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, 2019

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: 001-38035

ProPetro Holding Corp.

(Exact name of registrant as specified in its charter)

Delaware	**26-3685382**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1706 South Midkiff
Midland, Texas 79701
(Address of principal executive offices)

(432) 688-0012
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	PUMP	New York Stock Exchange
Preferred Stock Purchase Rights	N/A	New York Stock Exchange

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

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

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

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

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

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

The number of the registrant's common shares, par value $0.001 per share, outstanding at June 9, 2020, was 100,849,840.

PROPETRO HOLDING CORP.

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EXPLANATORY NOTE

Audit Committee Internal Review

In May 2019, the Audit Committee (the "Committee") of ProPetro Holding Corp.'s (the "Company") board of directors (the "Board"), with assistance of independent outside counsel and accounting advisors, began conducting an internal review initially focused on the Company's disclosure of agreements previously entered into with AFGlobal Corporation for the purchase of *Durastim*® hydraulic fracturing fleets and effective communications related thereto. The review was later expanded (collectively, the "Expanded Audit Committee Review") to, among other items, review expense reimbursements, certain transactions involving related parties or potential conflicts of interest, and certain transactions entered into by our former chief executive officer.

Findings of the Expanded Audit Committee Review

Based on the information collected and reviewed by the Committee's independent outside counsel and accounting advisors, the Expanded Audit Committee Review resulted in numerous factual findings, including but not limited to, the following significant findings:

- approximately $370,000 of expenses reimbursed to members of senior management, including the former chief executive officer (approximately $346,000) and former chief financial officer (approximately $18,000), were incorrectly recorded as expenses of the Company and should have been the responsibility of the officers individually; each of these officers has reimbursed the Company in full for the identified amounts. These improper reimbursements were attributable to inadequate documentation stemming from the lack of a more robust employee expense review and approval procedure;
- the Company's former chief accounting officer entered into a related party transaction that was not properly disclosed in the Company's filings with the Securities and Exchange Commission (the "SEC");
- a number of internal and disclosure control deficiencies and material weaknesses were identified, as described in more detail in Part I - Item 4. "Controls and Procedures," including, but not limited to, the following:
    - the Company's former executive management team did not establish and promote a control environment with an appropriate tone of compliance and control consciousness throughout the entire Company;
    - the Company did not appropriately identify and monitor conflicts of interest;
    - certain whistleblower allegations were not properly investigated and elevated to the Committee;
    - instances were identified of non-compliance with the Company's internal policies, including its Insider Trading Compliance Policy and Code of Conduct and Ethics; and
    - management did not appropriately communicate information internally and externally, including communication between management and the Board.

The Expanded Audit Committee Review did not identify any material accounting errors in the Company's consolidated financial statements, and no restatement or revision was required of the Company's consolidated financial statements previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report") and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (the "2019 First Quarter 10-Q").

Following completion of the Expanded Audit Committee Review and in connection with performing additional procedures to position the Company's current principal executive and principal financial officers to be in a position to certify the Company's future filings with the SEC, the Company determined that its former chief executive officer entered into a pledge agreement covering all of the Company's common stock owned by him at that time as collateral for a personal loan in January 2017, in violation of the shareholders agreement then in place through pledging of shares. The Company formally adopted its Insider Trading Compliance Policy in March 2017 (in connection with its initial public offering), which prohibits pledging the Company's securities as collateral to secure loans. The Company also believes that, in 2018 in connection with another personal loan, its former chief executive officer executed a share pledge agreement that was subsequently replaced with a negative pledge with respect to all of the Company's common stock owned by him at that time or acquired thereafter and engaged in other inappropriate conduct in connection with these personal loans. The Company did not appropriately disclose such pledges in the Company's prior SEC filings that included management share ownership. Also in connection with performing additional procedures, the Company determined that it had previously failed to appropriately disclose in its annual proxy statements certain perquisites as compensation paid to some of the Company's named executive officers in 2017 and

2018, including, among other later reimbursed perquisites, ticket purchases, charitable donations, and costs associated with pilots provided by the Company for its former chief executive officer's personal use of his plane.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

As a result of the material weaknesses in the Company's internal control over financial reporting described above and as further described in Part I, Item 4. "Controls and Procedures," the Company concluded that (i) its disclosure controls and procedures were not effective as of December 31, 2018, and March 31, June 30 and September 30, 2019 and (ii) its internal control over financial reporting was not effective as of December 31, 2018. Due to the existence of such material weaknesses, the Company's internal control over financial reporting remained ineffective as of March 31, June 30 and September 30, 2019. The Company previously announced on November 13, 2019 that investors should no longer rely on management's report on internal control over financial reporting or the internal control over financial reporting opinion of the Company's independent registered public accounting firm included in the 2018 Annual Report. The conclusions regarding effectiveness previously expressed by the Company's former management in Part II, Item 9A, "Controls and Procedures" in the 2018 Annual Report and Part I, Item 4, "Controls and Procedures" in the 2019 First Quarter 10-Q are hereby amended by the conclusions expressed in Part I, Item 4. "Controls and Procedures" of this Quarterly Report on Form 10-Q. In light of the disclosures herein, the Company does not intend to file amendments to the 2018 Annual Report or the 2019 First Quarter 10-Q to reflect these conclusions.

Remediation Plan

The Company's remediation efforts are ongoing, and it will continue its initiatives to implement and document policies, procedures, and internal controls. The Board and management have implemented a number of measures to address the material weaknesses identified, including appointing new executive officers with extensive public company experience; enhancing certain of the Company's policies and monitoring compliance with such policies; designing and implementing control activities related to the identification and approval of related party transactions and potential conflicts of interest, as well as the evaluation of whistleblower allegations; forming a disclosure committee and appointing a chief disclosure officer. The Company's remediation efforts are described in more detail in Part I, Item 4. "Controls and Procedures."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Form 10-Q") contains forward-looking statements that are intended to be covered by the safe harbor provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 21E of the Exchange Act. Forward-looking statements are all statements other than statements of historical facts, and give our expectations or forecasts of future events as of the effective date of this Form 10-Q. Words such as "may," "could," "plan," "project," "budget," "predict," "pursue," "target," "seek," "objective," "believe," "expect," "anticipate," "intend," "estimate," "will," "should" and similar expressions are generally to identify forward-looking statements. These statements include, but are not limited to statements about our business strategy, industry, future profitability and future capital expenditures. Such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results to differ materially from those implied or projected by the forward-looking statements. Factors that could cause our actual results to differ materially from those contemplated by such forward-looking statements include:

- the severity and duration of world health events, including the recent outbreak of the novel coronavirus (“COVID-19”) pandemic, related economic repercussions and the resulting severe disruption in the oil and gas industry and negative impact on demand for oil and gas, which is negatively impacting our business;
- the current significant surplus in the supply of oil and actions by the members of the Organization of the Petroleum Exporting Countries (“OPEC”) and Russia (together with OPEC and other allied producing countries, “OPEC+”) with respect to oil production levels and announcements of potential changes in such levels, including the ability of the OPEC+ countries to agree on and comply with supply limitations;
- uncertainty regarding the timing, pace and extent of an economic recovery in the United States and elsewhere, which in turn will likely affect demand for crude oil and natural gas and therefore the demand for our services;
- the level of production and resulting market prices for crude oil, natural gas and other hydrocarbons;
- changes in general economic and geopolitical conditions;
- competitive conditions in our industry;
- changes in the long-term supply of, and demand for, oil and natural gas;
- actions taken by our customers, suppliers, competitors and third-party operators;
- changes in the availability and cost of capital;
- our ability to successfully implement our business plan;
- large or multiple customer defaults, including defaults resulting from actual or potential insolvencies;
- the price and availability of debt and equity financing (including changes in interest rates);
- our ability to complete growth projects on time and on budget;
- operational challenges relating to the COVID-19 pandemic and efforts to mitigate the spread of the virus, including logistical challenges, protecting the health and well-being of our employees, remote work arrangements, performance of contracts and supply chain disruptions;
- changes in our tax status;
- technological changes;
- our ability to successfully implement technological developments and enhancements, including the new *DuraStim®* fleets and associated power solutions;
- operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond our control;
- acts of terrorism, war or political or civil unrest in the United States or elsewhere;
- the effects of existing and future laws and governmental regulations (or the interpretation thereof);
- the effects of current and future litigation, including the Logan Lawsuit, the Boca Raton Lawsuit and the Chang Lawsuit (each defined herein);
- the timing and outcome of, including potential expense associated with, the SEC pending investigation;

- the potential impact on our business and stock price of any announcements regarding the SEC's pending investigation, the Logan Lawsuit, the Boca Raton Lawsuit or the Chang Lawsuit;
- the material weaknesses in our internal controls over financial reporting and disclosure controls and procedures described under Part I, Item 4, “Controls and Procedure” in this Form 10-Q;
- matters related to the Expanded Audit Committee Review and related findings, as well as the implementation and effectiveness of the Company's remediation plan; and
- our ability to successfully execute on our plans and objectives.

Whether actual results and developments will conform with our expectations and predictions contained in forward-looking statements is subject to a number of risks and uncertainties which could cause actual results to differ materially from such expectations and predictions, including, without limitation, in addition to those specified in the text surrounding such statements, the risks described under Part II, Item 1A., "Risk Factors" in this Form 10-Q and elsewhere throughout this report, the risks described under Part I, Item 1A., "Risk Factors" in the 2018 Annual Report and elsewhere throughout that report, and other risks, many of which are beyond our control.

Readers are cautioned not to place undue reliance on our forward-looking statements, which are made as of the effective date of this Form 10-Q. We do not undertake, and expressly disclaim, any duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by applicable securities laws. Investors are also advised to carefully review and consider the various risks and other disclosures discussed in our SEC reports, including the risk factors described in the 2018 Annual Report.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PROPETRO HOLDING CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 109,191	$ 132,700
Accounts receivable - net of allowance for doubtful accounts of $575 and $100, respectively	275,749	202,956
Inventories	1,850	6,353
Prepaid expenses	4,417	6,610
Other current assets	1,521	638
Total current assets	392,728	349,257
PROPERTY AND EQUIPMENT - net of accumulated depreciation	1,050,039	912,846
OPERATING LEASE RIGHT-OF-USE ASSETS	1,055	—
OTHER NONCURRENT ASSETS:		
Goodwill	9,425	9,425
Intangible assets - net of amortization	—	13
Other noncurrent assets	2,796	2,981
Total other noncurrent assets	12,221	12,419
TOTAL ASSETS	$ 1,456,043	$ 1,274,522
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 249,087	$ 214,460
Operating lease liabilities	294	—
Finance lease liabilities	2,917	—
Accrued and other current liabilities	31,293	138,089
Accrued interest payable	569	211
Total current liabilities	284,160	352,760
DEFERRED INCOME TAXES	96,906	54,283
LONG-TERM DEBT	130,000	70,000
NONCURRENT OPERATING LEASE LIABILITIES	877	—
OTHER LONG-TERM LIABILITIES	—	124
Total liabilities	511,943	477,167
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 30,000,000 shares authorized, none issued, respectively	—	—
Common stock, $0.001 par value, 200,000,000 shares authorized,100,617,240 and 100,190,126 shares issued, respectively	101	100
Additional paid-in capital	824,099	817,690
Retained earnings (accumulated deficit)	119,900	(20,435)
Total shareholders' equity	944,100	797,355
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,456,043	$ 1,274,522

See notes to condensed consolidated financial statements

PROPETRO HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
REVENUE - Service revenue	$ 541,847	$ 434,041	$ 1,617,521	$ 1,279,148
COSTS AND EXPENSES				
Cost of services (exclusive of depreciation and amortization)	396,922	320,146	1,164,663	970,156
General and administrative (inclusive of stock-based compensation)	27,558	12,821	73,972	38,943
Depreciation and amortization	37,653	23,217	106,252	63,428
Loss on disposal of assets	31,153	16,407	81,578	43,061
Total costs and expenses	493,286	372,591	1,426,465	1,115,588
OPERATING INCOME	48,561	61,450	191,056	163,560
OTHER EXPENSE:				
Interest expense	(1,749)	(1,480)	(5,678)	(4,973)
Other expense	(75)	(93)	(539)	(505)
Total other expense	(1,824)	(1,573)	(6,217)	(5,478)
INCOME BEFORE INCOME TAXES	46,737	59,877	184,839	158,082
INCOME TAX EXPENSE	(12,340)	(13,592)	(44,504)	(35,998)
NET INCOME	$ 34,397	$ 46,285	$ 140,335	$ 122,084
NET INCOME PER COMMON SHARE:				
Basic	$ 0.34	$ 0.55	$ 1.40	$ 1.46
Diluted	$ 0.33	$ 0.53	$ 1.35	$ 1.40
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	100,606	83,544	100,423	83,359
Diluted	103,652	86,878	103,988	87,153

See notes to condensed consolidated financial statements

PROPETRO HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2019				
	Common Stock				
	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
BALANCE - January 1, 2019	100,190	$ 100	$ 817,690	$ (20,435)	$ 797,355
Stock-based compensation cost	—	—	1,829	—	1,829
Issuance of equity awards, net	104	—	552	—	552
Net income	—	—	—	69,805	69,805
BALANCE - March 31, 2019	100,294	$ 100	$ 820,071	$ 49,370	$ 869,541
Stock-based compensation cost	—	—	2,840	—	2,840
Issuance of equity awards, net	257	1	522	—	523
Net income	—	—	—	36,133	36,133
BALANCE - June 30, 2019	100,551	$ 101	$ 823,433	$ 85,503	$ 909,037
Stock-based compensation cost	—	—	577	—	577
Issuance of equity awards, net	66	—	89	—	89
Net income	—	—	—	34,397	34,397
BALANCE - September 30, 2019	100,617	$ 101	$ 824,099	$ 119,900	$ 944,100

	Nine Months Ended September 30, 2018				
	Common Stock				
	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
BALANCE - January 1, 2018	83,040	$ 83	$ 607,466	$ (194,297)	$ 413,252
Stock-based compensation cost	—	—	758	—	758
Issuance of equity awards, net	372	—	—	—	—
Net income	—	—	—	36,708	36,708
BALANCE - March 31, 2018	83,412	$ 83	$ 608,224	$ (157,589)	$ 450,718
Stock-based compensation cost	—	—	1,443	—	1,443
Issuance of equity awards, net	132	1	50	—	51
Net income	—	—	—	39,091	39,091
BALANCE - June 30, 2018	83,544	$ 84	$ 609,717	$ (118,498)	$ 491,303
Stock-based compensation cost	—	$ —	$ 1,631	$ —	1,631
Issuance of equity awards, net	—	—	—	—	—
Net income	—	—	—	46,285	46,285
BALANCE - September 30, 2018	83,544	$ 84	$ 611,348	$ (72,213)	$ 539,219

See notes to condensed consolidated financial statements

PROPETRO HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 140,335	$ 122,084
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,252	63,428
Deferred income tax expense	42,623	34,546
Provision for bad debt expense	475	—
Amortization of deferred revenue rebate	—	615
Amortization of deferred debt issuance costs	405	295
Stock-based compensation	5,246	3,832
Loss on disposal of assets	81,578	42,898
Changes in operating assets and liabilities:		
Accounts receivable	(73,268)	(52,734)
Other current assets	603	(431)
Inventories	4,503	(496)
Prepaid expenses	1,973	2,265
Accounts payable	(11,496)	26,378
Accrued and other current liabilities	8,042	7,384
Accrued interest	358	1,030
Net cash provided by operating activities	307,629	251,094
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(394,343)	(212,152)
Proceeds from sale of assets	6,774	3,280
Net cash used in investing activities	(387,569)	(208,872)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	110,000	77,378
Repayments of borrowings	(50,000)	(61,858)
Payment of finance lease obligation	(186)	—
Repayments of insurance financing	(4,547)	(3,218)
Payment of debt issuance costs	—	(360)
Proceeds from exercise of equity awards	1,164	51
Net cash provided by financing activities	56,431	11,993
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,509)	54,215
CASH AND CASH EQUIVALENTS - Beginning of period	132,700	23,949
CASH AND CASH EQUIVALENTS - End of period	$ 109,191	$ 78,164

See notes to condensed consolidated financial statements

Note 1 - Basis of Presentation

The accompanying condensed consolidated financial statements of ProPetro Holding Corp. and its subsidiary (the "Company," "we," "us" or "our") have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim financial information and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements. Those adjustments (which consisted of normal recurring accruals) that are, in the opinion of management, necessary for a fair presentation of the results of the interim periods have been made. Results of operations for such interim periods are not necessarily indicative of the results of operations for a full year due to changes in market conditions and other factors. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2018 included in our Form 10-K (our "Form 10-K").

Risks and Uncertainties

As an oilfield services company, we are exposed to a number of risks and uncertainties that are inherent to our industry. In addition to such industry-specific risks, the global public health crisis associated with the novel coronavirus (“COVID-19”) pandemic has, and is anticipated to continue to have, an adverse effect on global economic activity for the immediate future and has resulted in travel restrictions, business closures and the institution of quarantining and other restrictions on movement in many communities. The slowdown in global economic activity attributable to the COVID-19 pandemic has resulted in a dramatic decline in the demand for energy, which directly impacts our industry and the Company. In addition, global crude oil prices experienced a collapse starting in early March 2020 as a direct result of failed negotiations between the Organization of the Petroleum Exporting Countries (“OPEC”) and Russia. In response to the global economic slowdown, OPEC had recommended a decrease in production levels in order to accommodate reduced demand. Russia rejected the recommendation of OPEC as a concession to U.S. producers. After the failure to reach an agreement, Saudi Arabia, a dominant member of OPEC, and other Persian Gulf OPEC members announced intentions to increase production and offer price discounts to buyers in certain geographic regions.

As the breadth of the COVID-19 health crisis expanded throughout the month of March 2020 and governmental authorities implemented more restrictive measures to limit person-to-person contact, global economic activity continued to decline commensurately. The associated impact on the energy industry has been adverse and continued to be exacerbated by the unresolved conflict regarding production. In the second week of April 2020, OPEC, Russia and certain other petroleum producing nations (“OPEC+”), reconvened to discuss the matter of production cuts in light of unprecedented disruption and supply and demand imbalances that expanded since the failed negotiations in early March 2020. Tentative agreements were reached to cut production by up to 10 million barrels of oil per day with allocations to be made among the OPEC+ participants. Some of these production cuts went into effect in the first half of May 2020, however, commodity prices remain depressed as a result of an increasingly utilized global storage network and near-term demand loss attributable to the COVID-19 health crisis and related economic slowdown.

The combined effect of COVID-19 and the energy industry disruptions led to a decline in WTI crude oil prices of approximately 67 percent from the beginning of January 2020, when prices were approximately $62 per barrel, through the end of March 2020, when they were just above $20 per barrel. Overall crude oil price volatility has continued despite apparent agreement among OPEC+ regarding production cuts and as of June 17, 2020, the WTI price for a barrel of crude oil was approximately $38.

Despite a significant decline in drilling and completion activities by U.S. producers starting in mid-March 2020, domestic supply is exceeding demand which has led to significant operational stress with respect to capacity limitations associated with storage, pipeline and refining infrastructure, particularly within the Gulf Coast region. The combined effect of the aforementioned factors is anticipated to have an adverse impact on the industry in general and our operations specifically.

Since March 2020, we initiated several actions to mitigate the anticipated adverse economic conditions for the immediate future and to support our financial position and liquidity. The more significant actions that we have taken included: (i) canceling substantially all of our growth capital projects, (ii) significantly reducing our maintenance expenditures and field level consumable costs, (iii) reducing our workforce to follow our activity levels, (iv) efforts to manage our compensation costs, such as compensation reductions and management of work schedules to reduce overtime costs and (v) negotiating more favorable payment terms with certain of our larger vendors and proactively managing our portfolio of accounts receivable.

Note 1 - Basis of Presentation (Continued)

Revenue Recognition

The Company's services are sold based upon contracts with customers. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The following is a description of the principal activities, separated by reportable segment and all other, from which the Company generates its revenue.

Pressure Pumping — Pressure pumping consists of downhole pumping services, which includes hydraulic fracturing (inclusive of acidizing services) and cementing.

Hydraulic fracturing is a well-stimulation technique intended to optimize hydrocarbon flow paths during the completion phase of shale wellbores. The process involves the injection of water, sand and chemicals under high pressure into shale formations. Our hydraulic fracturing contracts have one performance obligation, contracted total stages, satisfied over time. We recognize revenue over time using a progress output method, unit-of-work performed method, which is based on the agreed fixed transaction price and actual stages completed. We believe that recognizing revenue based on actual stages completed faithfully depicts how our hydraulic fracturing services are transferred to our customers over time.

Acidizing, which is part of our hydraulic fracturing operating segment, involves a well-stimulation technique where acid is injected under pressure into formations to form or expand fissures. Our acidizing contracts have one performance obligation, satisfied at a point-in-time, upon completion of the contracted service when control is transferred to the customer. Jobs for these services are typically short term in nature, with most jobs completed in less than a day. We recognize acidizing revenue at a point-in-time, upon completion of the performance obligation.

Our cementing services use pressure pumping equipment to deliver a slurry of liquid cement that is pumped down a well between the casing and the borehole. Our cementing contracts have one performance obligation, satisfied at a point-in-time, upon completion of the contracted service when control is transferred to the customer. Jobs for these services are typically short term in nature, with most jobs completed in less than a day. We recognize cementing revenue at a point-in-time, upon completion of the performance obligation.

The transaction price for each performance obligation for all our pressure pumping services is fixed per our contracts with our customers.

All Other— All other consists of our coil tubing, drilling and flowback, which are all downhole well stimulation and completion/remedial services. The performance obligation for each of the services has a fixed transaction price which is satisfied at a point-in-time upon completion of the service when control is transferred to the customer. Accordingly, we recognize revenue at a point-in-time, upon completion of the service and transfer of control to the customer.

Accounts Receivable

Accounts receivables are stated at the amount billed and billable to customers. At September 30, 2019 and December 31, 2018, accrued revenue (unbilled receivable) included as part of our accounts receivable was $34.9 million and $18.0 million, respectively. At September 30, 2019, the transaction price allocated to the remaining performance obligation for our partially completed hydraulic fracturing operations was $32.1 million, which is expected to be completed and recognized in one month following the current period balance sheet date, in our pressure pumping reportable segment.

Note 2 - Recently Issued Accounting Standards

Recently Issued Accounting Standards Adopted in 2019

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, *Leases*. This new lease standard introduces a lessee model that brings most leases on the balance sheet. This new standard increases transparency and comparability by recognizing a lessee's rights and obligations resulting from leases by recording them on the balance sheet as Right of Use ("ROU") Assets and Lease Liabilities. Leases will be classified as either finance or operating, which will impact the pattern of expense recognition on the income statement. This ASU also requires additional qualitative and quantitative disclosures to better enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Effective January 1, 2019, we adopted the new leases standard using the modified retrospective transition method and electing to account for comparative periods under legacy GAAP. We also elected other practical expedients provided by the new leases standard, the short-term lease recognition practical expedient in which leases with an initial term of 12 months or less will not be recognized on the balance sheet and the practical expedient to not separate lease and non-lease components for our real estate class of leased assets. See Note 9 for additional disclosures relating to our adoption of ASU 2016-02.

Note 2 - Recently Issued Accounting Standards (Continued)

Recently Issued Accounting Standards Not Yet Adopted in 2019

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*, which introduces a new impairment model for financial instruments that is based on expected credit losses rather than incurred credit losses. The new impairment model applies to most financial assets, including trade accounts receivable and lease receivables. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, which clarified that receivables arising from operating leases are not within the scope of ASC 326-20, *Financial Instruments-Credit Losses-Measured at Amortized Cost*, and should be accounted for in accordance with ASC 842. ASU 2016-13 and ASU 2018-19 are effective for annual periods beginning after December 15, 2019. Effective January 1, 2020, the Company adopted ASU 2016-13 using the modified-retrospective approach. The adoption of this guidance did not materially affect our consolidated financial statements. While there was no material impact to the financial statements as a result of adoption of ASU 2016-13, as a result of deteriorating economic conditions for the oil and gas industry brought on by the COVID-19 pandemic, during the first quarter of 2020 the Company recorded a provision for credit losses of $4.3 million.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. As a result, under this ASU, an entity would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, although the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for impairment tests in fiscal years beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance did not materially affect the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. The Company adopted ASU 2018-13 on January 1, 2020 and determined the adoption of this standard did not impact the Company’s condensed consolidated financial statements.

In December 2019, the FASB issued ASU No 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* ASU 2019-12 removes certain exceptions to the general principles in Topic 740 in Generally Accepted Accounting Principles. ASU 2019-12 is effective for public entities for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company does not expect ASU 2019-12 to have a material effect on the Company’s condensed consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform*, which provides temporary optional guidance to companies impacted by the transition away from the London Interbank Offered Rate (“LIBOR”). The guidance provides certain expedients and exceptions to applying GAAP in order to lessen the potential accounting burden when contracts, hedging relationships, and other transactions that reference LIBOR as a benchmark rate are modified. This guidance is effective upon issuance and expires on December 31, 2022. The Company is currently assessing the impact of the LIBOR transition and this ASU on the Company’s condensed consolidated financial statements.

Note 3 - Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used, when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions other market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based

Note 3 - Fair Value Measurement (Continued)

on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

Level 2 — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our financial instruments include cash and cash equivalents, accounts receivable and accounts payable, accrued expenses and long-term debt. The estimated fair value of our financial instruments at September 30, 2019 and December 31, 2018 approximated or equaled their carrying values as reflected in our condensed consolidated balance sheets.

Assets Measured at Fair Value on a Nonrecurring Basis

No assets were measured at fair value on a nonrecurring basis at September 30, 2019 and December 31, 2018, respectively.

No impairment of property and equipment was recorded during the nine months ended September 30, 2019 and 2018.

We generally apply fair value techniques to our reporting units on a nonrecurring basis associated with valuing potential impairment loss related to goodwill. Our estimate of the reporting unit fair value is based on a combination of income and market approaches, Level 1 and 3, respectively, in the fair value hierarchy. The income approach involves the use of a discounted cash flow method, with the cash flow projections discounted at an appropriate discount rate. The market approach involves the use of comparable public companies' market multiples in estimating the fair value. Significant assumptions include projected revenue growth, capital expenditures, utilization, gross margins, discount rates, terminal growth rates, and weight allocation between income and market approaches. If the reporting unit's carrying amount exceeds its fair value, we consider goodwill impaired, and the impairment loss is calculated and recorded in the period. There were no additions to, or disposal of, goodwill during the nine months ended September 30, 2019 and 2018. At December 31, 2018, we determined our goodwill carrying value not to be impaired as per our annual impairment test.

