

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 **March 31, 2020**

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
(State or other jurisdiction of
incorporation or organization)

26-3685382
(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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 29, 2020, was 100,889,230.

PROPETRO HOLDING CORP.

TABLE OF CONTENTS

	Page
<u>Cautionary Note Regarding Forward-Looking Statements</u>	ii
PART I – FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019</u>	1
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019</u>	2
<u>Condensed Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2020 and 2019</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4. Controls and Procedures</u>	29
PART II – OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	32
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>Item 3. Defaults Upon Senior Securities</u>	32
<u>Item 4. Mine Safety Disclosures</u>	32
<u>Item 5. Other Information</u>	32
<u>Item 6. Exhibits</u>	33
<u>Signatures</u>	35

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 Company's 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 our Form 10-K for the year ended December 31, 2019, filed with the SEC (the "Form 10-K") 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 Form 10-K.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 143,717	\$ 149,036
Accounts receivable - net of allowance for credit losses of \$5,340 and \$1,049, respectively	222,378	212,183
Inventories	3,296	2,436
Prepaid expenses	7,934	10,815
Other current assets	637	1,121
Total current assets	377,962	375,591
PROPERTY AND EQUIPMENT - net of accumulated depreciation	1,018,660	1,047,535
OPERATING LEASE RIGHT-OF-USE ASSETS	921	989
OTHER NONCURRENT ASSETS:		
Goodwill	—	9,425
Other noncurrent assets	2,347	2,571
Total other noncurrent assets	2,347	11,996
TOTAL ASSETS	\$ 1,399,890	\$ 1,436,111
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 198,437	\$ 193,096
Operating lease liabilities	309	302
Finance lease liabilities	—	2,831
Accrued and other current liabilities	26,916	36,343
Accrued interest payable	263	394
Total current liabilities	225,925	232,966
DEFERRED INCOME TAXES	101,729	103,041
LONG-TERM DEBT	110,000	130,000
NONCURRENT OPERATING LEASE LIABILITIES	720	799
Total liabilities	438,374	466,806
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, 100,777,670 and 100,624,099 shares issued, respectively	101	101
Additional paid-in capital	826,644	826,629
Retained earnings	134,771	142,575
Total shareholders' equity	961,516	969,305
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,399,890	\$ 1,436,111

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 March 31,	
	2020	2019
REVENUE - Service revenue	\$ 395,069	\$ 546,179
COSTS AND EXPENSES		
Cost of services (exclusive of depreciation and amortization)	300,848	381,523
General and administrative (inclusive of stock-based compensation)	24,937	18,524
Depreciation and amortization	40,205	33,117
Impairment expense	16,654	—
Loss on disposal of assets	19,854	19,228
Total costs and expenses	402,498	452,392
OPERATING INCOME (LOSS)	(7,429)	93,787
OTHER EXPENSE:		
Interest expense	(1,281)	(1,903)
Other expense	(3)	(187)
Total other expense	(1,284)	(2,090)
INCOME (LOSS) BEFORE INCOME TAXES	(8,713)	91,697
INCOME TAX (EXPENSE) BENEFIT	909	(21,892)
NET INCOME (LOSS)	\$ (7,804)	\$ 69,805
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	\$ (0.08)	\$ 0.70
Diluted	\$ (0.08)	\$ 0.67
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	100,687	100,232
Diluted	100,687	104,123

See notes to condensed consolidated financial statements

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

Three Months Ended March 31, 2020							
	Common Stock			Additional Paid-In		Retained Earnings	Total
	Shares	Amount		Capital	Capital		
BALANCE - January 1, 2020	100,624	\$ 101	\$	826,629	\$	142,575	\$ 969,305
Stock-based compensation cost	—	—		471		—	471
Issuance of equity awards, net	154	—		—		—	—
Tax withholdings paid for net settlement of equity awards	—	—		(456)		—	(456)
Net loss	—	—		—		(7,804)	(7,804)
BALANCE - March 31, 2020	<u>100,778</u>	<u>\$ 101</u>	<u>\$</u>	<u>826,644</u>	<u>\$</u>	<u>134,771</u>	<u>\$ 961,516</u>

Three Months Ended March 31, 2019							
	Common Stock			Additional Paid-In		Retained Earnings	Total
	Shares	Amount		Capital	Capital	(Accumulated Deficit)	
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	<u>100,294</u>	<u>\$ 100</u>	<u>\$</u>	<u>820,071</u>	<u>\$</u>	<u>49,370</u>	<u>\$ 869,541</u>

