employee headcount and wages to adapt to current activity levels.

Direct operating expenses for the Completion and Remedial Services segment increased by 20% to $280.0 million during the nine months ended September 30, 2018 compared to $232.9 million for the same period in 2017 due primarily to increased activity levels overall, especially in our pumping and coiled tubing services. Segment profits decreased to 22% of revenues during the nine months ended September 30, 2018 compared to 25% for the same period in 2017, due to the increased input costs and pricing pressures.

Direct operating expenses for the Well Servicing segment increased by 21% to $153.0 million during the nine months ended September 30, 2018 compared to $125.9 million for the same period in 2017. The increase in direct operating expenses correspond to increased workover and plugging activity levels. Segment profits remained constant at 19% of revenues during the nine months ended September 30, 2018 and 2017.

Direct operating expenses for the Water Logistics segment increased by 3% to $127.7 million during the nine months ended September 30, 2018 compared to $124.4 million for the same period in 2017. Segment profits were 27% of revenues during the nine months ended September 30, 2018 compared to 19% for the same period in 2017, due to incremental margins from an increase in higher margin pipeline disposal revenue.

Direct operating expenses for the Contract Drilling segment increased 3% to $7.0 million during the nine months ended September 30, 2018 from $6.8 million during 2017. Segment profits increased to 21% of revenues during the nine months ended September 30, 2018 from a segment profit of 12% during the nine months ended September 30, 2017 due to an increase in pricing.

General and Administrative Expenses. General and administrative expenses increased by 21% to $132.0 million during the nine months ended September 30, 2018 from $109.5 million for the same period in 2017. The increase was partially due to stock-based compensation expense, which was $22.0 million, including $3.9 million related to retirement of an executive officer, and $16.6 million during the nine months ended September 30, 2018 and 2017, respectively. In addition, we incurred costs related our Texas Sales and Use Tax audit liability totaling $6.0 million, bad debt related to a single customer of $3.1 million, accrued consulting fees related to our strategic realignment of approximately $4.1 million in the first nine months of 2018. Costs associated with a withdrawn bond offering resulted in $1.8 million of legal and professional fees expense, and accrual costs related to annual executive bonuses approved by the Compensation Committee of the Board in the first nine months of 2018 were $1.7 million.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were $94.2 million during the nine months ended September 30, 2018 compared to $80.8 million for the same period in 2017 due to capital additions.

Interest Expense. Interest expense increased to $35.0 million during the nine months ended September 30, 2018 compared to $27.2 million during the nine months ended September 30, 2017. Interest expense increases were related to interest on our Prior ABL Facility which was entered into in the third quarter of 2017, accrued interest of $1.5 million related to the Texas sales and use tax audit and additional capital leases.

Income Tax Expense. There was an income tax expense of $0.2 million during the nine months ended September 30, 2018 compared to an income tax benefit of $1.4 million for the same period in 2017. Excluding the impact of the valuation allowance, our effective tax rate during the nine months ended September 30, 2018 and 2017 was approximately 19% and 36%, respectively.

Liquidity and Capital Resources

As of September 30, 2018, our primary capital resources were net cash provided by operations, utilization of capital leases and borrowings under our $150.0 million Prior ABL Facility. As of September 30, 2018, we had unrestricted cash and cash equivalents of $30.8 million compared to $38.5 million as of December 31, 2017. An additional amount of $45.0 million was classified as restricted cash as of September 30, 2018 to collateralize insurance reserves. As of September 30, 2018, Basic was in compliance with all debt covenants, as waived.

On October 2, 2018, the Company issued $300 million aggregate principal amount of 10.75% senior secured notes due 2023 and replaced the Prior ABL Facility by entering into a $150.0 million ABL Credit Agreement among the Company, as borrower, Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, UBS Securities LLC, as syndication agent, PNC Bank National Association, as documentation agent and letter of credit issuer, and the other lenders from time to time party thereto. Cash and cash equivalents on October 2, 2018 was $86.1 million. For further discussion see Note 5, “Long-Term Debt and Interest Expense”.