Note 4 - Long-Term Debt

ABL Credit Facility

Our revolving credit facility (“ABL Credit Facility”), as amended, has a total borrowing capacity of $300 million (subject to the Borrowing Base limit), with a maturity date of December 19, 2023. The ABL Credit Facility has a borrowing base, as determined monthly, of 85% of monthly eligible accounts receivable less customary reserves (the "Borrowing Base"). The Borrowing Base as of September 30, 2019 was approximately $191.1 million. The ABL Credit Facility includes a Springing Fixed Charge Coverage Ratio to apply when excess availability is less than the greater of (i) 10% of the lesser of the facility size or the Borrowing Base or (ii) $22.5 million. Under this facility we are required to comply, subject to certain exceptions and materiality qualifiers, with certain customary affirmative and negative covenants, including, but not limited to, covenants pertaining to our ability to incur liens, indebtedness, changes in the nature of our business, mergers and other fundamental changes, disposal of assets, investments and restricted payments, amendments to our organizational documents or accounting policies, prepayments of certain debt, dividends, transactions with affiliates, and certain other activities. Borrowings under the ABL Credit Facility are secured by a first priority lien and security interest in substantially all assets of the Company.

Borrowings under the ABL Credit Facility accrue interest based on a three-tier pricing grid tied to availability, and we may elect for loans to be based on either LIBOR or base rate, plus the applicable margin, which ranges from 1.75% to 2.25% for LIBOR loans and 0.75% to 1.25% for base rate loans, with a LIBOR floor of zero. The weighted average interest rate for our ABL Credit Facility for the nine months ended September 30, 2019 was 4.4%.

In March 2020, we obtained a waiver from our lenders under the ABL Credit Facility to extend the time period for us to provide our lenders the Company’s audited financial statements for the year ended December 31, 2019 to July 31, 2020.

Note 4 - Long-Term Debt (Continued)

Total debt consisted of the following atSeptember 30, 2019 and December 31, 2018, respectively:

($ in thousands)	2019	2018
ABL Credit Facility	$ 130,000	$ 70,000
Total debt	130,000	70,000
Less current portion of long-term debt	—	—
Total long-term debt	$ 130,000	$ 70,000

The loan origination costs relating to the ABL Credit Facility are classified as an asset in our balance sheet.

Annual Maturities — Scheduled remaining annual maturities of total debt are as follows atSeptember 30, 2019:

($ in thousands)	
2019	$ —
2020	—
2021	—
2022	—
2023 and thereafter	130,000
Total	$ 130,000

Note 5 - Reportable Segment Information

The Company has five operating segments for which discrete financial information is readily available: hydraulic fracturing (inclusive of acidizing), cementing, coil tubing, flowback, and drilling. These operating segments represent how the Chief Operating Decision Maker evaluates performance and allocates resources.

In accordance with Accounting Standards Codification ("ASC") 280—*Segment Reporting*, the Company has one reportable segment (pressure pumping) comprised of the hydraulic fracturing and cementing operating segments. All other operating segments and corporate administrative expense (inclusive of our total income tax expense and interest expense) are included in the ‘‘all other’’ category in the table below. Total corporate administrative expense for the three and nine months ended September 30, 2019 was $30.1 million and $87.3 million, respectively. The corporate administrative expense for thethree and nine months ended September 30, 2018 was $21.6 million and $59.6 million, respectively.

Our hydraulic fracturing operating segment revenue approximated95.7% and 95.7% of our pressure pumping revenue during thethree and nine months ended September 30, 2019, respectively. During the three and nine months ended September 30, 2018, our hydraulic fracturing operating segment revenue approximated94.9% and 95.5% of our pressure pumping revenue, respectively.

Inter-segment revenues are not material and are not shown separately in the table below.

The Company manages and assesses the performance of the reportable segment by its adjusted EBITDA (earnings before other income (expense), interest, taxes, depreciation and amortization, stock-based compensation expense, severance, impairment expense, (gain)/loss on disposal of assets and other unusual or nonrecurring expenses or (income)). A reconciliation from segment level financial information to the consolidated statement of operations is provided in the table below ($ in thousands):

Note 5- Reportable Segment Information (Continued)

	Three Months Ended September 30, 2019		
	Pressure Pumping	All Other	Total
Service revenue	$ 528,851	$ 12,996	$ 541,847
Adjusted EBITDA	$ 134,789	$ (2,894)	$ 131,895
Depreciation and amortization	$ 36,110	$ 1,543	$ 37,653
Goodwill at September 30, 2019	$ 9,425	$ —	$ 9,425
Capital expenditures	$ 83,770	$ 3,189	$ 86,959
Total assets at September 30, 2019	$ 1,399,865	$ 56,178	$ 1,456,043

	Three Months Ended September 30, 2018		
	Pressure Pumping	All Other	Total
Service revenue	$ 421,436	$ 12,605	$ 434,041
Adjusted EBITDA	$ 105,069	$ (1,701)	$ 103,368
Depreciation and amortization	$ 22,026	$ 1,191	$ 23,217
Goodwill at December 31, 2018	$ 9,425	$ —	$ 9,425
Capital expenditures	$ 73,143	$ 1,060	$ 74,203
Total assets at December 31, 2018	$ 1,230,830	$ 43,692	$ 1,274,522

	Nine Months Ended September 30, 2019		
	Pressure Pumping	All Other	Total
Service revenue	$ 1,576,781	$ 40,740	$ 1,617,521
Adjusted EBITDA	$ 417,017	$ (8,283)	$ 408,734
Depreciation and amortization	$ 101,916	$ 4,336	$ 106,252
Goodwill at September 30, 2019	$ 9,425	$ —	$ 9,425
Capital expenditures	$ 322,347	$ 11,978	$ 334,325
Total assets at September 30, 2019	$ 1,399,865	$ 56,178	$ 1,456,043

	Nine Months Ended September 30, 2018		
	Pressure Pumping	All Other	Total
Service revenue	$ 1,242,286	$ 36,862	$ 1,279,148
Adjusted EBITDA	$ 281,951	$ (5,871)	$ 276,080
Depreciation and amortization	$ 59,830	$ 3,598	$ 63,428
Goodwill at December 31, 2018	$ 9,425	$ —	$ 9,425
Capital expenditures	$ 218,113	$ 6,586	$ 224,699
Total assets at December 31, 2018	$ 1,230,830	$ 43,692	$ 1,274,522

Note 5- Reportable Segment Information (Continued)

Reconciliation of net income (loss) to adjusted EBITDA ($ in thousands):

	Three Months Ended September 30, 2019		
	Pressure Pumping	**All Other**	**Total**
Net income (loss)	$ 65,961	$ (31,564)	$ 34,397
Depreciation and amortization	36,110	1,543	37,653
Interest expense	21	1,728	1,749
Income tax expense	—	12,340	12,340
Loss on disposal of assets	30,987	166	31,153
Stock-based compensation	—	577	577
Other expense	—	75	75
Other general and administrative expense(1)	—	10,786	10,786
Retention bonus and severance expense	1,710	1,455	3,165
Adjusted EBITDA	**$ 134,789**	**$ (2,894)**	**$ 131,895**

	Three Months Ended September 30, 2018		
	Pressure Pumping	**All Other**	**Total**
Net income (loss)	$ 66,493	$ (20,208)	$ 46,285
Depreciation and amortization	22,026	1,191	23,217
Interest expense	—	1,480	1,480
Income tax expense	—	13,592	13,592
Loss on disposal of assets	16,117	290	16,407
Stock-based compensation	—	1,631	1,631
Other expense	—	93	93
Deferred IPO bonus expense	433	230	663
Adjusted EBITDA	**$ 105,069**	**$ (1,701)**	**$ 103,368**

Note 5- Reportable Segment Information (Continued)

	Nine Months Ended September 30, 2019		
	Pressure Pumping	All Other	Total
Net income (loss)	$ 228,285	$ (87,950)	$ 140,335
Depreciation and amortization	101,916	4,336	106,252
Interest expense	43	5,635	5,678
Income tax expense	—	44,504	44,504
Loss on disposal of assets	81,110	468	81,578
Stock-based compensation	—	5,246	5,246
Other expense	—	539	539
Other general and administrative expense (1)	—	17,326	17,326
Deferred IPO, retention bonus and severance expense	5,663	1,613	7,276
Adjusted EBITDA	**$ 417,017**	**$ (8,283)**	**$ 408,734**

	Nine Months Ended September 30, 2018		
	Pressure Pumping	All Other	Total
Net income (loss)	$ 176,952	$ (54,868)	$ 122,084
Depreciation and amortization	59,830	3,598	63,428
Interest expense	—	4,973	4,973
Income tax expense	—	35,998	35,998
Loss (gain) on disposal of assets	43,768	(707)	43,061
Stock-based compensation	—	3,832	3,832
Other expense	—	505	505
Other general and administrative expense (1)	2	18	20
Deferred IPO bonus expense	1,399	780	2,179
Adjusted EBITDA	**$ 281,951**	**$ (5,871)**	**$ 276,080**

(1) Other general and administrative expense primarily relates to professional fees paid to external consultants in connection with the Company's expanded audit committee review and advisory services in 2019, and legal settlement in 2018.

Note 6 - Net Income Per Share

Basic net income per common share is computed by dividing the net income relevant to the common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per common share uses the same net income divided by the sum of the weighted average number of shares of common stock outstanding during the period, plus dilutive effects of options, performance and restricted stock units outstanding during the period calculated using the treasury method and the potential dilutive effects of preferred stocks (if any) calculated using the if-converted method.

The table below shows the calculations for the three and nine months ended September 30, 2019 and 2018 *(in thousands, except for per share data)*.

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Numerator (both basic and diluted)		
Net income relevant to common stockholders	$ 34,397	$ 46,285
Denominator		
Denominator for basic income per share	100,606	83,544
Dilutive effect of stock options	2,750	3,039
Dilutive effect of performance share units	184	225
Dilutive effect of restricted stock units	112	70
Denominator for diluted income per share	103,652	86,878
Basic income per common share	$ 0.34	$ 0.55
Diluted income per common share	$ 0.33	$ 0.53

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Numerator (both basic and diluted)		
Net income relevant to common stockholders	$ 140,335	$ 122,084
Denominator		
Denominator for basic income per share	100,423	83,359
Dilutive effect of stock options	3,114	3,355
Dilutive effect of performance share units	183	218
Dilutive effect of restricted stock units	268	221
Denominator for diluted income per share	103,988	87,153
Basic income per common share	$ 1.40	$ 1.46
Diluted income per common share	$ 1.35	$ 1.40

There were no anti-dilutive stock options, performance share units and restricted stock units during the nine months ended September 30, 2019 and 2018. A total of 702,170 stock options outstanding as of September 30, 2019 was not included in our calculation of diluted income per common share for the three months ended September 30, 2019 because the options' exercise price was greater than the average market price of our common shares.

Note 7 - Stock-Based Compensation

Stock Options

A summary of the stock option activity for thenine months ended September 30, 2019 is presented below.

	Number of Shares		Weighted Average Exercise Price
Outstanding at January 1, 2019	4,557,186	$	5.14
Granted	—	$	—
Exercised	(212,242)	$	5.49
Forfeited	(20,011)	$	14.00
Expired	—	$	—
Outstanding at September 30, 2019	4,324,933	$	5.08
Exercisable at September 30, 2019	3,967,091	$	4.28

There were no new stock option grants during thenine months ended September 30, 2019 and 2018. As of September 30, 2019, the aggregate intrinsic value for our outstanding stock options was $20.8 million, and the aggregate intrinsic value for our exercisable stock options was$20.8 million. The aggregate intrinsic value for the exercised stock options during the nine months ended September 30, 2019 was $2.9 million. The remaining exercise period for the outstanding and exercisable stock options as of September 30, 2019, was 5.1 years and 5.0 years, respectively. For the nine months ended September 30, 2019 and 2018, we recognized $0.4 million and $0.5 million, respectively, in stock compensation expense related to these stock option awards.

Restricted Stock Units

During the nine months ended September 30, 2019, we granted a total of 385,661 restricted stock units ("RSUs") to employees, officers and directors pursuant to the ProPetro Holding Corp. 2017 Incentive Award Plan (the "Incentive Plan"), which generally vest ratably over a three-year vesting period, in the case of awards to employees and officers, and generally vest in full after one year, in the case of awards to directors. RSUs are subject to restrictions on transfer and are generally subject to a risk of forfeiture if the award recipient ceases to be an employee or director of the Company prior to vesting of the award. Each RSU represents the right to receive one share of common stock. The grant date fair value of the RSUs is based on the closing share price of our common stock on the date of grant. During the nine months ended September 30, 2019 and 2018, the recorded stock compensation expense for all RSUs was$2.3 million and $2.0 million, respectively. As of September 30, 2019, the total unrecognized compensation expense for all RSUs was approximately $7.4 million, and is expected to be recognized over a weighted average period of approximately2.0 years.

The following table summarizes RSUs activity during thenine months ended September 30, 2019:

	Number of Shares		Weighted Average Grant Date Fair Value
Outstanding at January 1, 2019	473,505	$	16.52
Granted	385,661	$	20.95
Vested	(214,872)	$	15.89
Forfeited	(58,619)	$	18.72
Canceled	—	$	—
Outstanding at September 30, 2019	585,675	$	19.45

Note 7 - Stock-Based Compensation (Continued)

Performance Share Units

During the nine months ended September 30, 2019, we granted 199,413 performance share units ("PSUs") to certain key employees and officers under the Incentive Plan. The actual number of shares of common stock that may be issued under the PSUs ranges from 0% up to a maximum of 200% of the target number of PSUs granted to the participant, based on our total shareholder return ("TSR") relative to a designated peer group, generally at the end of a three year period. In addition to the TSR conditions, vesting of the PSUs is generally subject to the recipient's continued employment through the end of the applicable performance period. Compensation expense is recorded ratably over the corresponding requisite service period. The grant date fair value of PSUs is determined using a Monte Carlo probability model. Grant recipients do not have any shareholder rights until performance relative to the peer group has been determined following the completion of the performance period and shares have been issued. During the nine months ended September 30, 2019 and 2018, the recorded stock compensation expense for the PSUs was $2.6 million and $1.3 million, respectively.

The following table summarizes information about PSUs activity during the nine months ended September 30, 2019:

Period Granted	Target Shares Outstanding at January 1, 2019	Target Shares Granted	Target Shares Vested	Target Shares Forfeited	Target Shares Outstanding at September 30, 2019	Weighted Average Grant Date Fair Value per Share
2017	169,635	—	—	(18,143)	151,492	$ 10.73
2018	178,975	—	—	(17,341)	161,634	$ 27.51
2019	—	199,413	—	(18,676)	180,737	$ 34.82
Total	348,610	199,413	—	(54,160)	493,863	$ 25.04

The total stock compensation expense for the nine months ended September 30, 2019 and 2018 for all stock awards was $5.2 million and $3.8 million, respectively. The total unrecognized compensation expense as of September 30, 2019 was approximately $15.4 million, and is expected to be recognized over a weighted average period of approximately 1.9 years.

Note 8 - Related-Party Transactions

Corporate Office Building

The Company rents its corporate office building and the associated real property from an entity, in which a former executive officer of the Company has an equity interest. The rent expense incurred on our corporate office building is approximately $0.1 million per year. During the nine months ended September 30, 2019, the total improvements on our corporate office building that we rent from the related party was $1.3 million. In April 2020, the Company acquired the corporate office building and associated real property for approximately $1.5 million.

Operations and Maintenance Yards

The Company also leases five yards from an entity, which certain former executive officers, an executive officer and a director of the Company have equity interests and total annual rent expense for each of the five yards was approximately $0.03 million, $0.03 million, $0.1 million, $0.1 million, and $0.2 million, respectively. The Company also leased a yard from another entity, which a certain executive officer of the Company has an equity interest, and with annual lease expense of $0.1 million.

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2018 we identified the following related party transaction. In 2018, the Company entered into a construction and purchase agreement for a maintenance facility for our pressure pumping operations with a developer. The developer for the maintenance facility was an equal partner with a former executive officer of the Company in a separate legal entity. The entity the former executive officer was associated with provided funding to the developer related to the construction of the maintenance facility. The construction and purchase cost of $2.3 million was paid to the developer during the year ended December 31, 2018.

Note 8 - Related-Party Transactions (Continued)

Transportation and Equipment Rental

For the nine months ended September 30, 2019 and 2018, the Company incurred costs for transportation services with an entity, in which a former executive officer of the Company had an equity interest, of approximately $0.2 million and $0.3 million, respectively.

The Company also rented equipment in Elk City, Oklahoma for our flowback operations from an entity, which a former executive officer of the Company has an equity interest. During the nine months ended September 30, 2019 and 2018, the Company incurred and paid $0.1 million and $0.1 million, respectively. This rental arrangement was terminated in January 2020.

At September 30, 2019 and December 31, 2018, the Company had $0 and $0.01 million in payables to the above related parties.

PT Petroleum, LLC

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2018 we identified the following related party transaction. During the nine months ended September 30, 2018, the Company provided services to PT Petroleum, LLC, an entity in which a director was an officer, of approximately $16.7 million.

Pioneer

On December 31, 2018, we consummated the purchase of certain pressure pumping assets and real property from Pioneer Natural Resources USA, Inc. ("Pioneer") and Pioneer Pressure Pumping Services, LLC (the Pioneer Pressure Pumping Acquisition). The acquisition cost of the assets was comprised of approximately $110.0 million of cash and 16.6 million shares of our common stock. In addition, we entered into a real estate lease for a crew camp facility with Pioneer, as disclosed in Note 9. The real estate lease for the crew camp was terminated in July 2019. In connection with the consummation of the transaction, we became a long-term service provider to Pioneer, providing pressure pumping and related services for a term of up to ten years. Revenue from services provided to Pioneer accounted for approximately $120.7 million and $17.8 million of our total revenue during the three months ended September 30, 2019 and 2018, respectively. Revenue from services provided to Pioneer accounted for approximately $407.8 million and $56.0 million of our total revenue during the nine months ended September 30, 2019 and 2018, respectively. During the nine months ended September 30, 2019, the Company reimbursed Pioneer approximately $2.9 million for our portion of the retention bonuses paid to former Pioneer employees that were subsequently employed by the Company and also Pioneer reimbursed the Company approximately $2.5 million for severance payments made on their behalf, in connection with the Pioneer Pressure Pumping Acquisition. As of September 30, 2019, the total accounts receivable due from Pioneer, including estimated unbilled receivable for services we provided, amounted to $76.1 million and the amount due to Pioneer was $0. As of December 31, 2018, the balance due from Pioneer for services provided and billed amounted to $15.7 million and the amount due to Pioneer was $109.8 million.

Note 9 - Leases

On January 1, 2019, we implemented ASC 842, using the modified transition approach and elected not to restate prior years. Accordingly, the effects of adopting ASC 842 were adjusted in the beginning of 2019 while prior periods are accounted for under the legacy GAAP, ASC 840. There was no cumulative effect adjustment on beginning retained earnings. We also elected other practical expedients provided by the new leases standard, the short-term lease recognition practical expedient in which leases with a term of twelve months or less will not be recognized on the balance sheet and the practical expedient to not separate lease and non-lease components for real estate class of assets. Our discount rate was based on our estimated incremental borrowing rate on a collateralized basis with similar terms and economic considerations as our lease payments at the lease commencement. Below is a description of our operating and finance leases.

Operating Leases

Description of Lease

In March 2013, we entered into aten year real estate lease contract (the "Real Estate Lease") with a commencement date of April 1, 2013, as part of the expansion of our equipment yard. The lease is with an entity in which a director of the Company has a noncontrolling equity ownership interest. During the nine months ended September 30, 2019 and 2018, the Company made lease payments of approximately $0.3 million and $0.3 million, respectively. The assets and liabilities under this contract are equally allocated between our cementing and coiled tubing segments. In addition to the contractual lease period, the contract includes an optional renewal of up to ten years, and in management's judgment the exercise of the renewal option is not reasonably assured. The contract does not include a residual value guarantee, covenants or financial restrictions. Further, the Real Estate Lease does not contain variability in payments resulting from either an index change or rate change. Effective January 1, 2019, the remaining lease term in our present value estimate of the minimum future lease payments was four years.

In January 2019, we entered into afour year real estate lease contract with Pioneer Natural Resources USA, Inc. (the "Crew Camp Lease") with a commencement date of January 1, 2019 for purposes of providing housing to company personnel. The contract does not include a residual value guarantee, covenants or financial restrictions. Further, the Crew Camp Lease does not contain variability in payments resulting from either an index change or rate change. The lease term used in our estimate of the present value of the minimum future lease payments for the purpose of determining our right-of-use asset and lease obligation was four years. We determined the Crew Camp Lease to be an operating lease. However, effective July 1, 2019, the Crew Camp Lease was terminated in connection with our disposal of our camp assets located at the leased real estate for $5.0 million. In connection with the Crew Camp Lease termination, we derecognized the right-of-use asset and lease liability of $0.5 million and $0.5 million, respectively. The total operating lease cost recorded during the nine months ended September 30, 2019, in connection with the Crew Camp Lease was $0.1 million. Effective July 1, 2019, we disposed of our camp assets to Target Logistics Management and entered into a twelve month lease (the "Lodging Lease"), which we determined to be a short-term lease, to rent a certain number of rooms daily, including related services, for a fixed rate and accordingly, we recorded a gain on sale in our statement of operations during the three and nine months ended September 30, 2019 of approximately $4.2 million.

Consistent with the requirements of the new lease standard, ASC 842, we have determined the Real Estate Lease to be an operating lease. Our assumptions resulted from the existence of the right to control the use of the assets throughout the lease term. We did not account for the land separately from the building of the real estate lease because we concluded that the accounting effect was insignificant. As of September 30, 2019, the weighted average discount rate and remaining lease term was 6.7% and 3.5 years, respectively.

As of September 30, 2019, our total operating lease right-of-use asset cost was $1.2 million, and accumulated amortization was $0.2 million. For the nine months ended September 30, 2019, we recorded operating lease cost of $0.3 million in our statement of operations. During the nine months ended September 30, 2018, our operating lease expense, under legacy GAAP, ASC 840, was $1.2 million.

Note 9 - Lease (Continued)

Finance Leases

Description of Ground Lease

In 2018, we entered into a ten year land lease contract (the "Ground Lease") with an exclusive option to purchase the land exercisable beginning one year from the commencement date of October 1, 2018 through the end of the contractual lease term. The Ground Lease does not include any residual value guarantee, covenants or financial restrictions. Further, the Ground Lease does not contain variability in payments resulting from either an index change or rate change. The remaining lease term used in our estimate of the present value of the minimum future lease payments for the purpose of determining our right-of-use asset and lease obligation was 0.9 years, assuming we will exercise our option to purchase the land immediately after the option becomes exercisable.

Consistent with the requirements of the new lease standard, ASC 842, we have determined the Ground Lease to be a finance lease. Our assumptions resulted from the existence of the right to control the use of the land for a period of time and the option to purchase the land, which we are reasonably certain of exercising shortly after one year from the commencement date. As of September 30, 2019, the weighted average discount rate and remaining lease term was 4.3% and 0.1 years, respectively.

As of September 30, 2019, our net finance lease right-of-use asset included as part of property and equipment in our consolidated balance sheet consists of a cost of $3.1 million and accumulated amortization of $0. For the nine months ended September 30, 2019, no amortization was recorded on the land under the finance lease and the interest on our finance lease for the nine months ended September 30, 2019 was $0.1 million. No amortization was recorded in the period for our finance lease right-of-use asset because it is comprised of land only.

The maturity analysis of liabilities and reconciliation to undiscounted and discounted remaining future lease payments for operating and finance leases as of September 30, 2019 are as follows:

	Leases	
($ in thousands)	**Operating**	**Finance**
2019	$ 90	$ 2,927
2020	366	—
2021	377	—
2022	389	—
2023	97	—
Total undiscounted future lease payments	1,319	2,927
Less: amount representing interest	(148)	(10)
Present value of future lease payments (lease obligation)	$ 1,171	$ 2,917

The total cash paid for amounts included in the measurement of our operating and finance lease liabilities during the nine months ended September 30, 2019 was $0.3 million and $0.3 million, respectively. The non-cash lease obligation we recorded effective January 1, 2019, upon adopting the new lease standard, ASC 842, was $2.0 million and $3.1 million for operating and finance leases, respectively. The non-cash changes to our lease liabilities during the nine months ended September 30, 2019, relate to the derecognition of the lease liability of $0.5 million, in connection with the Crew Camp Lease termination on July 1, 2019.

In March 2020, the Company exercised its option and purchased the land associated with the Ground Lease.

Short-Term Leases

We elected the practical expedient, consistent with ASC 842, to exclude leases with an initial term of twelve months or less ("short-term leases") from our balance sheet and continue to record short-term leases as a period expense. For the nine months ended September 30, 2019, our short-term asset lease and Lodging Lease expense was $1.0 million and $1.2 million, respectively. At September 30, 2019, the total remaining lease commitments for all of our short-term lease was $5.4 million.

Note 10 - Commitments and Contingencies

Commitments

As of December 31, 2018, our required remaining lease payments under legacy GAAP, ASC 840, for each fiscal year are as follows. See Note 9 for additional lease disclosures under the new lease standard, ASC 842.

($ in thousands)

2019	$	892
2020		721
2021		721
2022		721
2023 and thereafter		2,258
Total	$	5,313

In 2019, the Company entered into a fixed asset purchase agreement, as amended, with its equipment manufacturer. As of September 30, 2019, the Company has outstanding agreements with its equipment manufacturer to purchase new hydraulic fracturing *DuraStim®* fleets, and an option to purchase additional *DuraStim®* fleets through April 30, 2021. The option fee of $6.1 million which we have classified as a deposit for property and equipment will be applied equally towards the purchase price of each additional *DuraStim®* fleet ordered. As of September 30, 2019, the total outstanding remaining contractual obligation under the purchase agreement for the *DuraStim®* fleets, two turbines and related ancillary equipment was approximately $21.5 million. As of September 30, 2019, other contracted capital commitments entered into as part of normal course of business for supply of certain equipment, including improvements of our corporate office building, was approximately $1.6 million.

The Company enters into purchase agreements with its sand suppliers (the "Sand suppliers") to secure supply of sand as part of its normal course of business. The agreements with the Sand suppliers require that the Company purchase a minimum volume of sand, constituting substantially all of its sand requirements, from the Sand suppliers, otherwise certain penalties may be charged. Under certain of the purchase agreements, a shortfall fee applies if the Company purchases less than the minimum volume of sand. The shortfall fee represents liquidated damages and is either a fixed percentage of the purchase price for the minimum volumes or a fixed price per ton of unpurchased volumes. Under one of the purchase agreements, the Company is obligated to purchase a specified percentage of its overall sand requirements, or it must pay the supplier the difference between the purchase price of the minimum volumes under the purchase agreement and the purchase price of the volumes actually purchased. Our minimum volume commitments under the purchase agreements are either based on a percentage of our total usage or fixed minimum quantity. Our agreements with the Sand suppliers expire at different times prior to April 30, 2022. During the nine months ended September 30, 2019 and 2018, no shortfall fee has been recorded. One of the Sand suppliers (“SandCo”) we entered into an agreement with to purchase sand (“Texas sand”) has an indirect relationship with a former executive officer of the Company, because beginning in 2018, the Texas sand was sourced from a mine located on land owned by an entity (“LandCo”) in which the former executive officer has a 44% noncontrolling equity interest in the LandCo. The total sand purchased from SandCo during the the nine months ended September 30, 2019 and 2018 was approximately $36.8 million and $1.6 million, respectively, and the estimated indirect benefit to the former executive officer of the Company was approximately $1.2 million and $0.1 million, respectively.