	Three Months Ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (7,804)	\$ 69,805
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	40,205	33,117
Impairment expense	16,654	—
Deferred income tax expense (benefit)	(1,312)	21,083
Amortization of deferred debt issuance costs	135	134
Stock-based compensation	471	1,829
Provision for credit losses	4,291	—
Loss on disposal of assets	19,854	19,228
Changes in operating assets and liabilities:		
Accounts receivable	(14,486)	(154,516)
Other current assets	1,138	(274)
Inventories	(860)	482
Prepaid expenses	2,920	759
Accounts payable	10,080	45,324
Accrued and other current liabilities	(9,431)	(1,366)
Accrued interest	(131)	480
Net cash provided by operating activities	<u>61,724</u>	<u>36,085</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(47,290)	(178,912)
Proceeds from sale of assets	733	1,027
Net cash used in investing activities	<u>(46,557)</u>	<u>(177,885)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	—	90,000
Repayments of borrowings	(20,000)	—
Payment of finance lease obligation	(30)	—
Repayments of insurance financing	—	(1,934)
Proceeds from exercise of equity awards	—	552
Tax withholdings paid for net settlement of equity awards	(456)	—
Net cash provided by (used in) financing activities	<u>(20,486)</u>	<u>88,618</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(5,319)</u>	<u>(53,182)</u>

CASH AND CASH EQUIVALENTS - Beginning of period	149,036	132,700
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 143,717</u>	<u>\$ 79,518</u>

See notes to condensed consolidated financial statements

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, 2019 included in our Form 10-K filed with the SEC (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 29, 2020, the WTI price for a barrel of crude oil was approximately \$40.

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.

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 coiled tubing and drilling, 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 March 31, 2020 and December 31, 2019, accrued revenue (unbilled receivable) included as part of our accounts receivable was \$21.6 million and \$37.0 million, respectively. At March 31, 2020, the transaction price allocated to the remaining performance obligation for our partially completed hydraulic fracturing operations was \$16.3 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.

Allowance for Credit Losses

As of March 31, 2020, the Company had \$5.3 million allowance for credit losses. The allowance for credit losses of \$4.3 million, recorded during the three months ended March 31, 2020, was the result of the application of ASU 2016-13 to the Company's accounts receivables as of March 31, 2020 in consideration of both historic collection experience and the expected impact of currently deteriorating economic conditions for the oil and gas industry. We evaluated the historic loss experience on our accounts receivable and also considered separately, customers with receivable balances that may be further impacted by current economic developments and market conditions. A substantial amount of the Company's allowance for credit losses relates to a customer facing significant liquidity constraints for which the expected credit loss was separately evaluated. While the Company has not experienced significant credit losses in the past and has not yet seen material changes to the payment patterns of its customers, the Company cannot predict with any certainty the degree to which the impacts of the coronavirus ("COVID-19") pandemic, including the potential impact of periodically adjusted borrowing base limits, level of hedged production, or unforeseen well shut-downs may af

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation (Continued)

fect the ability of its customers to timely pay receivables when due. Accordingly, in future periods, the Company may revise its estimates of expected credit losses.

The table below shows a summary of allowance for credit losses during for the three months ended March 31, 2020.

(\$ in thousands)

	March 31, 2020
Balance - January 1, 2020	\$ 1,049
Allowance for credit losses during the period	4,291
Amounts written off	—
Balance - March 31, 2020	<u>\$ 5,340</u>

Note 2 - Recently Issued Accounting Standards

Recently Issued Accounting Standards Adopted in 2020

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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, which allows for a cumulative-effect adjustment to the consolidated condensed balance sheet as of the beginning of the first reporting period in which the guidance is effective. Periods prior to the adoption date that are presented for comparative purposes are not adjusted. The Company continuously evaluates customers based on risk characteristics, such as historical losses and current economic conditions. Due to the cyclical nature of the oil and gas industry, the Company often evaluates its customers' estimated losses on a combination of historical losses and on case-by-case basis. While there was no material impact to our consolidated 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, included in general and administrative expenses in the accompanying condensed consolidated statement of operations, in accordance with the new standard. Refer to "Allowance for Credit Losses" within Note 1 for additional disclosures required under ASU 2016-13.

In August 2018, the FASB issued ASU No. 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 January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): 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. Effective January 1, 2020, we adopted this guidance and the adoption did not materially affect the Company's condensed consolidated financial statements. See Note 3 for additional disclosures relating to our goodwill impairment.

Recently Issued Accounting Standards Not Yet Adopted in 2020

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

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 - Recently Issued Accounting Standards (Continued)

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 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 March 31, 2020 and December 31, 2019 approximated or equaled their carrying values as reflected in our condensed consolidated balance sheets.

Assets Measured at Fair Value on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis at March 31, 2020 and December 31, 2019, respectively, are set forth below:

(\$ in thousands)

	Estimated fair value measurements				
	Balance	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total gains (losses)
March 31, 2020:					
Property and equipment, net	\$ 750	\$ —	\$ 750	\$ —	\$ (7,229)
Goodwill	\$ —	\$ —	\$ —	\$ —	\$ (9,425)
December 31, 2019:					
Property and equipment, net	\$ 2,000	\$ —	\$ 2,000	\$ —	\$ (3,405)
Goodwill	\$ —	\$ —	\$ —	\$ —	\$ —

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 - Fair Value Measurement (Continued)

During the three months ended March 31, 2020, the negative future near-term outlook resulting from the continued idling of our Permian drilling assets and current market prices were indicative of potential impairment, resulting in the Company comparing the carrying value of the Permian drilling assets with its estimated fair value. We determined that the carrying value of the Permian drilling assets was greater than its estimated fair value, accordingly impairment expense of approximately \$1.1 million was recorded for our Permian drilling assets during the three months ended March 31, 2020. The carrying value for our Permian drilling assets after the impairment expense was approximately \$0.8 million.