We have utilized, and expect to utilize in the future, bank and capital lease financing and sales of equity to obtain capital resources. When appropriate, we will consider public or private debt and equity offerings and non-recourse transactions to meet our liquidity needs. Our availability under the New ABL Facility at October 2, 2018 was $80.9 million.

Net Cash Provided by Operating Activities

Cash provided by operating activities was $56.4 million for the nine months ended September 30, 2018, an increase compared to cash provided by operating activities of $1.8 million during the same period in 2017. Operating cash flow provided in the first nine months of 2018 improved compared to the same period in 2017 due to stronger operating results and improved working capital levels due to better accounts receivable collections.

Our liquidity, including our ability to meet our ongoing operational obligations, is dependent upon, among other things, our ability to maintain adequate cash on hand and generate cash flow from operations. Maintaining adequate liquidity depends upon industry conditions and financial, competitive, and other factors beyond our control. In the event that cash on hand and cash flow from operations is not sufficient to meet our liquidity needs, we may have limited access to additional financing.

Capital Expenditures

Cash capital expenditures during the first nine months of 2018 were $48.6 million with an additional $3.7 million of accrued capital expenditures compared to $57.0 million in the same period of 2017. We added $16.6 million of leased assets through our capital lease program and other financing arrangements during the first nine months of 2018 compared to $61.0 million of leased asset additions in the same period in 2017.

We currently have planned capital expenditures for the full year of 2018 of under $80.0 million, including capital leases of $20.0 million. We do not budget acquisitions in the normal course of business, and we regularly engage in discussions related to potential acquisitions related to the oilfield services industry.

Capital Resources and Financing

Our primary capital resources as of September 30, 2018 were cash flow from our operations, our Prior ABL Facility, the ability to enter into capital leases, and a cash balance of $30.8 million at September 30, 2018. We had $90.0 million of borrowings under the Prior ABL Facility as of September 30, 2018, of which $45.0 million of cash was held in restricted cash as collateral for letters of credit. In 2018, we financed activities in excess of cash flow from operations primarily through the use of cash, capital leases and other financing arrangements. Our Amended and Restated Term Loan Agreement (the "Term Loan Agreement") had $161.3 million aggregate outstanding principal amount of loans as of September 30, 2018 and no additional borrowing capacity.

On October 2, 2018, the Company issued in a private placement offering $300 million aggregate principal amount of 10.75% senior secured notes due 2023 (the “Senior Notes”) at 99.042% of par and entered into a new $150 million senior secured revolving credit facility (the “New ABL Facility”). In connection with the closing of the Senior Notes, the Company repaid the balances outstanding under the Prior ABL Facility and the Term Loan Agreement in their entirety and terminated both facilities.

Contractual Obligations

We have significant contractual obligations in the future that will require capital resources. Our primary contractual obligations are (1) our capital leases, (2) our operating leases, (3) our asset retirement obligations, (4) our other long-term liabilities and (5) interest on long-term debt related to our future contractual interest obligations under the Senior Notes, the New ABL Facility and our capital leases. Our capital leases relate primarily to light-duty and heavy-duty vehicles and trailers. Our operating leases relate primarily to real estate. Our asset retirement obligation relates to disposal wells.

Our ability to access additional sources of financing will be dependent on our operating cash flows and demand for our services, which could be negatively impacted due to the extreme volatility of commodity prices.

Other Matters

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Net Operating Losses

As of September 30, 2018, Basic had approximately $775.4 million of net operating loss carryforwards ("NOL"), for federal income tax purposes, which begin to expire in 2031 and $285.1 million of NOLs for state income tax purposes which begin to expire in 2018. Net operating losses generated after 2017 are carried forward indefinitely and are limited to 80% of taxable income. Net operating losses generated prior to 2018 continue to be carried forward for 20 years and have no 80% limitation on utilization.

Basic provides a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized. As of September 30, 2018, a valuation allowance of $165.1 million was recorded against the Company's net deferred tax assets for all jurisdictions that are not expected to be realized.