As of September 30, 2019, and December 31, 2018, the Company had issued letters of credit of $1.5 million and $1.8 million, respectively, under the Company's ABL Credit Facility relating to the Company's casualty insurance policy.

As of September 30, 2019, our accrued severance relating to the resignation of a former officer of the Company was approximately $1.5 million, which was included as part of accrued and other current liabilities in our consolidated balance sheet and within our general and administrative expense in our statement of operations. On October 3, 2019, an officer of the Company resigned his position and the additional estimated future severance in connection with this resignation is approximately $0.5 million.

Note 10 - Commitments and Contingencies (Continued)

Contingent Liabilities

In September 2019, a complaint, captioned Richard Logan, Individually and On Behalf of All Others Similarly Situated, Plaintiff, v. ProPetro Holding Corp., et al., (the “Logan Lawsuit”), was filed against the Company and certain of its current and former officers and directors in the U.S. District Court for the Western District of Texas.

In April 2020, Lead Plaintiffs Nykredit Portefølje Administration A/S, Oklahoma Firefighters Pension and Retirement System, Oklahoma Law Enforcement Retirement System, Oklahoma Police Pension and Retirement System, and Oklahoma City Employee Retirement System, and additional named plaintiff Police and Fire Retirement System of the City of Detroit, individually and on behalf of a putative class of shareholders who purchased the Company’s common stock between March 17, 2017 and March 13, 2020, filed a second amended class action complaint in the U.S. District Court for the Western District of Texas in the Logan Lawsuit, alleging violations of Sections 10(b) and 20(a) of the Exchange Act, as amended, and Rule l0b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act, as amended, based on allegedly inaccurate or misleading statements, or omissions of material facts, about the Company’s business, operations and prospects.

In January 2020, Boca Raton Firefighters’ and Police Pension Fund (“Boca Raton”) filed a shareholder derivative suit in the U.S. District Court for the Western District of Texas (the “Boca Raton Lawsuit”) against certain of the Company’s current and former officers and directors (the “Boca Raton Defendants”). The Company was named as a nominal defendant only. The claims include (i) breaches of fiduciary duties, (ii) unjust enrichment and (iii) contribution. Boca Raton did not quantify any alleged damages in its complaint but, in addition to attorneys’ fees and costs, Boca Raton seeks various forms of relief, including (i) damages sustained by the Company as a result of the Boca Raton Defendants’ alleged misconduct, (ii) punitive damages and (iii) equitable relief in the form of improvements to the Company’s governance and controls.

In April 2020, Jye-Chun Chang filed a shareholder derivative suit in the U.S. District Court for the Western District of Texas (the “Chang Lawsuit”) against certain of the Company’s current and former officers and directors (the “Chang Defendants”). The Company was named as a nominal defendant only. The claims include (i) violations of section 14(a) of the Exchange Act, (ii) breach of fiduciary duties, (iii) unjust enrichment, (iv) abuse of control, (v) gross mismanagement and (vi) waste of corporate assets. Chang did not quantify any alleged damages in its complaint but, in addition to attorneys’ fees and costs, Chang seeks various forms of relief, including (i) declaring that Chang may sustain the action on behalf of the Company, (ii) declaring that the Chang Defendants breached their fiduciary duties to the Company, (iii) damages sustained by the Company as a result of the Chang Defendants’ alleged misconduct, (iv) equitable relief in the form of improvements to the Company’s governance and controls and (v) restitution.

In October 2019, the Company received a letter from the SEC indicating that the SEC had opened an investigation into the Company and requesting that the Company provide certain information and documents, including documents related to the Company's expanded audit committee review and related events. The Company has cooperated and expects to continue to cooperate with the SEC’s investigation.

We are presently unable to predict the duration, scope or result of the Logan Lawsuit, the Boca Raton Lawsuit, the Chang Lawsuit, the SEC investigation, or any other related lawsuit or investigation. As of September 30, 2019, no provision was made by the Company in connection with these pending lawsuits and the SEC investigation as they are still at early stages and the final outcomes cannot be reasonably estimated.

Environmental

The Company is subject to various federal, state and local environmental laws and regulations that establish standards and requirements for protection of the environment. The Company cannot predict the future impact of such standards and requirements, which are subject to change and can have retroactive effectiveness. The Company continues to monitor the status of these laws and regulations. Currently, the Company 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 the Company's business, material costs could be incurred in the near term to maintain compliance. The amount of such future expenditures is not determinable due to several factors, including the unknown magnitude of possible regulation or liabilities, the unknown timing and extent of the corrective actions which may be required, the determination of the Company's liability in proportion to other responsible parties and the extent to which such expenditures are recoverable from insurance or indemnification.

Note 10 - Commitments and Contingencies (Continued)

Regulatory Audits

In 2019, the Texas Comptroller of Public Accounts commenced a routine audit of the Company's gross receipts and sales, excise and use taxes for the periods of July 2015 through December 2018. As of September 30, 2019, although the audit is still ongoing, we do not believe that any material tax liability will arise from the audit.

Note 11 - Subsequent Events

Stockholder Rights Plan

On April 10, 2020, the board of directors of the Company adopted a short-term stockholder rights plan (the “Rights Plan”). The Rights Plan provides for the issuance of one right for each outstanding share of the Company’s common stock held by stockholders of record on April 24, 2020. In general, the rights will become exercisable only if a person or group acquires beneficial ownership of 10% (or 20% in the case of certain passive investors) or more of the Company’s outstanding common stock or announces a tender or exchange offer that would result in such ownership. If the rights become exercisable, all holders of rights (other than any triggering person) will be entitled to acquire shares of common stock at a 50% discount, or the Company may exchange each right held by such holders for one share of common stock.

The Rights Plan will expire on March 31, 2021. The Rights Plan may also be terminated, or the rights may be redeemed, prior to the scheduled expiration of the Rights Plan under certain other circumstances.

Impairments

In the fourth quarter of 2019, management determined that the demand for vertical rigs and flowback services in the Permian Basin continued to be depressed. The Company's (i) vertical drilling rigs were not more likely than not to be utilized in the foreseeable future and (ii) flowback assets were having a deterioration in utilization. As such we expect to record impairment charges of approximately $3.4 million in the fourth quarter of 2019.

During the first quarter of 2020, management determined the reductions in commodity prices driven by the potential impact of the novel COVID-19 virus and global supply and demand dynamics coupled with the sustained decrease in the Company’s share price were triggering events for goodwill and asset impairment. As a result of the triggering events, we performed an interim goodwill impairment test on the hydraulic fracturing reporting unit and a recoverability tests on each of the assets groups. As a result, we expect to recognize impairments and charges in the first quarter of 2020 as follows:

- goodwill impairment of approximately $9.4 million;
- drilling asset group impairment of approximately $1.1 million as a result of our recoverability tests; and
- write-off of $6.1 million of deposits related to options to purchase additional *DuraStim®* equipment for which options expire at various times through the end of April 2021 as it is not probable we would exercise our options due to the events describe above.

If the depressed oil prices and the current economic conditions remain for a longer period of time, actual results may differ from estimates and future assumptions may change resulting in additional impairment charges in the future.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The financial information, discussion and analysis that follow should be read in conjunction with our consolidated financial statements and the related notes included in the Form 10-K as well as the financial and other information included therein.

Unless otherwise indicated, references in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to the "Company," "we," "our," "us" or like terms refer to ProPetro Holding Corp. and its subsidiary.

Overview

We are a growth-oriented, Midland, Texas-based oilfield services company providing hydraulic fracturing and other complementary services to leading upstream oil and gas companies engaged in the exploration and production ("E&P") of North American unconventional oil and natural gas resources. Our operations are primarily focused in the Permian Basin, where we have cultivated long-standing customer relationships with some of the region's most active and well-capitalized E&P companies. The Permian Basin is widely regarded as one of the most prolific oil-producing area in the United States, and we believe we are currently one of the largest providers of hydraulic fracturing services in the region by hydraulic horsepower ("HHP").

On December 31, 2018, we consummated the purchase of pressure pumping and related assets of Pioneer Natural Resources USA, Inc.(“Pioneer”) and Pioneer Pumping Services, LLC (the “Pioneer Pressure Pumping Acquisition”). The pressure pumping assets acquired included hydraulic fracturing pumps of 510,000 HHP, four coiled tubing units and the associated equipment maintenance facility. In connection with the acquisition, we became a long-term service provider to Pioneer under a Pressure Pumping Services Agreement (the “Pioneer Services Agreement”), providing pressure pumping and related services for a term of up to 10 years; provided, that Pioneer has the right to terminate the Pioneer Services Agreement, in whole or part, effective as of December 31 of each of the calendar years of 2022, 2024 and 2026. Pioneer can increase the number of committed fleets prior to December 31, 2022. Pursuant to the Pioneer Services Agreement, the Company is entitled to receive compensation if Pioneer were to idle committed fleets (“idle fees”); however, we are first required to use all economically reasonable effort to deploy the idled fleets to another customer. At the present, we have eight fleets committed to Pioneer. During times when there is a significant reduction in overall demand for our services, the idle fees could represent a material portion of our revenues.

Changes to our customers’ well design, shale formations, operating conditions and new technology have resulted in continuous changes to the number of pumps, or units, that constitute a fleet. As a result of the asymmetric nature of the number of pumps that constitute a fleet across our customer base, which we believe will continue to evolve, we view HHP to also be an appropriate metric to measure our available hydraulic fracturing capacity. Our total available HHP at September 30, 2019 was 1,415,000 HHP in conventional equipment. In 2019, we entered into a purchase commitment for 108,000 HHP of *DuraStim®* hydraulic fracturing pumps, and in December 2019, we have received 54,000 HHP of the *DuraStim®* hydraulic fracturing pumps, with the remaining pumps of 54,000 HHP expected to be delivered before the end of 2020. At December 31, 2019, our total available HHP was 1,469,000 HHP, which was comprised of 1,415,000 HHP of conventional HHP and 54,000 HHP of our newly purchased *DuraStim®* hydraulic fracturing technology. With the continuous evaluation and changes to the number of pumps or HHP that constitute a fleet, we believe that our available fleet capacity could decline as we reconfigure our fleets to increase active HHP and back up HHP based on our customers’ and operational needs. We also have an option to purchase up to an additional 108,000 HHP of *DuraStim®* hydraulic fracturing pumps in the future through April 30, 2021. The *DuraStim®* technology is powered by electricity. In 2019, we purchased two gas turbines to provide electrical power for the *DuraStim®* fleets. The electrical power sources for future *DuraStim®* fleets are still being evaluated and could either be supplied by the Company, customers or a third-party supplier.

Our competitors include many large and small oilfield services companies, including RPC, Inc., Halliburton Company, Patterson-UTI Energy Inc., Nextier Oilfield Solutions Inc., Inc., Liberty Oilfield Services Inc., Superior Energy Services Inc., Schlumberger Limited, FTS International Inc. and a number of private companies. Although we believe price is a key factor in E&P companies' criteria in choosing a service provider, we believe that other important factors include operational efficiency, technical expertise, service and equipment quality, and health and safety standards. While we seek to price our services competitively, we believe many of our customers elect to work with us based on our deep local roots, operational expertise, the capability of our modern fleet to handle the most complex Permian Basin well completions, and commitment to safety and reliability.

Our substantial market presence in the Permian Basin positions us well to capitalize on drilling and completion activity in the region. Historically, our operational focus has been in the Permian Basin's Midland sub-basin, where our customers have primarily operated. However, with increasing levels of Delaware sub-basin activity, we have recently expanded our presence in the Delaware sub-basin in response to demand from our customers. Given our dedicated relationships with a variety of Delaware sub-basin operators, we believe that we are uniquely positioned to capture large addressable growth opportunity as the basin develops. Over time, we expect the Permian Basin's Midland and Delaware sub-basins to continue to command a disproportionate share of future North American E&P spending.

Through our pressure pumping segment (which also includes our cementing operations), we primarily provide hydraulic fracturing services to E&P companies in the Permian Basin. Our modern hydraulic fracturing fleet has been designed to handle Permian Basin specific operating conditions and the region's increasingly high-intensity well completions, which are characterized by longer horizontal wellbores, more stages per lateral and increasing amounts of proppant per well. The majority of our fleet has been delivered in recent years, and we continue to fully maintain our equipment through the recent industry downturn to ensure optimal performance and reliability.

In addition to our core pressure pumping segment operations, which includes our cementing operations, we also offer a suite of complementary well completion and production services, including coiled tubing and other services. We believe these complementary services create operational efficiencies for our customers and could allow us to capture a greater portion of their capital spending across the lifecycle of a well. Our vertical drilling rigs have been idled since 2016 and if the market for vertical drilling does not improve, and the equipment continues to be idled, the estimated fair value for the drilling rigs may decline, thus resulting in future impairment charges.

Commodity Price and Other Economic Conditions

The oil and gas industry has traditionally been volatile and is influenced by a combination of long-term, short-term and cyclical trends, including domestic and international supply and demand for oil and gas, current and expected future prices for oil and gas and the perceived stability and sustainability of those prices, and capital investments of E&P companies toward their development and production of oil and gas reserves. The oil and gas industry is also impacted by general domestic and international economic conditions, political instability in oil producing countries, government regulations (both in the United States and internationally), levels of consumer demand, adverse weather conditions, and other factors that are beyond our control.

The global public health crisis associated with the COVID-19 pandemic has and is anticipated to continue to have an adverse effect on global economic activity for the immediate future and has resulted in travel restrictions, business closures and the institution of quarantining and other restrictions on movement in many communities. The slowdown in global economic activity attributable to COVID-19 has resulted in a dramatic decline in the demand for energy which directly impacts our industry and the Company. In addition, global crude oil prices experienced a collapse starting in early March 2020 as a direct result of failed negotiations between OPEC and Russia. In response to the global economic slowdown, OPEC had recommended a decrease in production levels in order to accommodate reduced demand. Russia rejected the recommendation of OPEC as a concession to U.S. producers. After the failure to reach an agreement, Saudi Arabia, a dominant member of OPEC, and other Persian Gulf OPEC members announced intentions to increase production and offer price discounts to buyers in certain geographic regions.

As the breadth of the COVID-19 health crisis expanded throughout the month of March 2020 and governmental authorities implemented more restrictive measures to limit person-to-person contact, global economic activity continued to decline commensurately. The associated impact on the energy industry has been adverse and continued to be exacerbated by the unresolved conflict regarding production. In the second week of April 2020, OPEC reconvened to discuss the matter of production cuts in light of unprecedented disruption and supply and demand imbalances that expanded since the failed negotiations in early March 2020. Tentative agreements were reached to cut production by up to 10 million barrels of oil per day, or BOPD, with allocations to be made among the OPEC+ participants. Some of these production cuts went into effect in the first half of May 2020, however, commodity prices remain depressed as a result of an increasingly utilized global storage network and near-term demand loss attributable to the COVID-19 health crisis and related economic slowdown.

The combined effect of COVID-19 and the energy industry disruptions led to a decline in WTI crude oil prices of approximately 67 percent from the beginning of January 2020, when prices were approximately $62 per barrel, through the end of March 2020, when they were just above $20 per barrel. Overall crude oil price volatility has continued despite apparent agreement among OPEC+ regarding production cuts and as of June 17, 2020, the WTI price for a barrel of crude oil was approximately $38.

Despite a significant decline in drilling and completion activity by U.S. producers starting in mid-March 2020, domestic supply continues to exceed demand which has led to significant operational stress with respect to capacity limitations associated with storage, pipeline and refining infrastructure, particularly within the Gulf Coast region. The combined effect of the aforementioned factors is anticipated to have a continuing adverse impact on the industry in general and our operations specifically.

The Permian Basin rig count has decreased significantly from approximately 403 at the beginning of 2020 to 175 in May 2020, according to Baker Hughes, and may continue to decline if current market conditions do not improve. As a result of the depressed market conditions and events, the Company expects a material adverse impact on the services we provide resulting from our customers shutting down completions of wells and pricing pressure from our customers to reduce the prices of our services. We expect the reduction in the number of wells completion activities and the pricing pressure from our customers to have a negative impact on our future revenue, results of operations and cash flows.

Although the oil and gas market is currently depressed, we still believe the Permian Basin, our primary area of operation, is the leading basin with the lowest break-even production cost in the United States. If the market rebounds, we believe there will be increased demand for pressure pumping services in the Permian Basin where we operate.

Our results of operations have historically reflected seasonal tendencies, typically in the fourth quarter, relating to holiday seasons, inclement winter weather and exhaustion of our customers' annual budgets. As a result, we typically experience declines in our operating results in November and December, even in a stable commodity price and operations environment. The seasonal tendencies and the current depressed oil and gas market conditions could result in a longer time recovery time in the oil and gas industry thereby significantly impacting on revenue, results of operations and cash flows for a longer period of time beyond 2020.

Actions to Address the Economic Impact of COVID-19 and Decline in Commodity Prices

Since March 2020, we initiated several actions to mitigate the anticipated adverse economic conditions for the immediate future and to support our financial position, liquidity and the efficient continuity of our operations as follows:

- *Growth Capital*. We cancelled substantially all our planned growth capital expenditures for the remainder of 2020.
- *Other Expenditures.* We significantly reduced our maintenance expenditures and field level consumable costs due to our reduced activity levels. We have been seeking lower pricing for our expendable items, materials used in day-to-day operations and large component replacement parts. Also, we have been internalizing certain support services that were outsourced.
- *Labor Force Reductions.* We have reduced our workforce by over 60% due to the changing activity levels for our services. We will continue to make appropriate adjustments to our workforce to reflect outlook related to activity levels.
- *Compensation Related Costs.* The directors and officers have voluntarily reduced compensation at different levels up to 20%. We have taken efforts to manage work schedules, primarily related to hourly employees, to minimize overtime costs.
- *Working Capital*. We have negotiated more favorable payment terms with certain of our larger vendors and are continuing to increase our diligence in collecting and managing our portfolio of accounts receivables.

We are continuing to evaluate and consider additional cost saving measures. We will continue to prioritize the safety and welfare of our employees and customers through these turbulent times.

How We Evaluate Our Operations

Our management uses a variety of financial metrics, Adjusted EBITDA or Adjusted EBITDA margin to evaluate and analyze the performance of our various operating segments.

Adjusted EBITDA and Adjusted EBITDA margin

We view Adjusted EBITDA and Adjusted EBITDA margin as important indicators of performance. We define EBITDA as our earnings, before (i) interest expense, (ii) income taxes and (iii) depreciation and amortization. We define Adjusted EBITDA as EBITDA, plus (i) loss/(gain) on disposal of assets, (ii) loss/(gain) on extinguishment of debt, (iii) stock-based compensation, and (iv) other unusual or non-recurring (income)/expenses, such as impairment charges, severance, costs related to our initial public offering and costs related to asset acquisitions or one-time professional fees. Adjusted EBITDA margin reflects our Adjusted EBITDA as a percentage of our revenues.

Adjusted EBITDA and Adjusted EBITDA margin are supplemental measures utilized by our management and other users of our financial statements such as investors, commercial banks, and research analysts, to assess our financial performance because it allows us and other users to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization), nonrecurring (income)/expenses and items outside the control of our management team (such as income taxes). Adjusted EBITDA and Adjusted EBITDA margin have limitations as analytical tools and should not be considered as an alternative to net income/(loss), operating income/(loss), cash flow from operating activities or any other measure of financial performance presented in accordance with GAAP.

Note Regarding Non-GAAP Financial Measures

Adjusted EBITDA and Adjusted EBITDA margin are not financial measures presented in accordance with GAAP ("non-GAAP"), except when specifically required to be disclosed by GAAP in the financial statements. We believe that the presentation of Adjusted EBITDA and Adjusted EBITDA margin provide useful information to investors in assessing our financial condition and results of operations because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure, asset base, nonrecurring expenses (income) and items outside the control of the Company. Net income is the GAAP measure most directly comparable to Adjusted EBITDA. Adjusted EBITDA and Adjusted EBITDA margin should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some, but not all, items that affect the most directly comparable GAAP financial measures. You should not consider Adjusted EBITDA or Adjusted EBITDA margin in isolation or as a substitute for an analysis of our results as reported under GAAP. Because Adjusted EBITDA and Adjusted EBITDA margin may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

Reconciliation of net income (loss) to adjusted EBITDA ($ in thousands):

	Three Months Ended September 30, 2019		
	Pressure Pumping	All Other	Total
Net income (loss)	$ 65,961	$ (31,564)	$ 34,397
Depreciation and amortization	36,110	1,543	37,653
Interest expense	21	1,728	1,749
Income tax expense	—	12,340	12,340
Loss on disposal of assets	30,987	166	31,153
Stock-based compensation	—	577	577
Other expense	—	75	75
Other general and administrative expense[1]	—	10,786	10,786
Retention bonus and severance expense	1,710	1,455	3,165
Adjusted EBITDA	**$ 134,789**	**$ (2,894)**	**$ 131,895**

	Three Months Ended September 30, 2018		
	Pressure Pumping	All Other	Total
Net income (loss)	$ 66,493	$ (20,208)	$ 46,285
Depreciation and amortization	22,026	1,191	23,217
Interest expense	—	1,480	1,480
Income tax expense	—	13,592	13,592
Loss on disposal of assets	16,117	290	16,407
Stock-based compensation	—	1,631	1,631
Other expense	—	93	93
Deferred IPO bonus expense	433	230	663
Adjusted EBITDA	**$ 105,069**	**$ (1,701)**	**$ 103,368**

	Nine Months Ended September 30, 2019		
	Pressure Pumping	All Other	Total
Net income (loss)	$ 228,285	$ (87,950)	$ 140,335
Depreciation and amortization	101,916	4,336	106,252
Interest expense	43	5,635	5,678
Income tax expense	—	44,504	44,504
Loss on disposal of assets	81,110	468	81,578
Stock-based compensation	—	5,246	5,246
Other expense	—	539	539
Other general and administrative expense (1)	—	17,326	17,326
Deferred IPO, retention bonus and severance expense	5,663	1,613	7,276
Adjusted EBITDA	**$ 417,017**	**$ (8,283)**	**$ 408,734**

	Nine Months Ended September 30, 2018		
	Pressure Pumping	All Other	Total
Net income (loss)	$ 176,952	$ (54,868)	$ 122,084
Depreciation and amortization	59,830	3,598	63,428
Interest expense	—	4,973	4,973
Income tax expense	—	35,998	35,998
Loss (gain) on disposal of assets	43,768	(707)	43,061
Stock-based compensation	—	3,832	3,832
Other expense	—	505	505
Other general and administrative expense (1)	2	18	20
Deferred IPO bonus expense	1,399	780	2,179
Adjusted EBITDA	**$ 281,951**	**$ (5,871)**	**$ 276,080**

(1) Other general and administrative expense primarily relates to nonrecurring professional fees paid to external consultants in connection with the Expanded Audit Committee Review and advisory services in 2019, and legal settlement in 2018.

Results of Operations

We conducted our business through five operating segments: hydraulic fracturing (inclusive of acidizing), cementing, coil tubing, flowback, and drilling. For reporting purposes, the hydraulic fracturing and cementing operating segments are aggregated into our one reportable segment—pressure pumping. All other operating segments and corporate administrative expenses (inclusive of our total income tax expense and interest expense) are included in the ‘‘all other’’ category. Total corporate administrative expenses for the three and nine months ended September 30, 2019 were $30.1 million and $87.3 million, respectively, and for the three and nine months ended September 30, 2018, corporate administrative expenses were $21.6 million and $59.6 million, respectively. In 2020, the Company shut down its flowback operations in 2020 and disposed of the assets. The comparability of the results of operations may have been impacted by the Pioneer Pressure Pumping Acquisition resulting in additional eight fleets deployed at the beginning of 2019.

Our hydraulic fracturing operating segment revenue approximated 95.7% and 95.7% of our pressure pumping revenue during the three and nine months ended September 30, 2019, respectively. During the three and nine months ended September 30, 2018, our hydraulic fracturing operating segment revenue approximated 94.9% and 95.5% of our pressure pumping revenue, respectively.

The following table sets forth the results of operations for the periods presented:

(in thousands, except for percentages)

	Three Months Ended September 30,		Change	
	2019	2018	Variance	%
Revenue	$ 541,847	$ 434,041	$ 107,806	24.8 %
Cost of services (1)	396,922	320,146	76,776	24.0 %
General and administrative expense (2)	27,558	12,821	14,737	114.9 %
Depreciation and amortization	37,653	23,217	14,436	62.2 %
Loss on disposal of assets	31,153	16,407	14,746	89.9 %
Interest expense	1,749	1,480	269	18.2 %
Other expense	75	93	(18)	(19.4)%
Income tax expense	12,340	13,592	(1,252)	(9.2)%
Net income	$ 34,397	$ 46,285	$ (11,888)	(25.7)%
Adjusted EBITDA (3)	$ 131,895	$ 103,368	$ 28,527	27.6 %
Adjusted EBITDA Margin (3)	24.3 %	23.8 %	0.5%	2.1 %
Pressure pumping segment results of operations:				
Revenue	$ 528,851	$ 421,436	$ 107,415	25.5 %
Cost of services	$ 385,013	$ 311,274	$ 73,739	23.7 %
Adjusted EBITDA (3)	$ 134,789	$ 105,069	$ 29,720	28.3 %
Adjusted EBITDA Margin (4)	25.5 %	24.9 %	0.6%	2.4 %

(1) Exclusive of depreciation and amortization.
(2) Inclusive of stock-based compensation.
(3) For definitions of the non-GAAP financial measures of Adjusted EBITDA and Adjusted EBITDA margin and reconciliation of Adjusted EBITDA to our most directly comparable financial measures calculated in accordance with GAAP, please read "How We Evaluate Our Operations".
(4) The non-GAAP financial measure of Adjusted EBITDA margin for the pressure pumping segment is calculated by taking Adjusted EBITDA for the pressure pumping segment as a percentage of our revenue for the pressure pumping segment.

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Revenues. Revenues increased 24.8%, or $107.8 million, to $541.8 million for the three months ended September 30, 2019, as compared to $434.0 million for the three months ended September 30, 2018. The increase was primarily attributable to the increase in hydraulic fracturing fleet count utilized from approximately 19 to 25.1 active fleets, and an increase in demand for our pressure pumping services and customer activity, resulting in an increase in our customer base, during the three months ended September 30, 2019. Our pressure pumping segment revenues increased 25.5%, or $107.4 million, for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. Revenues from services other than pressure pumping increased 3.1%, or $0.4 million, to $13.0 million for the three months ended September 30, 2019 as compared $12.6 million for the three months ended September 30, 2018. The increase in revenues from services other than pressure pumping was primarily attributable to the increase in our coiled tubing units and customer demand for our drill-out jobs during the three months ended September 30, 2019.

Cost of Services. Cost of services increased 24.0%, or $76.8 million, to $396.9 million for the three months ended September 30, 2019, as compared to $320.1 million during the three months ended September 30, 2018. Cost of services in our pressure pumping segment increased $73.7 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. These increases were primarily attributable to our increased active fleet count and higher activity levels, resulting in an increase in employee headcount and as well as our material and other direct costs. As a percentage of pressure pumping segment revenues, pressure pumping cost of services decreased to 72.8% for the three months ended September 30, 2019, as compared to 73.9% for the three months ended September 30, 2018. The decrease in cost of services as a percentage of revenue for our pressure pumping segment resulted from a favorable change in our cost structure driven by our internal cost control measures, a decrease in the cost of certain consumables and increase in customer self-sourcing sand and other consumables, which resulted in higher realized Adjusted EBITDA margins during the three months ended September 30, 2019.

General and Administrative Expenses. General and administrative expenses increased 114.9%, or $14.7 million, to $27.6 million for the three months ended September 30, 2019, as compared to $12.8 million for the three months ended September 30, 2018. The net increase was primarily attributable to the increases in retention bonus expense of $1.7 million associated with personnel who joined us as part of the Pioneer Pressure Pumping Acquisition, severance expense of $1.5 million related to the resignation of a former officer, professional fees paid to external consultants in connection with the Expanded Audit Committee Review and advisory services of $10.8 million, stock-based compensation expense of $1.1 million, insurance and office expenses of $2.1 million, dues/subscription expense of $1.2 million and a net decrease of $3.7 million in other remaining general and administrative expenses.

Depreciation and Amortization. Depreciation and amortization increased 62.2%, or $14.4 million, to $37.7 million for the three months ended September 30, 2019, as compared to $23.2 million for the three months ended September 30, 2018. The increase was primarily attributable to the increase in our fixed asset base as of September 30, 2019, resulting primarily from an increase in our pressure pumping fleet capacity by 73.6% to 1,415,000 HHP in 2019.

Loss on Disposal of Assets. Loss on the disposal of assets increased 89.9%, or $14.7 million, to $31.2 million for the three months ended September 30, 2019, as compared to $16.4 million for the three months ended September 30, 2018. The net increase of $14.7 million is attributable to the significant increase in our hydraulic fracturing fleet size, greater service intensity of jobs completed, and higher maintenance on certain of our pressure pumping equipment and partly offset by the gain on sale of $4.2 million on disposal of certain assets.

Interest Expense. Interest expense increased 18.2%, or $0.3 million, to $1.7 million for the three months ended September 30, 2019, as compared to $1.5 million for the three months ended September 30, 2018. The increase in interest expense was primarily attributable to an increase in our average debt balance during the three months ended September 30, 2019 compared to the three months ended September 30, 2018.

Other Expense. There was no significant change in other expense. Other expense was $0.1 million for the three months ended September 30, 2019, as compared to $0.1 million for the three months ended September 30, 2018.

Income Tax Expense. Total income tax expense was $12.3 million resulting in an effective tax rate of 26.4% for the three months ended September 30, 2019 as compared to $13.6 million and an effective tax rate of 22.7% for the three months ended September 30, 2018. The decrease in income tax expense during the three months ended September 30, 2019 is primarily attributable to the decrease in pre-tax book income during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

The following table sets forth the results of operations for the periods presented:

(in thousands, except for percentages)

	Nine Months Ended September 30,		Change	
	2019	**2018**	**Variance**	**%**
Revenue	$ 1,617,521	$ 1,279,148	$ 338,373	26.5%
Cost of services (1)	1,164,663	970,156	194,507	20.0%
General and administrative expense (2)	73,972	38,943	35,029	89.9%
Depreciation and amortization	106,252	63,428	42,824	67.5%
Loss on disposal of assets	81,578	43,061	38,517	89.4%
Interest expense	5,678	4,973	705	14.2%
Other expense	539	505	34	6.7%
Income tax expense	44,504	35,998	8,506	23.6%
Net income	$ 140,335	$ 122,084	$ 18,251	14.9%
Adjusted EBITDA (3)	$ 408,734	$ 276,080	$ 132,654	48.0%
Adjusted EBITDA Margin (3)	25.3 %	21.6%	3.7%	17.1%
Pressure pumping segment results of operations:				
Revenue	$ 1,576,781	$ 1,242,286	$ 334,495	26.9%
Cost of services	$ 1,130,771	$ 943,635	$ 187,136	19.8%
Adjusted EBITDA (3)	$ 417,017	$ 281,951	$ 135,066	47.9%
Adjusted EBITDA Margin (4)	26.4 %	22.7%	3.7%	16.3%

(1) Exclusive of depreciation and amortization.
(2) Inclusive of stock-based compensation.
(3) For definitions of the non-GAAP financial measures of Adjusted EBITDA and Adjusted EBITDA margin and reconciliation of Adjusted EBITDA to our most directly comparable financial measures calculated in accordance with GAAP, please read "How We Evaluate Our Operations".
(4) The non-GAAP financial measure of Adjusted EBITDA margin for the pressure pumping segment is calculated by taking Adjusted EBITDA for the pressure pumping segment as a percentage of our revenue for the pressure pumping segment.

Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Revenues. Revenues increased 26.5%, or $338.4 million, to $1,617.5 million for the nine months ended September 30, 2019, as compared to $1,279.1 million for the nine months ended September 30, 2018. The increase was primarily attributable to the increase in hydraulic fracturing fleet count utilized from approximately 18.4 to 25.4 active fleets, demand for our pressure pumping services and customer activity, resulting in an increase in our customer base, during the nine months ended September 30, 2019. Our pressure pumping segment revenues increased26.9%, or $334.5 million, for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. Revenues from services other than pressure pumping increased10.5%, or $3.9 million, for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. The increase in revenues from services other than pressure pumping was primarily attributable to the increase in our coiled tubing units and customer demand for our drill-out jobs.

Cost of Services. Cost of services increased 20.0%, or $194.5 million, to $1,164.7 million for the nine months ended September 30, 2019, as compared to $970.2 million during the nine months ended September 30, 2018. Cost of services in our pressure pumping segment increased$187.1 million for the nine months ended September 30, 2019, as compared to the nine months ended ended September 30, 2018. The increase was primarily attributable to higher activity levels in our pressure pumping operations, hydraulic fracturing fleet size, and an increase in personnel headcount following the increased activity levels. As a percentage of pressure pumping segment revenues, pressure pumping cost of services decreased to 71.7% for the nine months ended September 30, 2019, as compared to 76.0% for the nine months ended September 30, 2018. The decrease in cost of services as a percentage of revenue for our pressure pumping segment resulted from a favorable change in our cost structure driven by our internal cost control measures and a decrease in the cost of certain consumables and increase in customers self-sourcing sand and other consumables, which resulted in higher realized Adjusted EBITDA margins during the nine months ended September 30, 2019.

General and Administrative Expenses. General and administrative expenses increased 89.9% or $35.0 million to $74.0 million for the nine months ended September 30, 2019, as compared to $38.9 million for the nine months ended September 30, 2018. The net increase was primarily attributable to increases in stock-based compensation expense of $1.4 million, retention bonus expense of $3.6 million associated with personnel who joined us as part of the Pioneer Pressure Pumping Acquisition, professional fees paid to external consultants in connection with the Expanded Audit Committee Review and advisory services of $17.3 million, severance expense of $1.5 million related to the resignation of a former officer, office expense of $2.2 million, insurance expense of $4.1 million, dues/subscription of $2.2 million and net aggregate increase in other remaining general and administrative expenses of $2.7 million.

Depreciation and Amortization. Depreciation and amortization increased 67.5%, or $42.8 million, to $106.3 million for the nine months ended September 30, 2019, as compared to $63.4 million for the nine months ended September 30, 2018. The increase was primarily attributable to the increase in our fixed asset base as of September 30, 2019, resulting primarily from an increase in our pressure pumping fleet capacity by 73.6% to 1,415,000 HHP in 2019.

Loss on Disposal of Assets. Loss on the disposal of assets increased 89.4%, or $38.5 million, to $81.6 million for the nine months ended September 30, 2019, as compared to $43.1 million for the nine months ended September 30, 2018. The increase is attributable to the significant increase in hydraulic fracturing fleet size, greater service intensity of jobs completed and higher activity levels on certain of our pressure pumping equipment and partly offset by the gain on sale of $4.2 million on disposal of certain assets.

Interest Expense. Interest expense increased 14.2%, or $0.7 million, to $5.7 million for the nine months ended September 30, 2019, as compared to $5.0 million for the nine months ended September 30, 2018. The increase in interest expense was primarily attributable to an increase in our average debt balance during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Other Expense. There was no significant change in other expense. Other expense was $0.5 million for the nine months ended September 30, 2019, as compared to $0.5 million for the nine months ended September 30, 2018.

Income Tax Expense. Total income tax expense was $44.5 million resulting in an effective tax rate of 24.1% for the nine months ended September 30, 2019 as compared to $36.0 million and an effective tax rate of 22.8% for the nine months ended September 30, 2018. The increase in income tax expense during the nine months ended September 30, 2019 is primarily attributable to the increase in pre-tax book income during nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

Liquidity and Capital Resources

Our liquidity is currently provided by (i) existing cash balances, (ii) operating cash flows and (iii) borrowings under our revolving credit facility ("ABL Credit Facility"). Our primary uses of cash will be to continue to fund our operations, support growth opportunities and satisfy debt payments. Our borrowing base, as redetermined monthly, is tied to 85.0% of eligible accounts receivable. Changes to our operational activity levels have an impact on our total eligible accounts receivable, which could result in significant changes to our borrowing base and therefore our availability under our ABL Credit Facility. With the current depressed oil and gas market conditions, we believe our remaining monthly availability under our ABL Credit facility will be adversely impacted by the expected decline in our customers' activity.

As of September 30, 2019, our borrowings under our ABL Credit Facility was$130.0 million and our total liquidity was $168.8 million, consisting of cash and cash equivalents of $109.2 million and $59.6 million of availability under our ABL Credit Facility.

As of June 19, 2020, we had no borrowings under our ABL Credit Facility and our total liquidity was approximately$57.4 million, consisting of cash and cash equivalents of $42.2 million and $15.2 million of availability under our ABL Credit Facility.

There can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned or future levels of capital expenditures. Future cash flows are subject to a number of variables, and are highly dependent on the drilling, completion, and production activity by our customers, which in turn is highly dependent on oil and natural gas prices. Depending upon market conditions and other factors, we may issue equity and debt securities or take other actions necessary to fund our business or meet our future long-term liquidity requirements.

The global public health crisis associated with the COVID-19 pandemic has and is anticipated to continue to have an adverse effect on global economic activity for the immediate future and has resulted in travel restrictions, business closures and the institution of quarantining and other restrictions on movement in many communities. The slowdown in global economic activity attributable to COVID-19 has resulted in a dramatic decline in the demand for energy which directly impacts our industry and the Company. In addition, global crude oil prices experienced a collapse starting in early March 2020. As a result of these developments, the Company expects a material adverse impact on the oil field services we provide and our revenue, results of operations and cash flows. These situations are rapidly changing and additional impacts to the business may arise that we are not aware of currently and the depressed oil and gas industry may take a longer time to recover thereby significantly impacting on revenue, results of operations and cash flows for a longer period of time.

Our ABL Credit Facility, as amended, has a total borrowing capacity of $300 million (subject to the Borrowing Base limit), with a maturity date of December 19, 2023. The ABL Credit Facility has a borrowing base of 85% of monthly eligible accounts receivable less customary reserves (the "Borrowing Base"). The Borrowing Base as of September 30, 2019 was approximately $191.1 million and was approximately $16.8 million as of June 19, 2020. The ABL Credit Facility includes a Springing Fixed Charge Coverage Ratio to apply when excess availability is less than the greater of (i)10% of the lesser of the facility size or the Borrowing Base or (ii)$22.5 million. Under this facility we are required to comply, subject to certain exceptions and materiality qualifiers, with certain customary affirmative and negative covenants, including, but not limited to, covenants pertaining to our ability to incur liens, indebtedness, changes in the nature of our business, mergers and other fundamental changes, disposal of assets, investments and restricted payments, amendments to our organizational documents or accounting policies, prepayments of certain debt, dividends, transactions with affiliates, and certain other activities. Borrowings under the ABL Credit Facility are secured by a first priority lien and security interest in substantially all assets of the Company.

Borrowings under the ABL Credit Facility accrue interest based on a three-tier pricing grid tied to availability, and we may elect for loans to be based on either LIBOR or base rate, plus the applicable margin, which ranges from 1.75% to 2.25% for LIBOR loans and 0.75% to 1.25% for base rate loans, with a LIBOR floor of zero. The weighted average interest rate for our ABL Credit Facility for the nine months ended September 30, 2019 was 4.4%.

In March 2020, we obtained a waiver from our lenders under the ABL Credit Facility to extend the time period for us to provide our lenders the Company's audited financial statements for the year ended December 31, 2019 to July 31, 2020.

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intend to phase out LIBOR by the end of 2021. At the present time, the ABL Credit Facility is subject to LIBOR rates but has a term that extends beyond the end of 2021when LIBOR will be phased out. We have not yet pursued any technical amendment or other contractual alternative to address this matter. We are currently evaluating the potential impact of eventual replacement of the LIBOR interest rate.

As of September 30, 2019, we had 108,000 HHP of *DuraStim®* hydraulic pumps on order for delivery between 2019 and 2020, with an option to purchase an additional 108,000 HHP of *DuraStim®* hydraulic pumps. We expect the initial 108,000 HHP of fully deployable *DuraStim®* fleets to cost an aggregate of approximately $179.1 million (including auxiliary and mixing equipment and power turbines, including the third turbine that the Company has yet to make a determination to purchase), of which approximately $120.8 million has been spent as of September 30, 2019 and the remaining approximately $58.3 million is expected to be incurred in the fourth quarter of 2019 and 2020. We expect to fund these fleet purchases with a combination of (i) cash in hand and (ii) borrowings under our ABL Credit Facility.

Future Sources and Use of Cash and Contractual Obligations

In the normal course of business, we enter into various contractual obligations that impact on our future liquidity. The table below contains our known material contractual obligations as of September 30, 2019.

($ in thousands)	Total	Less than 1 year	1 - 3 years	4- 5 years
ABL Credit Facility [1]	$ 130,000	$ —	$ —	$ 130,000
Operating leases[2]	1,319	90	743	486
Finance leases [2]	2,927	2,927	—	—
Capital expenditures[3]	23,072	23,072	—	—
Total	$ 157,318	$ 26,089	$ 743	$ 130,486

(1) Exclusive of future commitment fees, amortization of deferred financing costs, interest expense or other fees on our revolving credit facility because obligations thereunder are floating rate instruments and we cannot determine with accuracy the timing of future loan advances, repayments or future interest rates to be charged.

(2) Finance and Operating leases include agreements for various office locations, excluding short-term leases (see Notes (9) Leases and (10) Commitments and Contingencies in the financial statements for additional disclosures) .

(3) Capital expenditures relate to the contractual expenditures (see Note 10 Commitments and Contingencies). Amounts reflected in the table above do not include any potential capital expenditures associated with the 108,000 HHP of DuraStim® hydraulic pumps (or associated auxiliary and mixing equipment and power equipment) that we have an option to purchase through April 2021.

We have option agreements with our equipment manufacturer to purchase additional *DuraStim®* hydraulic fracturing pumps of approximately 108,000 HHP through April 30, 2021. We believe the cost to acquire the *DuraStim®* pumps will be comparable to our previously purchased *DuraStim®* pumps. In the current economic environment it is not probable we would exercise these options before they expire. However, if we decide to exercise our purchase options, it will represent an increase in our growth capital expenditures and we will expect to finance that purchase from our then existing cash on hand, cash flows from operation or borrowings under our ABL Credit Facility.

We have repaid all our borrowings, as of June 19, 2020, under our ABL Credit Facility with cash flows from operations and our available cash. Our objective is to maintain a conservative leverage ratio. Through June 19, 2020, we repaid $130.0 million of our borrowings under the ABL Credit Facility.

The Company enters into purchase agreements with the Sand suppliers to secure supply of sand as part of its normal course of business. The agreements with the Sand suppliers require that the Company purchase a minimum volume of sand, constituting substantially all of its sand requirements, from the Sand suppliers, otherwise certain penalties may be charged. Under certain of the purchase agreements, a shortfall fee applies if the Company purchases less than the minimum volume of sand. The shortfall fee represents liquidated damages and is either a fixed percentage of the purchase price for the minimum volumes or a fixed price per ton of unpurchased volumes. Under one of the purchase agreements, the Company is obligated to purchase a specified percentage of its overall sand requirements, or it must pay the supplier the difference between the purchase price of the minimum volumes under the purchase agreement and the purchase price of the volumes actually purchased. Our minimum volume commitments under the purchase agreements are either based on a percentage of our total usage or fixed minimum quantity. Our agreements with the Sand suppliers expire at different times prior to April 30, 2022.

In the normal course of business, we enter into various contractual obligations and routine growth and maintenance capital expenditures that impact on our future liquidity. There were no other known material contractual obligations and estimate for future capital expenditures as of September 30, 2019.

Cash and Cash Flows

The following table sets forth the historical cash flows for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,	
($ in thousands)	**2019**	**2018**
Net cash provided by (used in):		
Operating activities	$ 307,629	$ 251,094
Investing activities	$ (387,569)	$ (208,872)
Financing activities	$ 56,431	$ 11,993

Cash Flows From Operating Activities

Net cash provided by operating activities was $307.6 million for the nine months ended September 30, 2019, compared to net cash provided by operating activities of $251.1 million for the nine months ended September 30, 2018. The net increase of $56.5 million was primarily due to the expansion of our operations following the Pioneer Pressure Pumping Acquisition as well as the associated increase in revenue and operating profits from the expansion of operations, and the timing of our receivable from customers and payment to vendors. During the nine months ended September 30, 2019, our average active fleet count was 25.4 fleets compared to 18.4 fleets during the nine months ended September 30, 2018. Our increase in fleet size has resulted in our ability to service more customer wells and thus increased operating cash flows.

Cash Flows From Investing Activities

Net cash used in investing activities increased to $387.6 million for the nine months ended September 30, 2019, from $208.9 million for the nine months ended September 30, 2018. The increase was primarily attributable to the cash payment of approximately $110.0 million for 510,000 HHP, 4 coiled tubing units and maintenance yard acquired in the Pioneer Pressure Pumping Acquisition. In addition, in the nine months ended September 30, 2019, we made cash deposits of $126.7 million with our equipment manufacturers for 108,000 HHP of new-build *DuraStim®* hydraulic fracturing pumps and turbines which are expected to be delivered at different times between 2019 and 2020. Included in our cash deposits with our equipment manufacturers was an option fee of $6.1 million related to our option to acquire 108,000 HHP of additional *DuraStim®* pumps through the end of April 2021. The option fee will be equally applied towards the purchase price of each additional *DuraStim®* fleet ordered. We also paid approximately $101.0 million for maintenance capital expenditures and $48.3 million on other growth initiatives during the nine months ended September 30, 2019.

Cash Flows From Financing Activities

Net cash provided by financing activities was $56.4 million for the nine months ended September 30, 2019, and $12.0 million for the nine months ended September 30, 2018. The net increase in cash provided by financing activities during the nine months ended September 30, 2019 was primarily driven by the increase in net borrowings under our ABL Credit Facility, compared to nine months ended September 30, 2018. Our net cash provided from financing activities during the nine months ended September 30, 2019, was primarily driven by additional borrowings under our ABL Credit Facility of $110.0 million, proceeds from equity awards of $1.2 million, and offset by our use of cash for repayment of borrowings of $50.0 million and insurance financing of $4.5 million. Our net cash provided from financing activities during the nine months ended September 30, 2018 was primarily driven by our borrowings of $77.4 million, and offset by our use of cash for repayment of borrowings of $61.9 million, insurance financing of $3.2 million and debt issuance cost of $0.4 million.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2019.

Critical Accounting Policies and Estimates

There have been no material changes during the nine months ended September 30, 2019 to the methodology applied by our management for critical accounting policies previously disclosed in our Form 10-K. Please refer to Part II, Item 7, "Management Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Form 10-K for a discussion of our critical accounting policies and estimates.

Impairments

In the fourth quarter of 2019, management determined that the demand for vertical rigs and flowback services in the Permian Basin continued to be depressed. The Company's (i) vertical drilling rigs were not more likely than not to be utilized in the foreseeable future and (ii) flowback assets were having a deterioration in utilization. As such we expect to record impairment charges of approximately $3.4 million in the fourth quarter of 2019.

During the first quarter of 2020, management determined the reductions in commodity prices driven by the potential impact of the novel COVID-19 virus and global supply and demand dynamics coupled with the sustained decrease in the Company’s share price were triggering events for goodwill and asset impairment. As a result of the triggering events, we performed an interim goodwill impairment test on the hydraulic fracturing reporting unit and a recoverability tests on each of the assets groups. As a result, we expect to recognize impairments and charges in the first quarter of 2020 as follows:

- goodwill impairment of approximately $9.4 million;
- drilling asset group impairment of approximately $1.1 million as a result of our recoverability tests; and
- write-off of $6.1 million of deposits related to options to purchase additional *DuraStim®* equipment for which options expire at various times through the end of April 2021 as it is not probable we would exercise our options due to the events describe above.

If the depressed oil prices and the current economic conditions remain for a longer period of time, actual results may differ from estimates and future assumptions may change resulting in additional impairment charges in the future.

Recently Issued Accounting Standards

Disclosure concerning recently issued accounting standards is incorporated by reference to Note 2 of our Condensed Consolidated Financial Statements (Unaudited) contained in this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2019, there have been no material changes in market risk from the information provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" or "Quantitative and Qualitative Disclosures of Market Risk" in our Form 10-K or in this Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Background

In May 2019, the Audit Committee (the "Committee") of the Board, with assistance of independent outside counsel and accounting advisors, conducted an internal review initially focused on the Company's disclosure of agreements previously entered into with AFGlobal Corporation for the purchase of *Durastim®* hydraulic fracturing fleets and effective communications related thereto. The review was later expanded (collectively referred to as the "Expanded Audit Committee Review") to, among other items, review expense reimbursements, certain transactions involving related parties or potential conflicts of interest, and certain transactions entered into by our former Chief Executive Officer (the "former CEO").

The Expanded Audit Committee Review did not identify any material accounting errors in the consolidated financial statements included in the 2018 Annual Report and the 2019 First Quarter 10-Q. Based on the Expanded Audit Committee Review, current management determined that there were deficiencies in the design and/or operation of internal controls that constituted material weaknesses. Current management determined that the tone from former executive management was insufficient to create the proper environment for effective internal control over financial reporting, which led to the failure of controls in other areas as further described below.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2018, and March 31, June 30 and September 30, 2019. Previously, based on their prior evaluation, our former Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018, and March 31, 2019. As a result of the material weaknesses in our internal control over financial reporting described below, our current Principal Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2018, and March 31, June 30, and September 30, 2019. Notwithstanding the conclusion by our Principal Executive Officer and Principal Financial Officer that our disclosure controls and procedures as of December 31, 2018, and March 31, June 30, and September 30, 2019 were not effective, and notwithstanding the material weaknesses in our internal control over financial reporting described below, our management has concluded that our consolidated financial statements included in each of (i) this Quarterly Report on Form 10-Q, (ii) the 2018 Annual Report, (iii) the 2019 First Quarter 10-Q and (iv) the Quarterly Report for the three months ended June 30, 2019 present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Management's Report on Internal Control over Financial Reporting

The management of ProPetro Holding Corp. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. ProPetro Holding Corp. maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded against loss or unauthorized use and that the financial records are adequate and can be relied upon to produce financial statements in accordance with U.S. GAAP. The internal control system is augmented by written policies and procedures, an internal audit program and the selection and training of qualified personnel. This system includes policies that require adherence to ethical business standards and compliance with all applicable laws and regulations.

There are inherent limitations to the effectiveness of any control system. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company will be detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The Company intends to continually improve and refine its internal controls.

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our internal control over financial reporting as of December 31, 2018 based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO. Previously, based upon that evaluation by our former Principal Executive Officer and Principal Financial Officer, we determined that our internal control over financial reporting was effective as of December 31, 2018. However, as discussed above and in light of the results of the Expanded Audit Committee Review, based upon the evaluation under these criteria and upon the existence of the material weaknesses described below, management, with the participation of our current Principal Executive Officer and Principal Financial Officer, determined that we did not maintain effective internal control over financial reporting as of December 31, 2018. Due to the existence of the material weaknesses described below, our internal control over financial reporting remained ineffective as of March 31, June 30, and September 30, 2019.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility exists that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Control Environment

We have identified deficiencies in the principles associated with the control environment component of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to the following COSO principles: (i) the organization demonstrates a commitment to integrity and ethical values, (ii) the board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control, (iii) management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in pursuit of objectives, (iv) the organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives, and (v) the organization holds individuals accountable for their internal control related responsibilities in the pursuit of objectives.

Our senior management did not establish and promote a control environment with an appropriate tone of compliance and control consciousness throughout the entire Company. The Company did not sufficiently promote, monitor or enforce adherence to its Code of Conduct and Ethics. Additionally, the Expanded Audit Committee Review found that there was a general lack of focus on promoting a culture of compliance within the Company. Results of poor tone at the top included: (i) certain whistleblower allegations were not properly investigated and elevated to the Committee, (ii) the lack of an employee expense review and approval policy, (iii) two instances of non-compliance with the Company’s Insider Trading Policy, and (iv) instances of non-compliance with the Code of Conduct and Ethics policies.

This material weakness in the control environment contributed to material weaknesses in the following components of the COSO framework.

Information and Communication

We have identified deficiencies in the principles associated with the information and communication component of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to the following COSO principles: (i) the organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control, and (ii) the organization communicates with external parties regarding matters affecting the functioning of internal control.

Factors contributing to the material weakness included miscommunication between management and the Board regarding the conditionality of certain contracts that resulted in the non-disclosure of such contract commitments and the impact of such commitments on the Company’s future liquidity.