Recent Accounting Pronouncements

The Company's consideration of recent accounting pronouncements is included in Note 14. *Recent Accounting Pronouncements* to the consolidated financial statements included in this quarterly report.

Impact of Inflation on Operations

Management is of the opinion that inflation has not had a significant impact on our business.

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

As of September 30, 2018, we had no material changes to the disclosure on this matter made in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2018, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

From time to time, we are a party to litigation or other legal proceedings that we consider to be a part of the ordinary course of business. We are not currently involved in any legal proceedings that we consider probable or reasonably possible, individually or in the aggregate, to result in a material adverse effect on our financial condition, results of operations or liquidity.

ITEM 1A. *RISK FACTORS*

During the quarter ended September 30, 2018, there have been no material changes in our risk factors disclosed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, except for the following:

Our indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.

After this offering, we will have a significant amount of indebtedness. Pro forma for our offering of Senior Notes and the use of proceeds therefrom, as of September 30, 2018, our total debt would have been $374.6 million, including the aggregate principal amount due under the Senior Notes of $300.0 million and capital lease obligations in the aggregate amount of $74.6 million. As of September 30, 2018, Basic had $39.8 million of letters of credit outstanding secured by restricted cash borrowed under the Prior ABL Facility. For the year ended December 31, 2017 and the nine months ended September 30, 2018, we made cash interest payments totaling $25.6 million and $24.4 million, respectively.

Our current and future indebtedness could have important consequences. For example, it could:

- impair our ability to make investments and obtain additional financing for working capital, capital expenditures, acquisitions or other general corporate purposes;
- limit our ability to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to make principal and interest payments on our indebtedness;
- make us more vulnerable to a downturn in our business, our industry or the economy in general as a substantial portion of our operating cash flow will be required to make principal and interest payments on our indebtedness, making it more difficult to react to changes in our business and in industry and market conditions;
- limit our ability to obtain additional financing that may be necessary to operate or expand our business;
- put us at a competitive disadvantage to competitors that have less debt; and
- increase our vulnerability to interest rate increases to the extent that we incur variable rate indebtedness.

If we are unable to generate sufficient cash flow or are otherwise unable to obtain the funds required to make principal and interest payments on our indebtedness, or if we otherwise fail to comply with the various covenants in instruments governing any existing or future indebtedness, we could be in default under the terms of such instruments. In the event of a default, the holders of our indebtedness could elect to declare all the funds borrowed under those instruments to be due and payable together with accrued and unpaid interest, secured lenders could foreclose on any of our assets securing their loans and we or one or more of our subsidiaries could be forced into bankruptcy or liquidation. If our indebtedness is accelerated, or we enter into bankruptcy, we may be unable to pay all of our indebtedness in full. Any of the foregoing consequences could restrict our ability to grow our business and cause the value of our common stock to decline.

The indenture governing our Senior Notes will impose, and our future indebtedness may impose, restrictions on us that may affect our ability to successfully operate our business.

The indenture governing our Senior Notes will impose, and our future indebtedness, including the New ABL Facility, may impose, limitations on our ability to take various actions, such as:

- limitations on the incurrence of additional indebtedness;
- restrictions on mergers, sales or transfers of assets without the lenders' consent; and
- limitations on dividends and distributions.

In addition, our current and future indebtedness may require us to maintain certain financial ratios and to satisfy certain financial conditions, some of which may become more restrictive over time and may require us to reduce our debt or take some other action in order to comply with them. The failure to comply with any of these financial conditions, including the financial ratios or covenants, would cause a default under our future indebtedness. A default under any of our indebtedness, if not waived, could result in the acceleration of such indebtedness or other indebtedness, in which case the debt would become immediately due and payable. In addition, a default or acceleration of any of our future indebtedness could result in a default under or acceleration of other future indebtedness with cross-default or cross-acceleration provisions. In the event of any acceleration of our indebtedness, we may not be able to pay our debt or borrow sufficient funds to refinance it, and any holders of secured indebtedness may seek to foreclose on the assets securing such indebtedness. Even if new financing is available, it may not be available on terms that are acceptable to us. These restrictions could also limit our ability to obtain future financings, make needed capital expenditures, withstand a downturn in our business or the economy in general, or otherwise conduct necessary corporate activities. We also may be prevented from taking advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants under our future indebtedness or existing limitations on the incurrence of additional indebtedness, including in connection with acquisitions.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no repurchases of equity securities during the period.

ITEM 6. *EXHIBITS*

Exhibit No.	Description
2.1*	First Amended Joint Prepackaged Chapter 11 Plan of Basic Energy Services, Inc. and its Affiliated Debtors, dated December 7, 2016 (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (SEC File No. 001-32693), filed on December 12, 2016).
2.2*	Findings of Fact, Conclusions of Law, and Order Approving the Debtors' Joint Prepackaged Chapter 11 Plan of Basic Energy Services, Inc. and its Affiliated Debtors, dated December 9, 2016 (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (SEC File No. 001-32693) filed on December 12, 2016).
3.1*	Second Amended and Restated

	Certificate of Incorporation of Basic Energy Services, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 8-A12B (SEC File No. 001-32693) filed on December 23, 2016).
3.2*	Second Amended and Restated Bylaws of Basic Energy Services, Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 8-A12B (SEC File No. 001-32693) filed on December 23, 2016).
4.1*	Specimen Stock Certificate representing Common Stock of the Company (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A12B (SEC File No. 001-32693), filed on December 23, 2016).
4.2*	Warrant Agreement between Basic, as

	issuer, and American Stock Transfer & Trust Company, LLC, as warrant agent, dated as of December 23, 2016. (Incorporated by reference to Exhibit 4.1 to Form 8-A12G (SEC File No. 001-32693) filed on December 23, 2016).
4.3*	Registration Rights Agreement, dated as of December 23, 2016, between Basic and certain stockholders (Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form 8-A12B (SEC File No. 001-32693) filed on December 23, 2016).
10.1#	Amendment No. 3 to the Credit and Security Agreement, dated May 14, 2018.
10.2*	Amendment No. 4 to the Credit and Security Agreement, dated September 14, 2018 (Incorporated by reference to Exhibit 10.1 to the Company's

	Current Report on Form 8-K (SEC File No. 001-32693) filed on September 19, 2018).
10.3*	Purchase Agreement, dated September 25, 2018, by and among Basic Energy Services, Inc., the guarantors party thereto and the initial purchasers party thereto (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 001-32693) filed on September 27, 2018).
10.4* †	Employment Agreement of David Schorlemer, effective as of August 27, 2018 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A (SEC File No. 001-32693) filed on August 31, 2018).
10.5* †	Offer Letter of David Schorlemer, dated August 12, 2018 (Incorporated by reference to Exhibit 10.2 to

	the Company's Current Report on Form 8-K/A (SEC File No. 001-32693) filed on August 31, 2018).
31.1#	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act.
31.2#	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act.
32.1##	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2##	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.CAL#	XBRL Calculation Linkbase Document
101.DEF#	XBRL Definition Linkbase Document
101.INS#	

	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.LAB#	XBRL Labels Linkbase Document
101.PRE#	XBRL Presentation Linkbase Document
101.SCH#	XBRL Schema Document

*Incorporated by reference
†Management contract or compensatory plan or arrangement
#Filed with this report
##Furnished with this report

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

BASIC ENERGY SERVICES, INC.

By:	/s/ T.M. "Roe" Patterson
Name:	T. M. “Roe” Patterson
Title:	*President, Chief Executive Officer and*
	Director (Principal Executive Officer)
By:	/s/ David S. Schorlemer
Name:	David S. Schorlemer
Title:	*Senior Vice President, Chief Financial Officer, Treasurer*
	and Secretary (Principal Financial Officer and
	Principal Accounting Officer)

Date: November 5, 2018
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