Control Activities

We have identified deficiencies in the principles associated with the control activities component of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to the following COSO principles: (i) the organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels and (ii) the organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

The Company’s failure to maintain appropriate tone at the top had a pervasive impact, and as such, resulted in a risk that could have impacted virtually all financial statement account balances and disclosures.

The COSO component material weaknesses described above contributed to the following material weakness within our system of internal control over financial reporting at the control activity level.

Related Parties

We did not maintain controls designed to sufficiently identify, evaluate, and disclose related party transactions. As a result, two related party transactions were entered into that were not identified by the Company’s controls and given consideration of appropriate disclosure.

Remediation Plan and Status

Our remediation efforts are ongoing, and we will continue our initiatives to implement and document policies, procedures, and internal controls. The Board and management have implemented, among other items, the following measures to address the material weaknesses identified:

- Appointed new executive officers with extensive public company experience to improve the tone at the top, communication with the Board and compliance with policies within the Company.
- Enhanced certain of the Company's policies, including the Code of Ethics and Conduct, Expense Reimbursement, Travel and Entertainment, and Delegation of Responsibilities and Authority. Additionally, the Company enhanced or implemented control activities to monitor compliance with such policies.
- Designed and implemented control activities related to the identification of, approval of, and disclosure of related party transactions.
- Designed and implemented control activities related to the identification and approval of potential conflicts of interest.
- Designed and implemented control activities related to the evaluation of whistleblower allegations.
- Formed a disclosure committee and appointed a Chief Disclosure Officer to provide improved corporate governance related to disclosures the Company provides to the public and other external parties.

Our remediation of the identified material weaknesses and strengthening our internal control environment is ongoing and will require a substantial effort. We will test the ongoing design and implementation and operating effectiveness of the new and existing controls in future periods. The material weaknesses cannot be considered remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively. Accordingly, we will continue to monitor and evaluate the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above.

Changes in Internal Control over Financial Reporting

There were no changes in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2019 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

In September 2019, a complaint, captioned Richard Logan, Individually and On Behalf of All Others Similarly Situated, Plaintiff, v. ProPetro Holding Corp., et al., (the "Logan Lawsuit"), was filed against the Company and certain of its current and former officers and directors in the U.S. District Court for the Western District of Texas.

In April 2020, Lead Plaintiffs Nykredit Portefølje Administration A/S, Oklahoma Firefighters Pension and Retirement System, Oklahoma Law Enforcement Retirement System, Oklahoma Police Pension and Retirement System, and Oklahoma City Employee Retirement System, and additional named plaintiff Police and Fire Retirement System of the City of Detroit, individually and on behalf of a putative class of shareholders who purchased the Company's common stock between March 17, 2017 and March 13, 2020, filed a second amended class action complaint in the U.S. District Court for the Western District of Texas in the Logan Lawsuit, alleging violations of Sections 10(b) and 20(a) of the Exchange Act, as amended, and Rule l0b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act, as amended, based on allegedly inaccurate or misleading statements, or omissions of material facts, about the Company's business, operations and prospects.

In January 2020, Boca Raton Firefighters' and Police Pension Fund ("Boca Raton") filed a shareholder derivative suit in the U.S. District Court for the Western District of Texas (the "Boca Raton Lawsuit") against certain of the Company's current and former officers and directors (the "Boca Raton Defendants"). The Company was named as a nominal defendant only. The claims include (i) breaches of fiduciary duties, (ii) unjust enrichment and (iii) contribution. Boca Raton did not quantify any alleged damages in its complaint but, in addition to attorneys' fees and costs, Boca Raton seeks various forms of relief, including (i) damages sustained by the Company as a result of the Boca Raton Defendants' alleged misconduct, (ii) punitive damages and (iii) equitable relief in the form of improvements to the Company's governance and controls.

In April 2020, Jye-Chun Chang filed a shareholder derivative suit in the U.S. District Court for the Western District of Texas (the "Chang Lawsuit") against certain of the Company's current and former officers and directors (the "Chang Defendants"). The Company was named as a nominal defendant only. The claims include (i) violations of section 14(a) of the Exchange Act, (ii) breach of fiduciary duties, (iii) unjust enrichment, (iv) abuse of control, (v) gross mismanagement and (vi) waste of corporate assets. Chang did not quantify any alleged damages in its complaint but, in addition to attorneys' fees and costs, Chang seeks various forms of relief, including (i) declaring that Chang may sustain the action on behalf of the Company, (ii) declaring that the Chang Defendants breached their fiduciary duties to the Company, (iii) damages sustained by the Company as a result of the Chang Defendants' alleged misconduct, (iv) equitable relief in the form of improvements to the Company's governance and controls and (v) restitution.

In October 2019, the Company received a letter from the SEC indicating that the SEC had opened an investigation into the Company and requesting that the Company provide certain information and documents, including documents related to the Expanded Audit Committee Review and related events. The Company has cooperated and expects to continue to cooperate with the SEC's investigation.

We are presently unable to predict the duration, scope or result of the Logan Lawsuit, the Boca Raton Lawsuit, the Chang Lawsuit, the SEC investigation, or any other related lawsuit or investigation.

ITEM 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part I, item 1A. of our Form 10-K for the year ended December 31, 2018 with the exception of the following:

Our business and financial performance depends on the oil and natural gas industry and particularly on the level of capital spending and exploration and production activity within the United States and in the Permian Basin, and a decline in prices for oil and natural gas has had and may continue to have an adverse effect on our revenue, cash flows, profitability and growth.

Demand for most of our services depends substantially on the level of capital expenditures in the Permian Basin by companies in the oil and natural gas industry. As a result, our operations are dependent on the levels of capital spending and activity in oil and gas exploration, development and production. Prolonged low oil and gas prices would generally depress the level of oil and natural gas exploration, development, production, and well completion activity and would result in a corresponding decline in the demand for the hydraulic fracturing services that we provide. For many years, oil prices and markets have been extremely volatile. Prices are affected by many factors beyond our control. West Texas Intermediate ("WTI") oil prices declined significantly in 2015 and 2016 to approximately $30 per barrel, but subsequently recovered in 2017 and 2018. However, in 2019, oil and natural gas prices were highly volatile. The average WTI oil prices per barrel was approximately $57, $65 and $51 for the years ended December 31, 2019, 2018 and 2017, respectively. Demand for our services is largely dependent on oil and natural gas prices, and our customers' completion budgets and rig count. In March 2020, WTI oil prices declined significantly, to a low of approximately $20 per barrel towards the end of March 2020. On June 17, 2020 the WTI oil price was approximately $38 per barrel. The decline in and unpredictable nature of oil and natural gas prices have caused a reduction in our customers' spending and associated drilling and completion activities, which has had and may continue to have an adverse effect on our revenue and cash flows. We are also experiencing pricing pressure on our services from substantially all of our customers which has decreased margins for us. If prices continue to decline or remain low and are highly unpredictable, additional declines in our customers' spending would have a further adverse effect on our revenue, margins and cash flows. In addition, a worsening of these conditions may result in a material adverse impact on certain of our customers' liquidity and financial position resulting in further spending reductions, delays in the collection of amounts owed to us and similar impacts.

Many factors over which we have no control affect the supply of, and demand for our services, and our customers' willingness to explore, develop and produce oil and natural gas, and therefore, influence prices for our services, including:

- the severity and duration of world health events, including the recent COVID-19 pandemic, related economic repercussions and the resulting severe disruption in the oil and gas industry and negative impact on demand for oil and gas, which is negatively impacting our business;
- the current significant surplus in the supply of oil and actions by the members of OPEC+ with respect to oil production levels and announcements of potential changes in such levels, including the ability of the OPEC+ countries to agree on and comply with supply limitations;
- uncertainty regarding the timing, pace and extent of an economic recovery in the United States and elsewhere, which in turn will likely affect demand for crude oil and natural gas and therefore the demand for our services;
- the domestic and foreign supply of, and demand for, oil and natural gas;
- the level of prices, and expectations about future prices, of oil and natural gas;
- the level of global oil and natural gas exploration and production;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- the supply of and demand for drilling and hydraulic fracturing equipment;
- the expected decline rates of current production;
- the price and quantity of foreign imports;
- political and economic conditions in oil and natural gas producing countries and regions, including the United States, the Middle East, Africa, South America and Russia;
- operational challenges relating to the COVID-19 pandemic and efforts to mitigate the spread of the virus, including logistical challenges, protecting the health and well-being of our employees, remote work arrangements, performance of contracts and supply chain disruptions;
- speculative trading in crude oil and natural gas derivative contracts;
- the level of consumer product demand;
- the discovery rates of new oil and natural gas reserves;
- contractions in the credit market;
- the strength or weakness of the U.S. dollar;
- available pipeline and other transportation capacity;
- the levels of oil and natural gas storage;
- weather conditions and other natural disasters;
- domestic and foreign tax policy;
- domestic and foreign governmental approvals and regulatory requirements and conditions;
- the continued threat of terrorism and the impact of military and other action, including military action in the Middle East;
- political or civil unrest in the United States or elsewhere;

- technical advances affecting energy consumption;
- the proximity and capacity of oil and natural gas pipelines and other transportation facilities;
- the price and availability of alternative fuels;
- the ability of oil and natural gas producers to raise equity capital and debt financing;
- merger and divestiture activity among oil and natural gas producers; and
- overall domestic and global economic conditions.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements with any certainty. For example, in March 2020, Saudi Arabia and Russia failed to agree on a plan to cut production of oil and gas within OPEC and Russia. Subsequently, Saudi Arabia announced plans to increase production and reduce the prices at which they sell oil. These events, combined with the continued outbreak of COVID-19 that has reduced economic activity and disrupted the supply chain of certain of our customers, have contributed to a sharp drop in prices for oil in the first quarter of 2020, continuing into the second quarter. Regulatory action to curtail production has been contemplated; for example, the Texas Railroad Commission, which regulates the production of oil and gas in the state of Texas, held a hearing in April 2020 regarding potential production cuts for producers in Texas in light of the recent decline in oil prices globally. The Railroad Commission ultimately declined to institute mandatory production cuts, but the agency may choose to revisit the issue if market weakness persists, which could further reduce demand for our services. While an agreement to cut production was reached in April 2020, oil prices have remained low, and global oil demand is expected to remain challenged at least until the COVID-19 outbreak can be contained. The impacts of these price declines have had, and may continue to have, a material adverse effect on our business, results of operation and financial condition.

The cyclical nature of the oil and natural gas industry may cause our operating results to fluctuate.

We derive our revenues from companies in the oil and natural gas exploration and production industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and natural gas prices. We have experienced, and may in the future experience, significant fluctuations in operating results as a result of the reactions of our customers to changes in oil and natural gas prices. For example, the decline in and unpredictable nature of oil and gas prices in 2019 and early 2020, combined with adverse changes in the capital and credit markets and the COVID-19 outbreak in early 2020, caused many exploration and production companies to reduce their capital budgets and drilling activity. This has resulted in a significant decline in demand for oilfield services and adversely impacted the prices oilfield services companies can charge for their services. These factors have materially and adversely affected our business, results of operations and financial condition. In addition, a majority of the service revenue we earn is based upon a charge for a relatively short period of time (for example, a day, a week or a month) for the actual period of time the service is provided to our customers. By contracting services on a short-term basis, we are exposed to the risks of a rapid reduction in market prices and utilization and resulting volatility in our revenues.

Events outside of our control, including an epidemic or outbreak of an infectious disease, such as COVID-19, may materially adversely affect our business.

We face risks related to epidemics, outbreaks or other public health events that are outside of our control, and could significantly disrupt our operations and adversely affect our financial condition. The global or national outbreak of an illness or any other communicable disease, or any other public health crisis, such as COVID-19, may cause disruptions to our business and operational plans, which may include (i) shortages of employees, (ii) unavailability of contractors and subcontractors, (iii) interruption of supplies from third parties upon which we rely, (iv) recommendations of, or restrictions imposed by, government and health authorities, including quarantines, to address the COVID-19 outbreak and (v) restrictions that we and our contractors, subcontractors and our customers impose, including facility shutdowns, to ensure the safety of employees. For example, in response to COVID-19, we have reduced headcount, officer salaries and director compensation, closed yard locations, reduced third party expenses and streamlined operations, reduced capital expenditures and recorded impairment expenses.

The COVID-19 pandemic has spread across the globe and impacted financial markets and worldwide economic activity and adversely affected our operations. In addition, the effects of COVID-19 and concerns regarding its global spread have negatively impacted the domestic and international demand for crude oil and natural gas, which has contributed to price volatility, impacted the operations and activity levels of our customers and materially and adversely affected the demand for oilfield services. These factors may also negatively impact our current suppliers and their ability or willingness to provide the necessary equipment, parts or raw materials, and they may otherwise fail to deliver the products timely and in the quantities required. Any resulting delays in the provision of our services could have a material adverse effect on our business, financial condition, results of operations and cash flows. As the potential impact from COVID-19 is difficult to predict, the extent to which it may negatively affect our operating results or the duration of any potential business disruption is uncertain. Any potential impact will depend on future developments and new information that may emerge regarding the severity and duration of COVID-19 and the actions taken by authorities to contain it or treat its impact, all of which are beyond our control. These potential impacts, while uncertain, could adversely affect our business, results of operations and financial condition.

Our business may be adversely affected by a deterioration in general economic conditions or a weakening of the broader energy industry.

A prolonged economic slowdown or recession in the United States, adverse events relating to the energy industry or regional, national and global economic conditions and factors, particularly a further slowdown in the exploration and production industry, could negatively impact our operations and therefore adversely affect our results. The risks associated with our business are more acute during periods of economic slowdown or recession because such periods may be accompanied by decreased exploration and development spending by our customers, decreased demand for oil and natural gas and decreased prices for oil and natural gas. The COVID-19 pandemic and the recent turmoil between the members of OPEC+ have caused oil prices to fall substantially and have impacted the global economy; such factors have heightened the risk of a prolonged economic slowdown or recession in the United States.

The majority of our operations are located in the Permian Basin, making us vulnerable to risks associated with operating in one major geographic area.

Our operations are geographically concentrated in the Permian Basin. For the years ended December 31, 2019, 2018 and 2017, approximately 99.4%, 99.0% and 97.0%, respectively, of our revenues were attributable to our operations in the Permian Basin. As a result of this concentration, we may be disproportionately exposed to the impact of regional supply and demand factors, delays or interruptions of production from wells in the Permian Basin caused by significant governmental regulation, processing or transportation capacity constraints, market limitations, curtailment of production or interruption of the processing or transportation of oil and natural gas produced from the wells in these areas. In addition, the effect of fluctuations on supply and demand may become more pronounced within specific geographic oil and natural gas producing areas such as the Permian Basin, which may cause these conditions to occur with greater frequency or magnify the effects of these conditions. Due to the concentrated nature of our operations, we could experience any of the same conditions at the same time, resulting in a relatively greater impact on our revenue than they might have on other companies that have more geographically diverse operations.

We are exposed to the credit risk of our customers, and any material nonpayment or nonperformance by our customers could adversely affect our business, results of operations and financial condition.

We are subject to the risk of loss resulting from nonpayment or nonperformance by our customers. Our credit procedures and policies may not be adequate to fully eliminate customer credit risk. If we fail to adequately assess the creditworthiness of existing or future customers or unanticipated deterioration in their creditworthiness, any resulting increase in nonpayment or nonperformance by them and our inability to re-market or otherwise use the production could have a material adverse effect on our business, results of operations and financial condition. In weak economic environments, we may experience increased delays and failures to pay due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets or other sources of capital. The decline in and unpredictable nature of oil and gas prices in 2019 and 2020 has negatively impacted the financial condition and liquidity of our customers, and future declines, sustained lower prices, or continued volatility could impact their ability to meet their financial obligations to us. If our customers delay paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, results of operations, and financial condition.

We face significant competition that may cause us to lose market share, and competition in our industry has intensified during the industry downturn.

The oilfield services industry is highly competitive and has relatively few barriers to entry. The principal competitive factors impacting sales of our services are price, reputation and technical expertise, equipment and service quality and health and safety standards. The market is also fragmented and includes numerous small companies capable of competing effectively in our markets on a local basis, as well as several large companies that possess substantially greater financial and other resources than we do. Our larger competitors' greater resources could allow those competitors to compete more effectively than we can. For instance, our larger competitors may offer services at below-market prices or bundle ancillary services at no additional cost to our customers. We compete with large national and multi-national companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Several of our competitors provide a broader array of services and have a stronger presence in more geographic markets. In addition, we compete with several smaller companies capable of competing effectively on a regional or local basis.

Some jobs are awarded on a bid basis, which further increases competition based on price. Pricing is often the primary factor in determining which qualified contractor is awarded a job. The competitive environment may be further intensified by mergers and acquisitions among oil and natural gas companies or other events that have the effect of reducing the number of available customers. As a result of competition, we may lose market share or be unable to maintain or increase prices for our present services or to acquire additional business opportunities, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements. The amount of equipment available may exceed demand, which could result in active price competition. In addition, some exploration and production companies have commenced completing their wells using their own hydraulic fracturing equipment and personnel. Any increase in the development and utilization of in-house fracturing capabilities by our customers could decrease the demand for our services and have a material adverse impact on our business.

Pressure on pricing for our services resulting from the industry downturn has impacted, and may continue to impact, our ability to maintain utilization and pricing for our services or implement price increases. During periods of declining pricing for our services, we may not be able to reduce our costs accordingly, which could further adversely affect our results of operations. Also, we may not be able to successfully increase prices without adversely affecting our utilization levels. The inability to maintain our utilization and pricing levels, or to increase our prices as costs increase, could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, competition among oilfield service and equipment providers is affected by each provider's reputation for safety and quality. We cannot assure that we will be able to maintain our competitive position.

New technology may cause us to become less competitive.

The oilfield services industry is subject to the introduction of new drilling and completion techniques and services using new technologies, some of which may be subject to patent or other intellectual property protections. As competitors and others use or develop new or comparable technologies in the future, we may lose market share or be placed at a competitive disadvantage. Further, we may face competitive pressure to develop, implement or acquire and deploy certain technology improvements at a substantial cost, such as our new *DuraStim*® fleets or the cost of implementing or purchasing a technology like the new*DuraStim*® fleets may be substantially higher than anticipated, and we may not be able to successfully implement the *DuraStim*® fleets or other technologies we may purchase. Some of our competitors have greater financial, technical and personnel resources that may allow them to enjoy technological advantages and develop and implement new products on a timely basis or at an acceptable cost. We cannot be certain that we will be able to develop and implement new technologies or products on a timely basis or at an acceptable cost. Limits on our ability to develop, effectively use and implement new and emerging technologies could have a material adverse effect on our business, financial condition, prospects or results of operations.

Our business depends upon our ability to obtain specialized equipment, parts and key raw materials, including frac sand and chemicals, from third-party suppliers, and we may be vulnerable to delayed deliveries and future price increases.

We purchase specialized equipment, parts and raw materials (including, for example, frac sand, chemicals and fluid ends) from third party suppliers and affiliates. At times during the business cycle, there is a high demand for hydraulic fracturing and other oilfield services and extended lead times to obtain equipment and raw materials needed to provide these services. Should our current suppliers be unable or unwilling to provide the necessary equipment, parts or raw materials or otherwise fail to deliver the products timely and in the quantities required, any resulting delays in the provision of our services could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, future price increases for this type of equipment, parts and raw materials could negatively impact our ability to purchase new equipment, to update or expand our existing fleets, to timely repair equipment in our existing fleets or meet the current demands of our customers. In addition, the COVID-19 pandemic may have a negative impact on our suppliers' ability or willingness to provide necessary equipment, parts or raw materials, and they may otherwise fail to deliver the products timely and in the quantities required.

We may be required to pay fees to certain of our sand suppliers based on minimum volumes under long-term contracts regardless of actual volumes received.

We enter into purchase agreements with our sand suppliers (the "Sand suppliers") to secure supply of sand as part of its normal course of business. The agreements with the Sand suppliers require that we purchase a minimum volume of sand, constituting substantially all of its sand requirements, from the Sand suppliers, otherwise certain penalties may be charged. Under certain of the purchase agreements, a shortfall fee applies if we purchase less than the minimum volume of sand. The shortfall fee represents liquidated damages and is either a fixed percentage of the purchase price for the minimum volumes or a fixed price per ton of unpurchased volumes. Under one of the purchase agreements, we are obligated to purchase a specified percentage of our overall sand requirements, or we must pay the supplier the difference between the purchase price of the minimum volumes under the purchase agreement and the purchase price of the volumes actually purchased. Our minimum volume commitments under the purchase agreements are either based on a percentage of our total usage or fixed minimum quantity. Our agreements with the Sand suppliers expire at different times prior to April 30, 2022.

If the activity level of our customers declines and the demand for our services is materially and adversely affected, we may be required to pay for more sand from our Sand suppliers than we need in the performance of our services, regardless of whether we take physical delivery of such sand. In such an event, we may be required to pay shortfall fees or other penalties under the purchase agreements, which could have a material adverse effect on our business, financial condition, or results of operations. The decrease in our customers' activity resulting from the COVID-19 pandemic and recent turmoil between the members of OPEC+, among other factors, has heightened the risk that we may be required to pay shortfall fees or other penalties to the Sand suppliers in the future.

Reliance upon a few large customers may adversely affect our revenue and operating results.

The majority of our revenue is generated from our hydraulic fracturing services. Due to the large percentage of our revenue historically derived from our hydraulic fracturing services with recurring customers and the limited availability of our fracturing units, we have had some degree of customer concentration. Our top ten customers represented approximately 95.5%, 85.5% and 87.0% of our consolidated revenue for the years ended December 31,2019, 2018 and 2017, respectively. It is likely that we will depend on a relatively small number of customers for a significant portion of our revenue in the future. If a major customer fails to pay us, revenue would be impacted and our operating results and financial condition could be harmed. Additionally, if we were to lose any material customer, we may not be able to redeploy our equipment at similar utilization or pricing levels and such loss could have an adverse effect on our business until the equipment is redeployed at similar utilization or pricing levels.

Certain of our completion services, particularly our hydraulic fracturing services, are substantially dependent on the availability of water. Restrictions on our or our customers' ability to obtain water may have an adverse effect on our financial condition, results of operations and cash flows.

Water is an essential component of unconventional shale oil and natural gas production during both the drilling and hydraulic fracturing processes. Over the past several years, certain of the areas in which we and our customers operate have experienced extreme drought conditions and competition for water in such areas is growing. In addition, some state and local governmental authorities have begun to monitor or restrict the use of water subject to their jurisdiction for hydraulic fracturing to ensure adequate local water supply. For instance, some states require E&P companies to report certain information regarding the water they use for hydraulic fracturing and to monitor the quality of groundwater surrounding some wells stimulated by hydraulic fracturing. Generally, our water requirements are met by our customers from sources on or near their sites, but there is no assurance that our customers will be able to obtain a sufficient supply of water from sources in these areas. Our or our customers' inability to obtain water from local sources or to effectively utilize flowback water could have an adverse effect on our financial condition, results of operations and cash flows.

We rely on a few key employees whose absence or loss could adversely affect our business.

Many key responsibilities within our business have been assigned to a small number of employees. The loss of their services could adversely affect our business. In particular, the loss of the services of one or more members of our executive team, such as our Chief Executive Officer, Chief Operating Officer, Senior Vice President of Operations, Chief Financial Officer, Chief Strategy and Administrative Officer, Chief Accounting Officer and General Counsel could disrupt our operations. We do not maintain "key person" life insurance policies on any of our employees. As a result, we are not insured against any losses resulting from the death of our key employees.

If we are unable to employ a sufficient number of skilled and qualified workers, our capacity and profitability could be diminished and our growth potential could be impaired.

The delivery of our services requires skilled and qualified workers with specialized skills and experience who can perform physically demanding work. As a result of the volatility of the oilfield services industry and the demanding nature of the work, workers may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive. Our ability to be productive and profitable will depend upon our ability to employ and retain skilled workers. In addition, our ability to expand our operations depends in part on our ability to increase the size of our skilled labor force. As a result of the downturn in the oil and gas industry resulting from the COVID-19 pandemic and recent turmoil between the members of OPEC+, among other factors, we have made reductions in the size of workforce due to reduced demand for our services. If demand for our services increases, we may experience difficulty in hiring or re-hiring skilled and unskilled workers in the future to meet that demand. At times, the demand for skilled workers in our geographic areas of operations is high, and the supply is limited. As a result, competition for experienced oilfield service personnel is intense, and we face significant challenges in competing for crews and management with large and well-established competitors. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. Furthermore, a significant decrease in the wages paid by us or our competitors as a result of reduced industry demand could result in a reduction of the available skilled labor force, and there is no assurance that the availability of skilled labor will improve following a subsequent increase in demand for our services or an increase in wages. If either of these events were to occur, our capacity and profitability could be diminished and our growth potential could be impaired.

Our operations require substantial capital and we may be unable to obtain needed capital or financing on satisfactory terms, or at all, which could limit our ability to grow.

The oilfield services industry is capital intensive. In conducting our business and operations, we have made, and expect to continue to make, substantial capital expenditures. Our total capital expenditures incurred were approximately $400.7 million, $592.6 million and $305.3 million during the years ended December 31, 2019, 2018 and 2017. We have historically financed capital expenditures primarily with funding from cash on hand, cash flow from operations, equipment and vendor financing and borrowings under our credit facility. We may be unable to generate sufficient cash from operations and other capital resources to maintain planned or future levels of capital expenditures which, among other things, may prevent us from acquiring new equipment or properly maintaining our existing equipment. With the current depressed oil and gas market conditions, our remaining availability under our ABL Credit Facility will be adversely impacted by the expected decline in our customers' activity and we may be unable to borrow under our ABL Credit Facility if our eligible accounts receivable continues to decline. Further, any disruptions or continuing volatility in the global financial markets may lead to an increase in interest rates or a contraction in credit availability impacting our ability to finance our operations. For example, our borrowing base declined from $191.1 million as of September 30, 2019 to approximately $16.8 million as of June 19, 2020 due to decreased activity levels and the resulting decrease to our eligible accounts receivable. Based on current and expected market conditions and customer activity levels, we expect our borrowing base to materially decline further in the near term. This could put us at a competitive disadvantage or interfere with our growth plans. Further, our actual capital expenditures could exceed our capital expenditure budget. In the event our capital expenditure requirements at any time are greater than the amount we have available, we could be required to seek additional sources of capital, which may include debt financing, joint venture partnerships, sales of assets, offerings of debt or equity securities or other means. We may not be able to obtain any such alternative source of capital. We may be required to curtail or eliminate contemplated activities. If we can obtain alternative sources of capital, the terms of such alternative may not be favorable to us. In particular, the terms of any debt financing may include covenants that significantly restrict our operations. Our inability to grow as planned may reduce our chances of maintaining and improving profitability.

Concerns over general economic, business or industry conditions may have a material adverse effect on our results of operations, liquidity and financial condition.

Concerns over global economic conditions, geopolitical issues, public health crises (including the COVID-19 pandemic), interest rates, inflation, the availability and cost of credit and the United States and foreign financial markets have contributed to increased economic uncertainty and diminished expectations for the global economy. These factors, combined with volatility in commodity prices, business and consumer confidence and unemployment rates, have precipitated an economic slowdown. Concerns about global economic growth have had a significant adverse impact on global financial markets and commodity prices, including the significant decline in WTI oil prices beginning February 2020. The decline in and unpredictable nature of oil and natural gas prices have caused a reduction in our customers' spending and associated drilling and completion activities, which had and may continue to have an adverse effect on our revenue and cash flows. If the current economic climate in the United States or abroad continues, deteriorates further or remains uncertain, worldwide demand for petroleum products could diminish further, which could impact the price at which oil, natural gas and natural gas liquids can be sold, which could affect the ability of our customers to continue operations and adversely impact our results of operations, liquidity and financial condition.

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

Our existing and future indebtedness, whether incurred in connection with acquisitions, operations or otherwise, may adversely affect our operations and limit our growth, and we may have difficulty making debt service payments on such indebtedness as payments become due. Our level of indebtedness may affect our operations in several ways, including the following:

- increasing our vulnerability to general adverse economic and industry conditions;
- the covenants that are contained in the agreements governing our indebtedness could limit our ability to borrow funds, dispose of assets, pay dividends and make certain investments;
- our debt covenants could also affect our flexibility in planning for, and reacting to, changes in the economy and in our industry;

- any failure to comply with the financial or other debt covenants, including covenants that impose requirements to maintain certain financial ratios, could result in an event of default, which could result in some or all of our indebtedness becoming immediately due and payable;
- our level of debt could impair our ability to obtain additional financing, or obtain additional financing on favorable terms, in the future for working capital, capital expenditures, acquisitions or other general corporate purposes; and
- our business may not generate sufficient cash flow from operations to enable us to meet our obligations under our indebtedness.

Restrictions in our ABL Credit Facility (as defined herein) and any future financing agreements may limit our ability to finance future operations or capital needs or capitalize on potential acquisitions and other business opportunities.

The operating and financial restrictions and covenants in our credit facility and any future financing agreements could restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, our ABL Credit Facility restricts or limits our ability to:

- grant liens;
- incur additional indebtedness;
- engage in a merger, consolidation or dissolution;
- enter into transactions with affiliates;
- sell or otherwise dispose of assets, businesses and operations;
- materially alter the character of our business as currently conducted; and
- make acquisitions, investments and capital expenditures.

Furthermore, our ABL Credit Facility contains certain other operating and financial covenants. Our ability to comply with the covenants and restrictions contained in the ABL Credit Facility may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in our ABL Credit Facility, a significant portion of our indebtedness may become immediately due and payable and our lenders' commitment to make further loans to us may terminate. Further, our borrowing base, as redetermined monthly, is tied to 85.0% of eligible accounts receivable. Changes to our operational activity levels have an impact on our total eligible accounts receivable, which could result in significant changes to our borrowing base and therefore our availability under our ABL Credit Facility. For example, our borrowing base declined from $191.1 million as of September 30, 2019 to approximately $16.8 million as of June 19, 2020 due to decreased activity levels and the resulting decrease to our eligible accounts receivable. Based on current and expected market conditions and customer activity levels, we expect our borrowing base to materially decline further in the near term. If our borrowing base is reduced below the amount of our outstanding borrowings, we will be required to repay the excess borrowings immediately on demand by the lenders. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our ABL Credit Facility or any new indebtedness could have similar or greater restrictions. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Credit Facility and Other Financing Arrangements."

We may become more leveraged and our indebtedness could adversely affect our operations and financial condition.

Our business is capital intensive and we may seek to raise debt capital to fund our business and growth strategy. Indebtedness could have negative consequences that could materially and adversely affect our business, financial condition, results of operations, cash flows and prospects, such as:

- requiring us to dedicate a substantial portion of our cash flow from operating activities to payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, research and development efforts, potential strategic acquisitions and other general corporate purposes;
- limiting our ability to obtain additional financing to fund growth, working capital or capital expenditures, or to fulfill debt service requirements or other cash requirements;
- increasing our vulnerability to economic downturns and changing market conditions; and
- placing us at a competitive disadvantage relative to competitors that have less debt.

Furthermore, interest rates on future indebtedness could be higher than current levels, causing our financing costs to increase accordingly. In addition, LIBOR and other "benchmark" rates are subject to ongoing national and international regulatory scrutiny and reform. In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and we are unable to predict the effect of any such alternatives on our business and results of operations. However, if LIBOR is phased out without a replacement benchmark, our only option under the ABL Credit Facility will be to borrow at the Base Rate (as defined in the ABL Credit Facility) until an alternative benchmark rate is selected. Changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our shares, and a rising interest rate environment could have an adverse impact on the price of our shares, our ability to issue equity or incur debt.

We may record losses or impairment charges related to goodwill and long-lived assets.

Changes in future market conditions and prolonged periods of low utilization, changes in technology or the sale of assets below their carrying value may cause us to experience losses in our results of operations. These events could result in the recognition of impairment charges or losses from asset sales that negatively impact our financial results. Significant impairment charges or losses from asset sales as a result of a decline in market conditions or otherwise could have a material adverse effect on our results of operations in future periods.

In the fourth quarter of 2019, management determined that the demand for vertical rigs and flowback services in the Permian Basin continued to be depressed. The Company's (i) vertical drilling rigs were not more likely than not to be utilized in the foreseeable future and (ii) flowback assets were having a deterioration in utilization. As such we expect to record impairment charges of approximately $3.4 million in the fourth quarter of 2019.

During the first quarter of 2020, management determined the reductions in commodity prices driven by the potential impact of the novel COVID-19 virus and global supply and demand dynamics coupled with the sustained decrease in the Company's share price were triggering events for goodwill and asset impairment. As a result of the triggering events, we performed an interim goodwill impairment test on the hydraulic fracturing reporting unit and a recoverability tests on each of the assets groups. As a result, we expect to recognize impairments and charges in the first quarter of 2020 as follows:

- goodwill impairment of approximately $9.4 million;
- drilling asset group impairment of approximately $1.1 million as a result of our recoverability tests; and
- write-off of $6.1 million of deposits related to options to purchase additional *DuraStim®* equipment for which options expire at various times through the end of April 2021 as it is not probable we would exercise our options due to the events described above.

Our operations are subject to unforeseen interruptions and hazards inherent in the oil and natural gas industry, for which we may not be adequately insured and which could cause us to lose customers and substantial revenue.

Our operations are exposed to the risks inherent to our industry, such as equipment defects, vehicle accidents, worksite injuries to our or third-party personnel, fires, explosions, blowouts, surface cratering, uncontrollable flows of gas or well fluids, pipe or pipeline failures, abnormally pressured formations and various environmental hazards, such as oil spills and releases of, and exposure to, hazardous substances. For example, our operations are subject to risks associated with hydraulic fracturing, including any mishandling, surface spillage or potential underground migration of fracturing fluids, including chemical additives. In addition, our operations are exposed to potential natural disasters, including blizzards, tornadoes, storms, floods, other adverse weather conditions and earthquakes. The occurrence of any of these events could result in substantial losses to us due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigations and penalties or other damage resulting in curtailment or suspension of our operations or the loss of customers. The cost of managing such risks may be significant. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators. In particular, our customers may elect not to purchase our services if they view our environmental or safety record as unacceptable, which could cause us to lose customers and substantial revenues.

Our insurance may not be adequate to cover all losses or liabilities we may suffer. Furthermore, we may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased and could escalate further. In addition, sub-limits have been imposed for certain risks. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we are not fully insured, it could have a material adverse effect on our business, results of operations and financial condition. In addition, we may not be able to secure additional insurance or bonding that might be required by new governmental regulations. This may cause us to restrict our operations, which might severely impact our financial position.

Since hydraulic fracturing activities are part of our operations, they are covered by our insurance against claims made for bodily injury, property damage and clean-up costs stemming from a sudden and accidental pollution event. However, we may not have coverage if we are unaware of the pollution event and unable to report the "occurrence" to our insurance company within the time frame required under our insurance policy. In addition, these policies do not provide coverage for all liabilities, and the insurance coverage may not be adequate to cover claims that may arise, or we may not be able to maintain adequate insurance at rates we consider reasonable. A loss not fully covered by insurance could have a material adverse effect on our financial position, results of operations and cash flows.

A terrorist attack, armed conflict or political or civil unrest could harm our business.

Terrorist activities, anti-terrorist efforts, other armed conflicts and political or civil unrest could adversely affect the U.S. and global economies and could prevent us from meeting financial and other obligations. We could experience loss of business, delays or defaults in payments from payors or disruptions of fuel supplies and markets if pipelines, production facilities, processing plants, refineries or transportation facilities are direct targets or indirect casualties of an act of terror or war. Such activities could reduce the overall demand for oil and natural gas, which, in turn, could also reduce the demand for our services. Terrorist activities, the threat of potential terrorist activities, political or civil unrest and any resulting economic downturn could adversely affect our results of operations, impair our ability to raise capital or otherwise adversely impact our ability to realize certain business strategies.

Increasing trucking regulations may increase our costs and negatively impact our results of operations.

In connection with our business operations, including the transportation and relocation of our hydraulic fracturing equipment and shipment of frac sand, we operate trucks and other heavy equipment. As such, we operate as a motor carrier in providing certain of our services and therefore are subject to regulation by the DOT and by various state agencies. These regulatory authorities exercise broad powers, governing activities such as the authorization to engage in motor carrier operations, driver licensing, insurance requirements, financial reporting and review of certain mergers, consolidations and acquisitions, and transportation of hazardous materials. Our trucking operations are subject to possible regulatory and legislative changes that may increase our costs. Some of these possible changes include increasingly stringent environmental regulations, changes in the hours of service regulations which govern the amount of time a driver may drive or work in any specific period, onboard black box recorder device requirements or limits on vehicle weight and size.

Interstate motor carrier operations are subject to safety requirements prescribed by the DOT. To a large degree, intrastate motor carrier operations are subject to state safety regulations that mirror federal regulations. Matters such as the weight and dimensions of equipment are also subject to federal and state regulations. From time to time, various legislative proposals are introduced, including proposals to increase federal, state, or local taxes, including taxes on motor fuels, which may increase our costs or adversely impact the recruitment of drivers. We cannot predict whether, or in what form, any increase in such taxes applicable to us will be enacted.

Certain motor vehicle operators require registration with the DOT. This registration requires an acceptable operating record. The DOT periodically conducts compliance reviews and may revoke registration privileges based on certain safety performance criteria that could result in a suspension of operations.

We are subject to environmental laws and regulations, and future compliance, claims, and liabilities relating to such matters may have a material adverse effect on our results of operations, financial position or cash flows.

The nature of our operations, including the handling, transporting and disposing of a variety of fluids and substances, including hydraulic fracturing fluids and other regulated substances, air emissions, and wastewater discharges exposes us to some risks of environmental liability, including the release of pollutants from oil and natural gas wells and associated equipment to the environment. The cost of compliance with these laws can be significant. Failure to properly handle, transport or dispose of these materials or otherwise conduct our operations in accordance with these and other environmental laws could expose us to substantial liability for administrative, civil and criminal penalties, cleanup and site restoration costs and liability associated with releases of such materials, damages to natural resources and other damages, as well as potentially impair our ability to conduct our operations. Such liability is commonly on a strict, joint and several liability basis, without regard to fault. Liability may be imposed as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior operators or other third parties. Neighboring landowners and other third parties may file claims against us for personal injury or property damage allegedly caused by the release of pollutants into the environment. Environmental laws and regulations have changed in the past, and they may change in the future and become more stringent. Current and future claims and liabilities may have a material adverse effect on us because of potential adverse outcomes, defense costs, diversion of management resources, unavailability of insurance coverage and other factors. The ultimate costs of these liabilities are difficult to determine and may exceed any reserves we may have established. If existing environmental requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

Our and our customers' operations are subject to a series of risks arising out of the threat of climate change that could result in increased operating costs, limit the areas in which oil and natural gas production may occur, and reduce demand for the products and services we provide.

The threat of climate change continues to attract considerable attention in the United States and in foreign countries. Numerous proposals have been made and could continue to be made at the international, national, regional and state levels of government to monitor and limit existing emissions of GHGs as well as to restrict or eliminate such future emissions. As a result, our operations as well as the operations of our oil and natural gas exploration and production customers are subject to a series of regulatory, political, litigation, and financial risks associated with the production and processing of fossil fuels and emission of GHGs.

In the United States, no comprehensive climate change legislation has been implemented at the federal level. However, following the U.S. Supreme Court finding that GHG emissions constitute a pollutant under the CAA, the EPA has adopted regulations that, among other things, establish construction and operating permit reviews for GHG emissions from certain large stationary sources, require the monitoring and annual reporting of GHG emissions from certain petroleum and natural gas system sources in the United States, and implement New Source Performance Standards directing the reduction of methane from certain new, modified, or reconstructed facilities in the oil and natural gas sector, and together with the DOT, implementing GHG emissions limits on vehicles manufactured for operation in the United States. For example, in June 2016, the EPA finalized rules that establish new air emission controls for methane emissions from certain new, modified, or reconstructed equipment and processes in the oil and natural gas source category, including production, processing, transmission, and storage activities, otherwise known as Subpart OOOOa. Following the change in administration, there have been attempts to modify these regulations, and litigation is ongoing.

Additionally, various states and groups of states have adopted or are considering adopting legislation, regulations or other regulatory initiatives that are focused on such areas GHG cap and trade programs, carbon taxes, reporting and tracking programs, and restriction of emissions. At the international level, there is an agreement, the United Nations-sponsored "Paris Agreement," for nations to limit their GHG emissions through non-binding, individually-determined reduction goals every five years after 2020, although the United States has announced its withdrawal from such agreement, effective November 4, 2020.

Governmental, scientific, and public concern over the threat of climate change arising from GHG emissions has resulted in increasing political risks in the United States, including climate-change-related pledges made by some candidates seeking the office of the President of the United States in 2020. Some of these pledges have included calls to ban hydraulic fracturing, which could adversely impact our operations. Litigation risks are also increasing as a number of cities and other local governments have sought to bring suit against the largest oil and natural gas exploration and production companies in state or federal court, alleging among other things, that such companies created public nuisances by producing fuels that contributed to global warming effects, such as rising sea levels, and therefore are responsible for roadway and infrastructure damages as a result.

There are also increasing financial risks for fossil fuel producers as shareholders currently invested in fossil-fuel energy companies concerned about the potential effects of climate change may elect in the future to shift some or all of their investments into non-energy related sectors. Institutional lenders who provide financing to fossil-fuel energy companies also have become more attentive to sustainable lending practices and some of them may elect not to provide funding for fossil fuel energy companies. Additionally, the lending practices of institutional lenders have been the subject of intensive lobbying efforts in recent years, oftentimes public in nature, by environmental activists, proponents of the international Paris Agreement, and foreign citizenry concerned about climate change not to provide funding for fossil fuel producers. Limitation of investments in and financings for fossil fuel energy companies could result in the restriction, delay or cancellation of drilling programs or development or production activities.

The adoption and implementation of new or more stringent international, federal or state legislation, regulations or other regulatory initiatives that impose more stringent standards for GHG emissions from the oil and natural gas sector or otherwise restrict the areas in which this sector may produce oil and natural gas or generate GHG emissions could result in increased costs of compliance or costs of consuming, and thereby reduce demand for, oil and natural gas, which could reduce demand for our services and products. Additionally, political, litigation and financial risks may result in our oil and natural gas customers restricting or cancelling production activities, incurring liability for infrastructure damages as a result of climatic changes, or impairing their ability to continue to operate in an economic manner, which also could reduce demand for our services and products. One or more of these developments could have a material adverse effect on our business, financial condition and results of operation

Moreover, climate change may cause more extreme weather conditions and increased volatility in seasonal temperatures. Extreme weather conditions can interfere with our operations and increase our costs, and damage resulting from extreme weather may not be fully insured.

Federal and state legislative and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.

Our hydraulic fracturing operations are a significant component of our business, and it is an important and common practice that is used to stimulate production of hydrocarbons, particularly oil and natural gas, from tight formations, including shales. The process, which involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production, is typically regulated by state oil and natural gas commissions. However, federal agencies have asserted regulatory authority over certain aspects of the process. For example, the EPA has previously issued a series of rules under the CAA that establish new emission control requirements for emissions of volatile organic compounds and methane from certain oil and natural gas production and natural gas processing operations and equipment. There have been several attempts to modify or rescind such regulations, and litigation is ongoing. Separately, the BLM finalized a rule governing hydraulic fracturing on federal lands but this rule was subsequently rescinded. Further, legislation to amend the Safe Drinking Water Act to repeal the exemption for hydraulic fracturing (except when diesel fuels are used) from the definition of “underground injection” and require federal permitting and regulatory control of hydraulic fracturing, as well as legislative proposals to require disclosure of the chemical constituents of the fluids used in the fracturing process, have been proposed in recent sessions of Congress. Several states and local jurisdictions in which we or our customers operate also have adopted or are considering adopting regulations that could restrict or prohibit hydraulic fracturing in certain circumstances, impose more stringent operating standards and/or require the disclosure of the composition of hydraulic fracturing fluids.

Federal and state governments have also investigated whether the disposal of produced water into underground injection wells has caused increased seismic activity in certain areas. For example, the United States Geological Survey identified eight states with the most significant hazards from induced seismicity, including Oklahoma, Kansas, Texas, Colorado, New Mexico, Arkansas, Ohio and Alabama. In response to concerns regarding induced seismicity, regulators in some states have imposed, or are considering imposing, additional requirements in the permitting of produced water disposal wells or otherwise to assess any relationship between seismicity and the use of such wells. For example, Oklahoma has issued rules for wastewater disposal wells in 2014 that imposed certain permitting and operating restrictions and reporting requirements on disposal wells in proximity to faults and also, from time to time, has implemented plans directing certain wells where seismic incidents have occurred to restrict or suspend disposal well operations. In particular, the Oklahoma Corporation Commission released well completion seismicity guidelines for operators in the SCOOP and STACK require hydraulic fracturing operations to be suspended following earthquakes of certain magnitudes in the vicinity. In addition, the Oklahoma Corporation Commission’s Oil and Gas Conservation Division has previously issued an order limiting future increases in the volume of oil and natural gas wastewater injected into the ground in an effort to reduce the number of earthquakes in the state. The Texas Railroad Commission has adopted similar rules. In addition, in December 2016, the EPA released its final report regarding the potential impacts of hydraulic fracturing on drinking water resources, concluding that “water cycle” activities associated with hydraulic fracturing may impact drinking water resources under certain limited circumstances. However, the EPA has imposed no regulatory limits as a result of this study.

Increased regulation of hydraulic fracturing and related activities (whether as a result of the EPA study results or resulting from other factors) could subject us and our customers to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and recordkeeping obligations, and plugging and abandonment requirements. New requirements could result in increased operational costs for us and our customers, and reduce the demand for our services.

Conservation measures, commercial development and technological advances could reduce demand for oil and natural gas and our services.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, technological advances in fuel economy and energy generation devices could reduce demand for oil and natural gas, resulting in reduced demand for oilfield services. The impact of the changing demand for oil and natural gas services and products may have a material adverse effect on our business, financial condition, results of operations and cash flows.

The commercial development of economically-viable alternative energy sources and related products (such as electric vehicles, wind, solar, geothermal, tidal, fuel cells and biofuels) could have a similar effect. In addition, certain U.S. federal income tax deductions currently available with respect to oil and natural gas exploration and development, including the allowance of percentage depletion for oil and natural gas properties, may be eliminated as a result of proposed legislation. Any future decreases in the rate at which oil and natural gas reserves are discovered or developed, whether due to the passage of legislation, increased governmental regulation leading to limitations, or prohibitions on exploration and drilling activity, including hydraulic fracturing, or other factors, could have a material adverse effect on our business and financial condition, even in a stronger oil and natural gas price environment.

We may be subject to claims for personal injury and property damage, which could materially adversely affect our financial condition and results of operations.

We operate with most of our customers under master service agreements ("MSAs"). We endeavor to allocate potential liabilities and risks between the parties in the MSAs. Generally, under our MSAs, including those relating to our hydraulic fracturing services, we assume responsibility for, including control and removal of, pollution or contamination which originates above surface and originates from our equipment or services. Our customer assumes responsibility for, including control and removal of, all other pollution or contamination which may occur during operations, including that which may result from seepage or any other uncontrolled flow of drilling fluids. We may have liability in such cases if we are negligent or commit willful acts. Generally, our customers also agree to indemnify us against claims arising from their employees' personal injury or death to the extent that, in the case of our hydraulic fracturing operations, their employees are injured or their properties are damaged by such operations, unless resulting from our gross negligence or willful misconduct. Similarly, we generally agree to indemnify our customers for liabilities arising from personal injury to or death of any of our employees, unless resulting from gross negligence or willful misconduct of the customer. In addition, our customers generally agree to indemnify us for loss or destruction of customer-owned property or equipment and in turn, we agree to indemnify our customers for loss or destruction of property or equipment we own. Losses due to catastrophic events, such as blowouts, are generally the responsibility of the customer. However, despite this general allocation of risk, we might not succeed in enforcing such contractual allocation, might incur an unforeseen liability falling outside the scope of such allocation or may be required to enter into an MSA with terms that vary from the above allocations of risk. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in our being named as a defendant in lawsuits asserting large claims. As a result, we may incur substantial losses which could materially and adversely affect our financial condition and results of operation.

We are subject to cyber security risks. A cyber incident could occur and result in information theft, data corruption, operational disruption and/or financial loss.

The oil and natural gas industry has become increasingly dependent on digital technologies to conduct certain processing activities. For example, we depend on digital technologies to perform many of our services and process and record operational and accounting data. At the same time, cyber incidents, including deliberate attacks or unintentional events, have increased. The U.S. government has issued public warnings that indicate that energy assets might be specific targets of cyber security threats. Our technologies, systems and networks, and those of our vendors, suppliers and other business partners, may become the target of cyberattacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary information, personal information and other data, or other disruption of our business operations. In addition, certain cyber incidents, such as unauthorized surveillance, may remain undetected for an extended period. Our systems and insurance coverage for protecting against cyber security risks, including cyberattacks, may not be sufficient and may not protect against or cover all of the losses we may experience as a result of the realization of such risks. As cyber incidents continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate the effects of cyber incidents.

We may grow through acquisitions and our failure to properly plan and manage those acquisitions may adversely affect our performance.

We have completed and may in the future pursue, asset acquisitions or acquisitions of businesses. Any acquisition of assets or businesses involves potential risks, including the failure to realize expected profitability, growth or accretion; environmental or regulatory compliance matters or liability; title or permit issues; the incurrence of significant charges, such as impairment of goodwill, or property, plant and equipment or restructuring charges; and the incurrence of unanticipated liabilities and costs for which indemnification is unavailable or inadequate. The process of upgrading acquired assets to our specifications and integrating acquired assets or businesses may also involve unforeseen costs and delays or other operational, technical and financial difficulties and may require a significant amount of time and resources and may divert management's attention from existing operations or other priorities.

We must plan and manage any acquisitions effectively to achieve revenue growth and maintain profitability in our evolving market. Any failure to manage acquisitions effectively or integrate acquired assets or businesses into our existing operations successfully, or to realize the expected benefits from an acquisition or minimize any unforeseen operational difficulties, could have a material adverse effect on our business, financial condition, prospects or results of operations.

Our ability to use our net operating loss carryforwards may be limited.

As of December 31, 2019, we had approximately $304.7 million of federal net operating loss carryforwards some of which will begin to expire in 2035. After January 1, 2018, federal net operating loss carryforwards can be carried forward indefinitely. Approximately $229.5 million of our federal net operating loss carryforward relates to pre-2018 periods which are not subject to an annual 80% limitation of taxable income. Our state net operating losses is approximately $50.4 million and will begin to expire in 2024. Utilization of these net operating loss carryforwards ("NOLs") depends on many factors, including our future income, which cannot be assured. In addition, Section 382 ("Section 382") of the Internal Revenue Code of 1986, as amended (the "Code"), generally imposes an annual limitation on the amount of taxable income that may be offset by NOLs when a corporation has undergone an "ownership change" (as determined under Section 382). Generally, a change of more than 50% in the ownership of a corporation's stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. Any unused annual limitation may, subject to certain limitations, be carried over to later years. We may experience ownership changes, which may result in annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in Section 382, increased under certain circumstances as a result of recognizing built-in gains in our assets existing at the time of the ownership change. The limitations arising from ownership changes may prevent utilization of our NOLs prior to their expiration. Future ownership changes or regulatory changes could further limit our ability to utilize our NOLs. To the extent we are not able to offset our future income with our NOLs, this could adversely affect our operating results and cash flows if we attain profitability.

The SEC's pending investigation, the Logan Lawsuit, the Boca Raton Lawsuit, and the Chang Lawsuit could have a material adverse effect on our business, financial condition, results of operation, and cash flows.

In September 2019, a complaint, captioned Richard Logan, Individually and On Behalf of All Others Similarly Situated, Plaintiff, v. ProPetro Holding Corp., et al., (the "Logan Lawsuit"), was filed against the Company and certain of its current and former officers and directors in the U.S. District Court for the Western District of Texas.

In April 2020, Lead Plaintiffs Nykredit Portefølje Administration A/S, Oklahoma Firefighters Pension and Retirement System, Oklahoma Law Enforcement Retirement System, Oklahoma Police Pension and Retirement System, and Oklahoma City Employee Retirement System, and additional named plaintiff Police and Fire Retirement System of the City of Detroit, individually and on behalf of a putative class of shareholders who purchased the Company's common stock between March 17, 2017 and March 13, 2020, filed a second amended class action complaint in the U.S. District Court for the Western District of Texas in the Logan Lawsuit, alleging violations of Sections 10(b) and 20(a) of the Exchange Act, as amended, and Rule l0b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act, as amended, based on allegedly inaccurate or misleading statements, or omissions of material facts, about the Company's business, operations and prospects.

In January 2020, Boca Raton Firefighters' and Police Pension Fund ("Boca Raton") filed a shareholder derivative suit in the U.S. District Court for the Western District of Texas (the "Boca Raton Lawsuit") against certain of the Company's current and former officers and directors (the "Boca Raton Defendants"). The Company was named as a nominal defendant only. The claims include (i) breaches of fiduciary duties, (ii) unjust enrichment and (iii) contribution. Boca Raton did not quantify any alleged damages in its complaint but, in addition to attorneys' fees and costs, Boca Raton seeks various forms of relief, including (i) damages sustained by the Company as a result of the Boca Raton Defendants' alleged misconduct, (ii) punitive damages and (iii) equitable relief in the form of improvements to the Company's governance and controls.

In April 2020, Jye-Chun Chang filed a shareholder derivative suit in the U.S. District Court for the Western District of Texas (the "Chang Lawsuit") against certain of the Company's current and former officers and directors (the "Chang Defendants"). The Company was named as a nominal defendant only. The claims include (i) violations of section 14(a) of the Exchange Act, (ii) breach of fiduciary duties, (iii) unjust enrichment, (iv) abuse of control, (v) gross mismanagement and (vi) waste of corporate assets. Chang did not quantify any alleged damages in its complaint but, in addition to attorneys' fees and costs, Chang seeks various forms of relief, including (i) declaring that Chang may sustain the action on behalf of the Company, (ii) declaring that the Chang Defendants breached their fiduciary duties to the Company, (iii) damages sustained by the Company as a result of the Chang Defendants' alleged misconduct, (iv) equitable relief in the form of improvements to the Company's governance and controls and (v) restitution.

In October 2019, the Company received a letter from the SEC indicating that the SEC has opened an investigation into the Company and requesting that the Company provide information and documents, including documents related to the Expanded Audit Committee Review and related events.

We are presently unable to predict the duration, scope or result of the SEC's investigation, the Logan Lawsuit, the Boca Raton Lawsuit, the Chang Lawsuit, or any other related lawsuit or investigation.

The ongoing SEC investigation, the Logan Lawsuit, the Boca Raton Lawsuit, the Chang Lawsuit and any related future litigation give rise to risks and uncertainties that could adversely affect our business, results of operations and financial condition. Such risks and uncertainties include, but are not limited to, uncertainty as to the scope, timing and ultimate findings of the matters under review by the SEC; adverse effects of the investigation, including the potential impact to the Company or members of its management team in the event of an adverse outcome and on the market price of the Company's common stock; the costs and expenses of the SEC investigation, the Logan Lawsuit, the Boca Raton Lawsuit, and the Chang lawsuit including legal fees and possible monetary penalties in the event of an adverse outcome; the risk of additional potential litigation or regulatory action arising from these matters, including the Logan Lawsuit, the Boca Raton Lawsuit, and the Chang Lawsuit; the timing of the review by, and the conclusions of, the Company's independent registered public accounting firm regarding these matters; the potential identification of additional deficiencies in internal controls over financial reporting or disclosure controls and procedures and the impact of the same; and potential reputational damage that the Company may suffer as a result of these matters.

The SEC has a broad range of civil sanctions available should it commence an enforcement action, including injunctive relief, disgorgement, fines, penalties, or an order to take remedial action. The imposition of any of these sanctions, fines, or remedial measures could have a material adverse effect on our business, results of operation and financial condition.

The outcome of the Logan Lawsuit, the Boca Raton Lawsuit, the Chang Lawsuit or any other litigation is necessarily uncertain. We could be forced to expend significant resources in the defense of these lawsuits or future ones, and we may not prevail.

We maintain director and officer insurance; however, our insurance coverage is subject to certain exclusions (including, for example, any required SEC disgorgement or penalties) and we are responsible for meeting certain deductibles under the policies. Moreover, we cannot assure you that our insurance coverage will adequately protect us from claims made in the Logan Lawsuit, the Boca Raton Lawsuit, the Chang Lawsuit, the SEC investigation or any future claims. Further, as a result of the pending litigation and investigation the costs of insurance may increase and the availability of coverage may decrease. As a result, we may not be able to maintain our current levels of insurance at a reasonable cost, or at all.

We have identified material weaknesses in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our financial statements or cause us to fail to meet our periodic reporting obligations.

We are required to comply with certain provisions of Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Section 404 requires that we document and test our internal control over financial reporting and issue our management's assessment of our internal control over financial reporting. This section also requires that our independent registered public accounting firm issue an attestation report on such internal control.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. As disclosed in Part I - Item 4, following the filing of our Annual Report on Form 10-K for the year ended December 31, 2018, management identified certain material weaknesses in our internal control over financial reporting that existed as of December 31, 2018 relating to related party transactions and other areas, which resulted in the failure of the following COSO principles: (i) the organization demonstrates commitment to integrity and ethical values; (ii) the board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control; (iii) management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in pursuit of objectives; (iv) the organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives; (v) the organization holds individuals accountable for their internal control related responsibilities in the pursuit of objectives; (vi) the organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control; (vii) the organization communicates with external parties regarding matters affecting the functioning of internal control; (viii) the organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels; (ix) the organization deploys control activities through policies that establish what is expected and procedures that put policies into action; and (x) controls designed to sufficiently identify, evaluate, and disclose related party transactions. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As such, management concluded that we did not design and implement effective control activities based on the criteria established in the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "2013 Internal Control-Integrated Framework." As a result of these material weaknesses, the COSO components of Control Environment, Information and Communication and Control Activities were not present and functioning.

We have begun taking steps to implement controls to remediate the material weaknesses, including: (i) appointing new executive officers with extensive public company experience to improve the tone at the top, communication with the Board and compliance with policies within the Company; (ii) enhancing certain policies of the Company, including the Code of Ethics and Conduct, Expense Reimbursement, Travel and Entertainment, and Delegation of Responsibilities and Authority policies and enhancing monitoring of compliance with such policies; (iii) designing and implementing control activities related to transactions involving potential conflicts of interest and related parties, and evaluation of whistleblower allegations; and (iv) forming a disclosure committee and appointing a Chief Disclosure Officer to provide improved corporate governance related to disclosures the Company provides to the public and other external parties.

The material weaknesses described above or any newly identified material weakness could limit our ability to prevent or detect a misstatement of our accounts or disclosures that could result in a material misstatement of our annual or interim financial statements. We cannot assure you that the measures we have taken to date, or any measures we may take in the future, will be sufficient to remediate the control deficiencies that led to the material weaknesses in our internal control over financial reporting described above or to avoid potential future material weaknesses.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we are unable to successfully remediate our existing material weaknesses or any future material weakness in our internal control over financial reporting, or identify any additional material weaknesses that may exist, the accuracy and timing of our financial reporting may be adversely affected, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in addition to applicable stock exchange listing requirements, we may be unable to prevent fraud, investors may lose confidence in our financial reporting, we may lose customers, our ability to obtain financing may be reduced, and our stock price may decline as a result, each of which could have a material adverse effect on our business, financial condition, prospects, results of operations and cash flows. For example, as a result of the ineffective control environment and other related matters, the Company did not timely file its Quarterly Reports on Form 10-Q for the quarters ended June 30, 2019, September 30, 2019 and March 31, 2020 and its Annual Report on Form 10-K for the year ended December 31, 2019.

Certain provisions of our certificate of incorporation, bylaws and stockholder rights plan, as well as Delaware law, may discourage acquisition bids or merger proposals, which may adversely affect the market price of our common stock.

Our certificate of incorporation authorizes our board of directors (the "Board") to issue preferred stock without shareholder approval. If our Board elects to issue preferred stock, it could be more difficult for a third party to acquire us. In addition, some provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us, even if the change of control would be beneficial to our shareholders, including:

- limitations on the removal of directors;
- limitations on the ability of our shareholders to call special meetings;
- advance notice provisions for shareholder proposals and nominations for elections to the Board to be acted upon at meetings of shareholders;
- providing that the Board is expressly authorized to adopt, or to alter or repeal our bylaws; and
- establishing advance notice and certain information requirements for nominations for election to our Board or for proposing matters that can be acted upon by shareholders at shareholder meetings.

In addition, our Board adopted a short-term stockholder rights plan that would likely discourage a hostile attempt to acquire control of us.

Our business could be negatively affected as a result of the actions of activist shareholders.

Publicly traded companies have increasingly become subject to campaigns by investors seeking to increase shareholder value by advocating corporate actions such as financial restructuring, increased borrowing, special dividends, stock repurchases, sales of assets or even sale of the entire company. Given our shareholder composition and other factors, it is possible such shareholders or future activist shareholders may attempt to effect such changes or acquire control over us. Responding to proxy contests and other actions by such activist shareholders or others in the future would be costly and time-consuming, disrupt our operations and divert the attention of our Board and senior management from the pursuit of business strategies, which could adversely affect our results of operations and financial condition. Additionally, perceived uncertainties as to our future direction as a result of shareholder activism or changes to the composition of the Board may lead to the perception of a change in the direction of our business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel. If customers choose to delay, defer or reduce transactions with us or transact with our competitors instead of us because of any such issues, then our business, financial condition, revenues, results of operations and cash flows could be adversely affected.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by applicable law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees or agents to us or our shareholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law (the "DGCL"), our certificate of incorporation or our bylaws, or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine, in each such case subject to such Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein.

The exclusive forum provision would not apply to suits brought to enforce any liability or duty created by the Securities Act or the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. To the extent that any such claims may be based upon federal law claims, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

The enforceability of similar choice of forum provisions in other companies' certificates of incorporation or similar governing documents has been challenged in legal proceedings, and it is possible that a court could find the choice of forum provisions contained in our certificate of incorporation to be inapplicable or unenforceable, including with respect to claims arising under the U.S. federal securities laws.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of, and consented to, the provisions of our certificate of incorporation regarding exclusive forum. This choice of forum provision may limit a shareholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and such persons. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

The New York Stock Exchange could commence procedures to delist our common stock, in the event we do not timely file all required periodic reports with the SEC, in which case the market price of our shares might decline and become more volatile and our stockholders' ability to trade in our stock could be adversely affected.

As a result of our failure to timely file our Quarterly Reports on Form 10-Q for the three months ended June 30, 2019, for the three months ended September 30, 2019 and Annual Report on Form 10-K for the year ended December 31, 2019 with the SEC, as previously disclosed, on August 15, 2019 we received a notice from the New York Stock Exchange (the "NYSE") informing us that we were not in compliance with the NYSE's continued listing requirements under the timely filing criteria set forth in Section 802.01E of the NYSE Listed Company Manual as a result of our failure to timely file our Quarterly Report on Form 10-Q for the three months ended June 30, 2019. Under the NYSE rules, we were provided with six months from August 15, 2019 to file the delinquent Quarterly Report on Form 10-Q for the three months ended June 30, 2019. On February 14, 2020, the NYSE granted us an additional extension to July 15, 2020 to file our all delinquent Quarterly and Annual Reports. Subsequently, we have failed to timely file our Quarterly Report for the three months ended March 31, 2020. While we intend to become current before July 15, 2020, we remain subject to the procedures set forth in the NYSE's listing standards related to late filings and subject to the risk of delisting. If our common stock were delisted, there could be no assurance whether or when it would again be listed for trading on NYSE or any other exchange. Further, the market price of our shares might decline and become more volatile, and our stockholders may find that their ability to trade in our stock would be adversely affected. Furthermore, institutions whose charters do not allow them to hold securities in unlisted companies might sell our shares, perhaps very promptly, which could have a further adverse effect on the price of our stock.

The market price of our common stock is subject to volatility.

The market of our common stock could be subject to wide fluctuations in response to, and the level of trading of our common stock may be affected by, numerous factors, many of which are beyond our control. These factors include, among other things, our limited trading volume, the concentration of holdings or our common stock, actual or anticipated variations in our operating results and cash flow, the nature and content of our earnings releases, announcements or events that impact our products, customers, competitors or markets, business conditions in our markets and the general state of the securities markets and the market for energy-related stocks, as well as general economic and market conditions and other factors that may affect our future results, including those described in this report. Significant sales of our common stock, or the expectation of these sales, by significant shareholders, officers or directors could materially and adversely affect the market price of our common stock.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent a right to receive, common stock. Any issuance of additional shares of our common stock or convertible securities will dilute the ownership interest of our common stockholders. Sales of a substantial number of shares of our common stock or other equity-related securities in the public market, or the perception that these sales could occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The exhibits required to be filed or furnished by Item 601 of Regulation S-K are listed below.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of ProPetro Holding Corp. dated as of June 19, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K, dated June 19, 2019).
3.2	Amended and Restated Bylaws of ProPetro Holding Corp. (incorporated by reference to Exhibit 3.2 to the Company's Report on Form 8-K, dated June 19, 2019).
10.1*+	Employment Agreement, by and between ProPetro Holding Corp. and Newton W. Wilson III, effective September 25, 2019.
10.2+	Amended and Restated ProPetro Holding Corp. Non-Employee Director Compensation Policy (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated July 12, 2019).
10.3+	Separation and General Release Agreement, dated August 30, 2019, by and between Mark Howell and ProPetro Holding Corp. (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed on August 30, 2019).
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
104*	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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+	Indicates management contracts or compensatory plans or arrangements.
*	Filed herewith
**	Furnished herewith

SIGNATURES

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

SIGNATURES

Date:	June 19, 2020	By:	/s/ Phillip A. Gobe
			Phillip A. Gobe Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
		By:	/s/ Darin G. Holderness
			Darin G. Holderness Chief Financial Officer (Principal Financial Officer)
		By:	/s/ Elo Omavuezi
			Elo Omavuezi Chief Accounting Officer (Principal Accounting Officer)

Exhibit 10.1

EMPLOYMENT AGREEMENT

This Employment Agreement ("**Agreement**") is made and entered into by and between ProPetro Holding Corp., a Delaware corporation (the "**Company**"), and Newton W. Wilson III ("**Employee**") effective as of September 25, 2019 (the "**Effective Date**").

1. **Employment**. During the Employment Period (as defined in Section 4), the Company or another member of the Company Group (as defined in Section 2) shall employ Employee, and beginning on September 30, 2019, Employee shall serve as the General Counsel and Corporate Secretary of the Company and in such other position or positions as may be assigned from time to time by the Board of Directors of the Company (the "**Board**").

2. **Duties and Responsibilities of Employee**.

(a) During the Employment Period, Employee shall devote Employee's best efforts and full business time and attention to the businesses of the Company and its direct and indirect subsidiaries as may exist from time to time (collectively, the "**Company Group**"). Employee's duties and responsibilities shall include those normally incidental to the position(s) identified in Section 1, as well as such additional duties as may be assigned to Employee by the Board or the Company's Principal Executive Officer from time to time, which duties and responsibilities may include providing services to other members of the Company Group in addition to the Company. Employee may, without violating this Section 2(a), (i) as a passive investment, own publicly traded securities in such form or manner as will not require any services by Employee in the operation of the entities in which such securities are owned; (i) engage in charitable and civic activities; and (i) with the prior written consent of the Board, engage in other personal and passive investment activities, in each case, so long as such ownership, interests, or activities do not interfere with Employee's ability to fulfill Employee's duties and responsibilities under this Agreement and are not inconsistent with Employee's obligations to any member of the Company Group or competitive with the business of any member of the Company Group and are otherwise in compliance with applicable law and all policies and codes of conduct established by any member of the Company Group and applicable to Employee.

(b) Employee hereby represents and warrants that Employee is not the subject of, or a party to, any non-competition, non-solicitation, restrictive covenant, or non-disclosure agreement, or any other agreement, obligation, restriction, or understanding that would prohibit Employee from executing this Agreement or fully performing each of Employee's duties and responsibilities hereunder, or would in any manner, directly or indirectly, limit or affect any of the duties and responsibilities that may now or in the future be assigned to Employee hereunder. Employee expressly acknowledges and agrees that Employee is strictly prohibited from using or disclosing any confidential information belonging to any prior employer in the course of performing services for any member of the Company Group, and Employee promises that Employee shall not do so. Employee shall not introduce documents or other materials containing confidential information of any prior employer to the premises or property (including computers and computer systems) of any member of the Company Group.

(c) Employee owes each member of the Company Group fiduciary duties (including (i) duties of loyalty and disclosure, including the duty of loyalty as an attorney for each member of the Company Group, as required under Texas law, and (i) such fiduciary duties that an officer of the Company has under Delaware law), and the obligations described in this Agreement are in addition to, and not in lieu of, the obligations Employee owes each member of the Company Group under statutory and common law.

3. **Compensation**.

(a) Base Salary. During the Employment Period, Employee shall be paid an annualized base salary of $400,000 (the "**Base Salary**") in consideration for Employee's services under this Agreement, payable in substantially equal installments in conformity with customary payroll practices for Company officers ("**Officers**"), but no less frequently than monthly. Notwithstanding the foregoing, the Base Salary may be reduced as part of a general reduction in base salaries that affects all Officers in substantially the same proportions.

(b) Annual Bonus. Beginning in 2020, Employee shall be eligible to earn an annual cash bonus with a target value of 75% of Employee's Base Salary for each complete calendar year that Employee is employed by any member of the Company Group hereunder (the "**Annual Bonus**"). Notwithstanding the foregoing, Employee shall be eligible to receive a *pro rata* bonus for the portion of the 2019 calendar year that Employee is employed by any member of the Company Group hereunder (the "**2019 Bonus**"). The amount of the Annual Bonus (and the 2019 Bonus) actually paid to Employee for any given calendar year remains subject to the terms and conditions of the ProPetro Holding Corp. Senior Executive Incentive Bonus Plan, as in effect from time to time, and the attainment of the applicable performance targets established by the Board (or a committee thereof) annually, in its sole discretion. Each Annual Bonus (and the 2019 Bonus), if any, shall be paid as soon as administratively feasible after the Board (or a committee thereof) certifies whether the applicable performance targets for the applicable year have been achieved, but in no event later than March 15 following the end of the year for which the bonus was earned (the "**Bonus Year**"). Notwithstanding anything in this Section 3(b) to the contrary, no Annual Bonus (or the 2019 Bonus), if any, nor any portion thereof, shall be payable for any Bonus Year unless Employee remains continuously employed by any member of the Company Group from the Effective Date through December 31 of the applicable Bonus Year.

(c) Retention Bonuses. Employee shall be paid a cash retention bonus equal to $25,000 on each of the first and second anniversaries of the Effective Date, provided that Employee remains continuously employed by any member of the Company Group through the applicable anniversary date.

(d) Benefits. During the Employment Period, Employee shall be eligible to participate in the same benefit plans and programs in which other Officers or similarly situated executives of the Company are eligible to participate (including, for the avoidance of doubt, the Company's vehicle allowance program), subject to the terms and conditions of the applicable plans and programs in effect from time to time. No member of the Company Group shall, by reason of this Section 6, be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such plan or policy, so long as such changes are applicable to the Officers and similarly situated executives of the Company generally.

(e) Vacation. Employee will be eligible to receive four (4) weeks of paid vacation for each full calendar year that Employee is employed by any member of the Company Group. Any vacation shall be taken at the reasonable and mutual convenience of the Company and Employee and in accordance with any applicable Company policy, as in effect from time to time.

4. **Term of Employment**. The initial term of Employee's employment under this Agreement shall be for the period beginning on the Effective Date and ending on the second anniversary of the Effective Date (the "**Initial Term**"). On the second anniversary of the Effective Date and on each subsequent anniversary thereafter, the term of Employee's employment under this Agreement shall automatically renew and extend for a period of twelve (12) months (each such twelve (12)-month period being a "**Renewal Term**") unless written notice of non-renewal is delivered by either party to the other not less than thirty (30) days prior to the expiration of the then-existing Initial Term or Renewal Term, as applicable. Notwithstanding any other provision of this Agreement, Employee's employment pursuant to this Agreement may be terminated at any time in accordance with Section 6. The period from the Effective Date through the expiration of this Agreement or, if sooner, the termination of Employee's employment pursuant to this Agreement, regardless of the time or reason for such termination, shall be referred to herein as the "**Employment Period**."

5. **Business Expenses**. Subject to Section 22, the Company shall reimburse Employee for Employee's reasonable out-of-pocket business-related expenses actually incurred in the performance of Employee's duties under this Agreement so long as Employee timely submits all documentation for such expenses, as required by Company policy in effect from time to time. Any such reimbursement of expenses shall be made upon or as soon as practicable following receipt of such documentation (but in any event not later than the close of Employee's taxable year following the taxable year in which the expense is incurred by Employee). In no event shall any reimbursement be made to Employee for any expenses incurred after the date of Employee's termination of employment with all of the members of the Company Group.

6. **Termination of Employment**.

(a) Company's Right to Terminate Employee's Employment for Cause . The Company shall have the right to terminate Employee's employment hereunder at any time for Cause. For purposes of this Agreement, "**Cause**" shall mean:

(i) Employee's material breach of this Agreement or any other written agreement between Employee and any member of the Company Group, including Employee's material breach of any representation, warranty, or covenant made under any such agreement;

(ii) Employee's material breach of any policy or code of conduct established by any member of the Company Group and applicable to Employee;

(iii) Employee's violation of any law applicable to the workplace (including any law regarding anti-harassment, anti-discrimination, or anti-retaliation);

(iv) Employee's gross negligence, material misconduct reflecting negatively on the Company, breach of fiduciary duty, fraud, theft, or embezzlement;

(v) the conviction by a court of competent jurisdiction of Employee for, or plea of *nolo contendere* by Employee to, any felony (or state law equivalent) or any crime involving moral turpitude;

(vi) Employee's material failure or refusal, other than due to Disability, to perform Employee's obligations pursuant to this Agreement or to follow any lawful directive from the Board or the Company's Principal Executive Officer, as determined by the Board;

(vii) Employee's unlawful use (including being under the influence) or possession of illegal drugs on the Company's premises or while performing Employee's duties and responsibilities hereunder;

(viii) failure of Employee, in connection with his work on behalf of the Company Group, to exercise that degree of care, skill, and diligence as lawyers of ordinary skill and knowledge commonly possess and exercise, or the failure of Employee to act with undivided loyalty on behalf of the Company Group; or

(ix) Employee's failure to maintain a license to practice law in the State of Texas or failure to maintain good standing with the State Bar of Texas.

For items (i), (ii), (iii), (vi), (viii), and (ix) above, such item will not be considered a breach unless the Company provides Employee written notice of the existence of such condition(s) within thirty

(30) days after the initial occurrence of such condition(s) and the condition(s) specified in such notice are not corrected for fifteen (15) days following Employee's receipt of such written notice; *provided, however*, that Employee shall not be provided with an opportunity to correct such condition(s) if the Board determines, in its sole and absolute discretion, that such condition(s) cannot be corrected.

(b) Company's Right to Terminate without Cause. The Company shall have the right to terminate Employee's employment hereunder without Cause at any time and for any reason, or no reason at all, upon thirty (30) days' advance written notice to Employee or continued payment of Employee's Base Salary in lieu of such notice. For the avoidance of doubt, the Company's non-renewal of the then-existing Initial Term or Renewal Term, as applicable, shall not constitute a termination without Cause by the Company.

(c) Employee's Right to Terminate for Good Reason. Employee shall have the right to terminate Employee's employment hereunder at any time for Good Reason. For purposes of this Agreement, "**Good Reason**" shall mean:

(i) a material diminution in Employee's Base Salary or authority, duties, and responsibilities with the Company or its Subsidiaries, including his removal as an Officer; *provided, however*, that if Employee is serving as an officer or a member of the board of directors (or similar governing body) of any member of the Company Group or any other entity in which a member of the Company Group holds an equity interest, in no event shall the removal of Employee as an officer or a board member of a member of the Company Group other than the Company, regardless of the reason for such removal, constitute Good Reason; *provided, further,* that a reduction in Employee's Base Salary in connection with a general reduction in base salaries that affects all Officers and similarly situated executives of the Company in substantially the same proportions will not constitute Good Reason; *provided, further,* that a temporary reduction in Employee's authority, duties, and responsibilities in connection with any internal investigation by the Company, including an investigation into whether circumstances constituting Cause exist, shall not constitute Good Reason;

(ii) a material breach by the Company of any of its obligations under this Agreement; or

(iii) the relocation of the geographic location of Employee's principal place of employment by more than fifty (50) miles from the location of Employee's principal place of employment as of the Effective Date.

Notwithstanding the foregoing provisions of this Section 6(c) or any other provision of this Agreement to the contrary, any assertion by Employee of a termination for Good Reason shall not be effective unless all of the following conditions are satisfied: **(A)** the condition described in Section 6(c)(i), (ii) or (iii) giving rise to Employee's termination of employment must have arisen without Employee's consent; **(B)** Employee must provide written notice to the Board of the existence of such condition(s) within thirty (30) days after the initial occurrence of such condition(s); **(C)** the condition(s) specified in such notice must remain uncorrected for fifteen (15) days following the Board's receipt of such written notice; and **(D)** the date of Employee's termination of employment must occur within seventy-five (75) days after the initial occurrence of the condition(s) specified in such notice.

(d) Death or Disability. Upon the death or Disability of Employee, Employee's employment with all members of the Company Group shall automatically (and without any further action by any person or entity) terminate with no further obligation under this Agreement of either party hereunder. For purposes of this Agreement, a "**Disability**" shall exist if the Board determines that Employee is unable to perform the essential functions of Employee's position (after accounting for reasonable accommodation, if applicable and required by applicable law), due to physical or mental impairment that continues, or can reasonably be expected to continue, for a period in excess of one hundred twenty (120) consecutive days or one hundred eighty (180) days, whether or not consecutive (or for any longer period as may be required by applicable law), in any twelve (12)-month period.

(e) Employee's Right to Terminate for Convenience. In addition to Employee's right to terminate Employee's employment for Good Reason, Employee shall have the right to terminate Employee's employment hereunder for convenience at any time and for any other reason, or no reason at all, upon thirty (30) days' advance written notice to the Company; *provided*, *however*, that if Employee has provided notice to the Company of Employee's termination of employment, the Company may determine, in its sole discretion, that such termination shall be effective on any date prior to the effective date of termination provided in such notice (and, if such earlier date is so required, then it shall not change the basis for Employee's termination of employment nor be construed or interpreted as a termination of employment pursuant to Section 6(b)).

(f) Effect of Termination.

(i) If Employee's employment hereunder is terminated prior to the expiration of the then-existing Initial Term or Renewal Term, as applicable, by the Company without Cause pursuant to Section 6(b), or if this Agreement is terminated by Employee for Good Reason pursuant to Section 6(c), then so long as (and only if) Employee: (A) executes on or before the Release Expiration Date (as defined in Section 6(f)(iii)), and does not revoke within any time provided by the Company to do so, a release of all claims in a form acceptable to the Company (the "**Release**"), which Release shall release each member of the Company Group and their respective affiliates, and the foregoing entities' respective shareholders, members, partners, officers, managers, directors, fiduciaries, employees, representatives, agents, and benefit plans (and fiduciaries of such plans) from any and all claims, including any and all causes of action arising out of Employee's employment with the Company and any other member of the Company Group or the termination of such employment, but excluding all claims to severance payments Employee may have under this Section 6 and further excluding any right Employee had for indemnification as an employee or officer of the Company; and (A) abides by the terms of each of Sections 8, 9 and 10, then the Company shall make severance payments to Employee in a total amount equal to the sum of equal to one (1) times (or, if such termination occurs within twelve (12) months following a Change in Control (as defined below in this Section 6(f)(i)), one and one-half (1.5) times) the sum of Employee's (i) target Annual Bonus and (i) Base Salary, in each case, for the year in which such termination occurs (such total severance amount being referred to as the "**Severance Amount**"). Subject to the provisions of Section 22, the Severance Amount shall be paid in equal installments over the twelve (12)-month period (the "**Severance Period**") following the date on which Employee's employment terminates (the "**Termination Date**"), at the same time and in the same manner as the Annual Base Salary would have been paid had the Employee remained in active employment during the Severance Period, in accordance with the Company's normal payroll practices in effect on the Date of Termination; provided that any installment that would otherwise have been paid prior to the first normal payroll payment date occurring on or after the sixtieth (60th) day following the Date of Termination (such payroll date, the "**First Payment Date**") shall instead be paid on the First Payment Date. Notwithstanding anything to the contrary in this Section 6(f)(i), to the extent, if any, that the aggregate value of the Severance Amount that would otherwise be paid pursuant to this Section 6(f)(i) after March 15 of the calendar year following the calendar year in which the Termination Date occurs (the "**Applicable March 15**") exceeds the maximum exemption amount under 1.409A-1(b)(9)(iii)(A), then such excess shall be paid to Employee in a lump-sum on the Applicable March 15 (or the first Business Day (as defined below in this Section 6(f)(i)) preceding the Applicable March 15 if the Applicable March 15 is not a Business Day) and the installments of the Severance Amount payable after the Applicable March 15 shall be reduced by such excess (beginning with the installment first payable after the Applicable March 15 and continuing with the next succeeding installment until the aggregate reduction equals such excess). "**Change in Control**" shall mean any event that constitutes both a "Change in Control" within the meaning of the ProPetro Holding Corp. 2017 Incentive Award Plan (the "**Plan**") and a "change in control event," as defined in Treasury Regulation Section 1.409A-3(i)(5). "**Business Day**" shall mean any day except a Saturday, Sunday, or other day on which commercial banks in New York, New York are authorized or required by law to be closed.

(ii) For the avoidance of doubt, the Severance Amount (and any portion thereof) shall not be payable if Employee's employment hereunder terminates upon (i) the expiration of the then existing Initial Term or Renewal Term, as applicable, as a result of a non-renewal of the term of Employee's employment under this Agreement by the Company or Employee pursuant to Section 4, (i) the Company's termination of Employee's employment for Cause, as described in Section 6(a), (i) Employee's termination of employment for convenience (i.e., without Good Reason), as described in Section 6(e), or (i) termination of Employee's employment by reason of death or Disability. Notwithstanding the above, if Employee's employment terminates due to the non-renewal of this Agreement by the Company, so long as (and only if) Employee: (A) executes on or before the Release Expiration Date, and does not revoke within any time provided by the Company to do so, a Release (as described in Section 6(f)(i)) and (B) abides by the terms of each of Sections 8, 9 and 10, then the Company shall pay Employee a *pro rata* portion of the target value of his Annual Bonus for the year of his termination of employment, which amount shall be paid on the First Payment Date.

(iii) If the Release is not executed and returned to the Company on or before the Release Expiration Date, and the required revocation period has not fully expired without revocation of the Release by Employee, then Employee shall not be entitled to any portion of the Severance Amount. As used herein, the "**Release Expiration Date**" is that date that is twenty-one (21) days following the date upon which the Company delivers the Release to Employee (which shall occur no later than seven (7) days after the Termination Date) or, in the event that such termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967), the date that is forty-five (45) days following such delivery date.

(g) After-Acquired Evidence. Notwithstanding any provision of this Agreement to the contrary, in the event that the Company determines that Employee is eligible to receive the Severance Amount pursuant to Section 6(f) but, after such determination, the Company subsequently acquires evidence or determines that: (i) Employee has failed to abide by the terms of Sections 8, 9 or 10; or (ii) a Cause condition existed prior to the Termination Date that, had the Company been fully aware of such condition, would have given the Company the right to terminate Employee's employment pursuant to Section 6(a), then the Company shall have the right to cease the payment of any future installments of the Severance Amount and Employee shall promptly return to the Company all installments of the Severance Amount received by Employee prior to the date that the Company determines that the conditions of this Section 6(g) have been satisfied.

7. **Disclosures**.

(a) Conflicts of Interest.

(i) Employee hereby represents and warrants that as of the Effective Date there exist (A) no actual or potential Conflicts of Interest and (A) no current or pending lawsuits, claims or arbitrations filed against or involving Employee or any trust or vehicle owned or controlled by Employee.

(ii) Promptly (and in any event, within three (3) Business Days) upon becoming aware of (A) any actual or potential Conflict of Interest or (A) any lawsuit, claim or arbitration filed against or involving Employee or any trust or vehicle owned or controlled by Employee, in each case, Employee shall disclose such actual or potential Conflict of Interest or such lawsuit, claim or arbitration to the Board.

(iii) A "**Conflict of Interest**" shall exist when Employee engages in, or plans to engage in, any activities, associations, or interests that conflict with, or create an appearance of a conflict with, Employee's duties, responsibilities, authorities, or obligations for and to any member of the Company Group.

(b) License to Practice Law.

(i) Employee hereby represents and warrants that as of the Effective Date Employee is licensed to practice law in the State of Texas, is in good standing with the State Bar of Texas, and is not subject to any disciplinary proceedings.

(ii) Promptly (and in any event, within three (3) Business Days) upon becoming aware that (A) Employee's license to practice law in the State of Texas has been or will be revoked or suspended or (A) Employee has become subject to a disciplinary proceeding with the State Bar of Texas, Employee shall disclose such information to the Board.

8. **Confidentiality**. In the course of Employee's employment with the Company and any other member of the Company Group and the performance of Employee's duties on behalf of the Company Group hereunder, Employee will be provided with, and will have access to, Confidential Information (as defined in Section 8(d)). In consideration of Employee's receipt and access to such Confidential Information, and as a condition of Employee's employment, Employee shall comply with this Section 8.

(a) Both during the Employment Period and thereafter, except as expressly permitted by this Agreement or by directive of the Board, Employee shall not disclose any Confidential Information to any person or entity and shall not use any Confidential Information except for the benefit of the Company Group. Employee recognizes the attorney-client privilege that exists between Employee and each member of the Company Group, which protects communications between Employee and each member of the Company Group and understands that nothing herein shall constitute a waiver of such privilege by any member of the Company Group. Further, Employee agrees to maintain all applicable attorney-client and attorney work product privileges that apply as a result of his employment under this Agreement. Employee shall follow all Company Group policies and protocols regarding the security of all documents and other materials containing Confidential Information (regardless of the medium on which Confidential Information is stored). The covenants of this Section 8(a) shall apply to all Confidential Information, whether now known or later to become known to Employee during the period that Employee is employed by or affiliated with any member of the Company Group.

(b) Notwithstanding any provision of Section 8(a) to the contrary, Employee may make the following disclosures and uses of Confidential Information:

(i) disclosures to other employees of a member of the Company Group who have a need to know the information in connection with the businesses of the Company Group;

(ii) disclosures to customers and suppliers when, in the reasonable and good faith belief of Employee, such disclosure is in connection with Employee's performance of Employee's duties under this Agreement and is in the best interests of the Company Group;

(iii) disclosures and uses that are approved in writing by the Board; or

(iv) disclosures to a person or entity that has (x) been retained by a member of the Company Group to provide services to one or more members of the Company Group, and (y) agreed in writing to abide by the terms of a confidentiality agreement.

(c) Upon the expiration of the Employment Period, and at any other time upon request of the Company, Employee shall promptly surrender and deliver to the Company all documents (including electronically stored information) and all copies thereof and all other materials of any nature containing or pertaining to all Confidential Information and any other Company Group property (including any Company Group-issued computer, mobile device, or other equipment) in Employee's possession, custody, or control and Employee shall not retain any such documents or other materials or property of the Company Group. Within ten (10) days of any such request, Employee shall certify to the Company in writing that all such documents, materials, and property have been returned to the Company.

(d) All trade secrets, non-public information, designs, ideas, concepts, improvements, product developments, discoveries, and inventions, whether patentable or not, that are conceived, made, developed, or acquired by or disclosed to Employee, individually or in conjunction with others, during the period that Employee is employed by any member of the Company Group (whether during business hours or otherwise and whether on the Company's premises or otherwise) that relate to any member of the Company Group's businesses or properties, products, or services (including all such information relating to corporate opportunities, operations, future plans, methods of doing business, business plans, strategies for developing business and market share, research, financial and sales data, pricing terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or acquisition targets or their requirements, the identity of key contacts within customers' organizations or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names and marks) is defined as "**Confidential Information**." Moreover, all documents, videotapes, written presentations, brochures, drawings, memoranda, notes, records, files, correspondence, manuals, models, specifications, computer programs, e-mail, voice mail, electronic databases, maps, drawings, architectural renditions, models, and all other writings or materials of any type including or embodying any of such information, ideas, concepts, improvements, discoveries, inventions, and other similar forms of expression are and shall be the sole and exclusive property of the applicable member of the Company Group and be subject to the same restrictions on disclosure applicable to all Confidential Information pursuant to this Agreement. For purposes of this Agreement, Confidential Information shall not include any information that (i) is or becomes generally available to the public other than as a result of a disclosure or wrongful act of Employee or any of Employee's agents; (i) was available to Employee on a non-confidential basis before its disclosure by a member of the Company Group; or (i) becomes available to Employee on a non-confidential basis from a source other than a member of the Company Group; *provided*, *however*, that such source is not bound by a confidentiality agreement with, or other obligation with respect to confidentiality to, a member of the Company Group.

(e) Notwithstanding the foregoing, nothing in this Agreement shall prohibit or restrict Employee from lawfully: (i) initiating communications directly with, cooperating with, providing information to, causing information to be provided to, or otherwise assisting in an investigation by, any governmental authority regarding a possible violation of any law; (i) responding to any inquiry or legal process directed to Employee from any such governmental authority; (i) testifying, participating or otherwise assisting in any action or proceeding by any such governmental authority relating to a possible violation of law; or (i) making any other disclosures that are protected under the whistleblower provisions of any applicable law. Additionally, pursuant to the federal Defend Trade Secrets Act of 2016, an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (A) is made (1) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney and (1) solely for the purpose of reporting or investigating a suspected violation of law; (A) is made to the individual's attorney in relation to a lawsuit for retaliation against the individual for reporting a suspected violation of law; or (A) is made in a complaint or other document filed in a lawsuit or proceeding, if such filing is made under seal. Nothing in this Agreement requires Employee to obtain prior authorization before engaging in any conduct described in this paragraph, or to notify the Company that Employee has engaged in any such conduct.

9. **Non-Competition; Non-Solicitation**.

(a) The Company shall provide Employee access to Confidential Information for use only during the Employment Period, and Employee acknowledges and agrees that the Company Group will be entrusting Employee, in Employee's unique and special capacity, with developing the goodwill of the Company Group, and in consideration of (i) the Company providing Employee with access to Confidential Information, (i) the Company granting certain equity awards to Employee pursuant to the Plan concurrent with effectiveness of this Agreement, and (i) as an express incentive for the Company to enter into this Agreement and employ Employee, Employee has voluntarily agreed to the covenants set forth in this Section 9. Employee agrees and acknowledges that the limitations and restrictions set forth herein, including geographical and temporal restrictions on certain competitive activities, are reasonable in all respects, do not interfere with public interests, will not cause Employee undue hardship, and are material and substantial parts of this Agreement intended and necessary to prevent unfair competition and to protect the Company Group's Confidential Information, goodwill, and legitimate business interests.

(b) During the Prohibited Period, Employee shall not, without the prior written approval of the Board, directly or indirectly, for Employee or on behalf of or in conjunction with any other person or entity of any nature:

(i) engage in or participate within the Market Area in competition with any member of the Company Group in any aspect of the Business, which prohibition shall prevent Employee from directly or indirectly: (A) owning, managing, operating, or being an officer or director of, any business that competes with any member of the Company Group in the Market Area or (A) joining, becoming an employee or consultant of, or otherwise being affiliated with, any person or entity engaged in, or planning to engage in, the Business in the Market Area in competition, or anticipated competition, with any member of the Company Group in any capacity (with respect to this clause (B)) in which Employee's duties or responsibilities are the same as or similar to the duties or responsibilities that Employee had on behalf of any member of the Company Group; or

(ii) appropriate any Business Opportunity of, or relating to, any member of the Company Group located in the Market Area;

(c) During the Prohibited Period Employee shall not, without prior written approval of the Board, directly or indirectly, for Employee or on behalf of or in conjunction with any other person or entity of any nature:

(i) solicit, canvass, approach, encourage, entice, or induce any customer or supplier of any member of the Company Group to cease or lessen such customer's or supplier's business with any member of the Company Group; or

(ii) solicit, canvass, approach, encourage, entice, or induce any employee or contractor of any member of the Company Group to terminate his, her, or its employment or engagement with any member of the Company Group.

(d) Because of the difficulty of measuring economic losses to the Company Group as a result of a breach or threatened breach of the covenants set forth in Section 8 and in this Section 9, and because of the immediate and irreparable damage that would be caused to the members of the Company Group for which they would have no other adequate remedy, the Company and each other member of the Company Group shall be entitled to enforce the foregoing covenants, in the event of a breach or threatened breach, by injunctions and restraining orders from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's or any other member of the Company Group's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company and each other member of the Company Group at law and equity.

(e) The covenants in this Section 9, and each provision and portion hereof, are severable and separate, and the unenforceability of any specific covenant (or portion thereof) shall not affect the provisions of any other covenant (or portion thereof). Moreover, in the event any arbitrator or court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which such arbitrator or court deems reasonable, and this Agreement shall thereby be reformed.

(f) The following terms shall have the following meanings:

(i) "**Business**" shall mean the business and operations that are the same or substantially similar to those performed by the Company and any other member of the Company Group for which Employee provides services or about which Employee obtains Confidential Information during the Employment Period, which business and operations include hydraulic fracturing services, cementing and acidizing operations, coiled tubing operations, flowback-control and methanol pumping equipment rentals, and pre-set surface drilling services.

(ii) "**Business Opportunity**" shall mean any commercial, investment, or other business opportunity relating to the Business.

(iii) "**Market Area**" shall mean a one hundred mile radius surrounding any location at which any member of the Company Group operates.

(iv) "**Prohibited Period**" shall mean the period during which Employee is employed by any member of the Company Group and continuing for a period of twelve (12) months following the date that Employee is no longer employed by any member of the Company Group.

(g) Nothing in this Section 9 shall be interpreted or applied in a manner to prevent or restrict Employee from practicing law, as it is the intent of this Section 9 to create certain limitations on Employee's business activities only, and not to create limitations that would restrict Employee from practicing law. Employee acknowledges and agrees that, both before and after the Termination Date, Employee shall be bound by all ethical and professional obligations (including those with respect to conflicts and confidentiality) that arise from Employee's provision of legal services to, and acting as legal counsel for, the Company and, as applicable, the other members of the Company Group.

10. **Ownership of Intellectual Property.** Employee agrees that the Company shall own, and Employee shall (and hereby does) assign, all right, title, and interest (including patent rights, copyrights, trade secret rights, mask work rights, trademark rights, and all other intellectual and industrial property rights of any sort throughout the world) relating to any and all inventions (whether or not patentable), works of authorship, mask works, designs, know-how, ideas, and information authored, created, contributed to, made, or conceived or reduced to practice, in whole or in part, by Employee during the period in which Employee is or has been employed by or affiliated with any member of the Company Group that either (a) relate, at the time of conception, reduction to practice, creation, derivation, or development, to any member of the Company Group's businesses or actual or anticipated research or development, or (a) were developed on any amount of the Company's or any other member of the Company Group's time or with the use of any member of the Company Group's equipment, supplies, facilities, or trade secret information (all of the foregoing collectively referred to herein as "**Company Intellectual Property**"), and Employee shall promptly disclose all Company Intellectual Property to the Company. All of Employee's works of authorship and associated copyrights created during the period in which Employee is employed by or affiliated with any member of the Company Group and in the scope of Employee's employment or engagement shall be deemed to be "works made for hire" within the meaning of the Copyright Act. Employee shall perform, during, and after the period in which Employee is or has been employed by or affiliated with any member of the Company Group, all acts deemed necessary by the Company to assist each member of the Company Group, at the Company's expense, in obtaining and enforcing its rights throughout the world in the Company Intellectual Property. Such acts may include execution of

documents and assistance or cooperation (i) in the filing, prosecution, registration, and memorialization of assignment of any applicable patents, copyrights, mask work, or other applications, (i) in the enforcement of any applicable patents, copyrights, mask work, moral rights, trade secrets, or other proprietary rights, and (i) in other legal proceedings related to the Company Intellectual Property.

11. **Arbitration**.

(a) Subject to Section 11(b), any dispute, controversy, or claim between Employee and any member of the Company Group arising out of or relating to this Agreement or Employee's employment or engagement with any member of the Company Group ("**Disputes**") will be finally settled by arbitration in Midland County, Texas in accordance with the then-existing American Arbitration Association ("**AAA**") Employment Arbitration Rules. The arbitration award shall be final and binding on both parties. Any arbitration conducted under this Section 11 shall be private, and shall be heard by a single arbitrator (the "**Arbitrator**") selected in accordance with the then-applicable rules of the AAA. The Arbitrator shall expeditiously hear and decide all matters concerning the Dispute. Except as expressly provided to the contrary in this Agreement, the Arbitrator shall have the power to (i) gather such materials, information, testimony, and evidence as the Arbitrator deems relevant to the Dispute before him or her (and each party will provide such materials, information, testimony, and evidence requested by the Arbitrator), and (i) grant injunctive relief and enforce specific performance. All Disputes shall be arbitrated on an individual basis, and each party hereto hereby foregoes and waives any right to arbitrate any Dispute as a class action or collective action or on a consolidated basis or in a representative capacity on behalf of other persons or entities who are claimed to be similarly situated, or to participate as a class member in such a proceeding. The decision of the Arbitrator shall be reasoned, rendered in writing, be final and binding upon the disputing parties, and the parties agree that judgment upon the award may be entered by any court of competent jurisdiction. The party whom the Arbitrator determines is the prevailing party in such arbitration shall receive, in addition to any other award pursuant to such arbitration or associated judgment, reimbursement from the other party of all reasonable legal fees and costs associated with such arbitration and associated judgment.

(b) Notwithstanding Section 11(a), either party may make a timely application for, and obtain, judicial emergency or temporary injunctive relief to enforce any of the provisions of Sections 8 through 10; *provided, however*, that the remainder of any such Dispute (beyond the application for emergency or temporary injunctive relief) shall be subject to arbitration under this Section 11.

(c) By entering into this Agreement and entering into the arbitration provisions of this Section 11, THE PARTIES EXPRESSLY ACKNOWLEDGE AND AGREE THAT THEY ARE KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVING THEIR RIGHTS TO A JURY TRIAL.

(d) Nothing in this Section 11 shall prohibit a party to this Agreement from (i) instituting litigation to enforce any arbitration award or (i) joining the other party to this Agreement in a litigation initiated by a person or entity that is not a party to this Agreement. Further, nothing in this Section 11 precludes Employee from filing a charge or complaint with a federal, state or other governmental administrative agency.

12. **Defense of Claims**. During the Employment Period and thereafter, upon request from the Company, Employee shall cooperate with the Company Group, at the Company Group's expense, in the defense of any claims or actions that may be made by or against any member of the Company Group that relate to Employee's actual or prior areas of responsibility.

13. **Withholdings; Deductions**. The Company Group may withhold and deduct from any benefits and payments made or to be made pursuant to this Agreement (a) all federal, state, local, and other taxes as may be required pursuant to any law or governmental regulation or ruling and (a) any deductions consented to in writing by Employee.

14. **Title and Headings; Construction**. Titles and headings to Sections hereof are for the purpose of reference only and shall in no way limit, define, or otherwise affect the provisions hereof. Any and all Exhibits or Attachments referred to in this Agreement are, by such reference, incorporated herein and made a part hereof for all purposes. Unless the context requires otherwise, all references to laws, regulations, contracts, documents, agreements, and instruments refer to such laws, regulations, contracts, documents, agreements, and instruments as they may be amended from time to time, and references to particular provisions of laws or regulations include a reference to the corresponding provisions of any succeeding law or regulation. All references to "dollars" or "$" in this Agreement refer to United States dollars. The words "herein", "hereof", "hereunder", and other compounds of the word "here" shall refer to the entire Agreement, including all Exhibits attached hereto, and not to any particular provision hereof. Unless the context requires otherwise, the word "or" is not exclusive. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely. All references to "including" shall be construed as meaning "including without limitation." Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against any party hereto, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties hereto and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties hereto.

15. **Applicable Law; Submission to Jurisdiction**. This Agreement shall in all respects be construed according to the laws of the State of Texas without regard to its conflict of laws principles that would result in the application of the laws of another jurisdiction. With respect to any claim or dispute related to or arising under this Agreement, the parties hereby consent to the arbitration provisions of Section 11 and recognize and agree that should any resort to a court be

necessary and permitted under this Agreement, then they consent to the exclusive jurisdiction, forum, and venue of the state and federal courts (as applicable) located in Midland County, Texas.

16. **Entire Agreement and Amendment**. This Agreement contains the entire agreement of the parties with respect to the matters covered herein and supersede all prior and contemporaneous agreements and understandings, oral or written, between the parties hereto concerning the subject matter hereof. This Agreement may be amended only by a written instrument executed by both parties hereto.

17. **Waiver of Breach**. Any waiver of this Agreement must be executed by the party to be bound by such waiver. No waiver by either party hereto of a breach of any provision of this Agreement by the other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any subsequent time. The failure of either party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time.

18. **Assignment**. This Agreement is personal to Employee, and neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise transferred by Employee. The Company may assign this Agreement without Employee's consent, including to any member of the Company Group and to any successor to or acquirer of (whether by merger, purchase, or otherwise) all or substantially all of the equity, assets or businesses of the Company.

19. **Notices**. Notices provided for in this Agreement shall be in writing and shall be deemed to have been duly received (a) when delivered in person, (a) when sent by facsimile transmission (with confirmation of transmission) on a Business Day to the number set forth below, if applicable; *provided*, *however*, that if a notice is sent by facsimile transmission after normal business hours of the recipient or on a non-Business Day, then it shall be deemed to have been received on the next Business Day after it is sent, (a) on the first Business Day after such notice is sent by express overnight courier service, or (a) on the second Business Day following deposit with an internationally-recognized second-day courier service with proof of receipt maintained, in each case, to the following address, as applicable:

If to the Company, addressed to:

ProPetro Holding Corp.
1706 Midkiff, Bldg. B
Midland, Texas 79107

If to Employee, addressed to:

Newton W. Wilson III

1403 Community Lane
Midland, Texas 79701

20. **Counterparts**. This Agreement may be executed in any number of counterparts, including by electronic mail or facsimile, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a copy hereof containing multiple signature pages, each signed by one party, but together signed by both parties hereto.

21. **Deemed Resignations**. Except as otherwise determined by the Board or as otherwise agreed to in writing by Employee and any member of the Company Group prior to the termination of Employee's employment with the Company or any member of the Company Group, any termination of Employee's employment shall constitute, as applicable, an automatic resignation of Employee: (a) as an officer of the Company and each member of the Company Group; (a) from the Board; and (a) from the board of directors or board of managers (or similar governing body) of any member of the Company Group and from the board of directors or board of managers (or similar governing body) of any corporation, limited liability entity, unlimited liability entity, or other entity in which any member of the Company Group holds an equity interest and with respect to which board of directors or board of managers (or similar governing body) Employee serves as such Company Group member's designee or other representative.

22. **Section 409A**.

(a) Notwithstanding any provision of this Agreement to the contrary, all provisions of this Agreement are intended to comply with Section 409A of the Internal Revenue Code of 1986 (the "**Code**"), and the applicable Treasury regulations and administrative guidance issued thereunder (collectively, "**Section 409A**") or an exemption therefrom and shall be construed and administered in accordance with such intent. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of Employee's employment shall only be made if such termination of employment constitutes a "separation from service" under Section 409A.

(b) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A), (i) any such expense reimbursement shall be made no later than the last day of Employee's taxable year following the taxable year in which such expense was incurred by Employee, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (i) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period in which the arrangement is in effect.

(c) Notwithstanding any provision in this Agreement to the contrary, if any payment or benefit provided for herein would be subject to additional taxes and interest under Section 409A if Employee's receipt of such payment or benefit is not delayed until the earlier of (i) the date of Employee's death or (i) the date that is six (6) months after the Termination Date (such date, the " **Section 409A Payment Date**"), then such payment or benefit shall not be provided to Employee (or Employee's estate, if applicable) until the Section 409A Payment Date. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement are exempt from, or compliant with, Section 409A and in no event shall any member of the Company Group be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by Employee on account of non-compliance with Section 409A.

23. **Effect of Termination**. The provisions of Sections 6, 8-13 and 21 and those provisions necessary to interpret and enforce them, shall survive any termination of this Agreement and any termination of the employment relationship between Employee and any member of the Company Group.

24. **Third-Party Beneficiaries**. Each member of the Company Group that is not a signatory to this Agreement shall be a third-party beneficiary of Employee's obligations under Sections 7, 8, 9, 10, 11, and 21 and shall be entitled to enforce such obligations as if a party hereto.

25. **Severability**. If an arbitrator or court of competent jurisdiction determines that any provision of this Agreement (or portion thereof) is invalid or unenforceable, then the invalidity or unenforceability of that provision (or portion thereof) shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

IN WITNESS WHEREOF, Employee and the Company each have caused this Agreement to be executed and effective as of the Effective Date.

EMPLOYEE

/s/ Newton W. Wilson III
Newton W. Wilson III

PROPETRO HOLDING CORP.

By: /s/ Dale Redman
Name: Dale Redman
Title: Chief Executive Officer

Exhibit 31.1

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

I, Phillip A. Gobe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ProPetro Holding Corp.;

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

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

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

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

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

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

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

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

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

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

Dated: June 19, 2020

/s/ Phillip A. Gobe

Phillip A. Gobe
Chief Executive Officer and Chairman
(Principal Executive Officer)

Exhibit 31.2

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

I, Darin G. Holderness, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ProPetro Holding Corp.;

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

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

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

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

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

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

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

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

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

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

Dated: June 19, 2020

/s/ Darin G. Holderness

Darin G. Holderness
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of ProPetro Holding Corp. (the "Company"), for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip A. Gobe, Chief Executive Officer and Chairman of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 19, 2020

/s/ Phillip A. Gobe
Phillip A. Gobe
Chief Executive Officer and Chairman
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of ProPetro Holding Corp. (the “Company”), for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Darin G. Holderness, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 19, 2020

/s/ Darin G. Holderness
Darin G. Holderness
Chief Financial Officer
(Principal Financial Officer)