In 2019, the Company entered an agreement with its equipment manufacturer granting the Company the option to purchase additional 08,000 hydraulic horsepower ("HHP") of *DuraStim*® equipment, with the purchase option expiring at different times through April 30, 2021. The option fee of \$6.1 million, classified as a deposit for property and equipment as part of our pressure pumping reportable segment has been fully impaired and written off as of March 31, 2020, because it is not probable that the Company will exercise the option to purchase the equipment given the current depressed crude oil prices and other market conditions that have resulted in a decline in the demand for our hydraulic fracturing services.

The total non-cash property and equipment impairment charges recorded during the three months ended March 31, 2020 and 2019 in our hydraulic fracturing and drilling segments was \$7.2 million and \$0, respectively.

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 three months ended March 31, 2020 and 2019. During the three months ended March 31, 2020, the depressed crude oil prices and crude oil storage challenges faced in the U.S. oil and gas industry triggered the Company to perform an interim goodwill impairment test, and as a result, we compared the carrying value of the goodwill in our hydraulic fracturing reporting unit with the estimated fair value. Our impairment test also considered other relevant factors, including market capitalization and market participants' view of the oil and gas industry in reaching our conclusion that that carrying value of our goodwill in our pressure pumping reportable segment of \$9.4 million is fully impaired. Accordingly, we recorded a goodwill impairment expense of \$9.4 million during the three months ended March 31, 2020. There was no goodwill impairment expense during the three months ended March 31, 2019.

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 of 85% of monthly eligible accounts receivable less customary reserves (the "Borrowing Base"), as redetermined monthly. The Borrowing Base as of March 31, 2020 was approximately \$161.9 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 three months ended March 31, 2020 was 3.9%.

Total debt consisted of the following at March 31, 2020 and December 31, 2019, respectively:

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4 - Long-Term Debt (Continued)

(\$ in thousands)

	2020	2019
ABL Credit Facility	\$ 110,000	\$ 130,000
Total debt	110,000	130,000
Less current portion of long-term debt	—	—
Total long-term debt	<u>\$ 110,000</u>	<u>\$ 130,000</u>

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 at March 31, 2020:

(\$ in thousands)

2020	\$ —
2021	—
2022	—
2023	110,000
2024 and thereafter	—
Total	<u>\$ 110,000</u>

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 - Reportable Segment Information

The Company has four operating segments for which discrete financial information is readily available: hydraulic fracturing (inclusive of acidizing), cementing, coiled tubing and drilling. In March 2020, the Company shut down its flowback operating segment and subsequently disposed of the assets for approximately \$1.6 million. 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 months ended March 31, 2020 and 2019 was \$10.3 million and \$29.7 million, respectively.

Our hydraulic fracturing operating segment revenue approximated 94.8% and 95.9% of our pressure pumping revenue during the three months ended March 31, 2020 and 2019, 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):

	Three Months Ended March 31, 2020		
	Pressure Pumping	All Other	Total
Service revenue	\$ 386,919	\$ 8,150	\$ 395,069
Adjusted EBITDA	\$ 78,664	\$ (3,741)	\$ 74,923
Depreciation and amortization	\$ 38,969	\$ 1,236	\$ 40,205
Capital expenditures	\$ 39,268	\$ 828	\$ 40,096
Total assets at March 31, 2020	\$ 1,347,189	\$ 52,701	\$ 1,399,890
	Three Months Ended March 31, 2019		
	Pressure Pumping	All Other	Total
Service revenue	\$ 532,064	\$ 14,115	\$ 546,179
Adjusted EBITDA	\$ 151,040	\$ (765)	\$ 150,275
Depreciation and amortization	\$ 31,783	\$ 1,334	\$ 33,117
Goodwill at December 31, 2019	\$ 9,425	\$ —	\$ 9,425
Capital expenditures	\$ 82,035	\$ 4,112	\$ 86,147
Total assets at December 31, 2019	\$ 1,381,811	\$ 54,300	\$ 1,436,111

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5- Reportable Segment Information (Continued)

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

	Three Months Ended March 31, 2020		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 4,308	\$ (12,112)	\$ (7,804)
Depreciation and amortization	38,969	1,236	40,205
Impairment expense	15,559	1,095	16,654
Interest expense	1	1,280	1,281
Income tax expense	—	(909)	(909)
Loss on disposal of assets	19,815	39	19,854
Stock-based compensation	—	471	471
Other expense	—	3	3
Other general and administrative expense ⁽¹⁾	—	5,135	5,135
Retention bonus and severance expense	12	21	33
Adjusted EBITDA	\$ 78,664	\$ (3,741)	\$ 74,923

	Three Months Ended March 31, 2019		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 98,094	\$ (28,289)	\$ 69,805
Depreciation and amortization	31,783	1,334	33,117
Interest expense	—	1,903	1,903
Income tax expense	—	21,892	21,892
Loss on disposal of assets	19,006	222	19,228
Stock-based compensation	—	1,829	1,829
Other expense	—	187	187
Deferred IPO bonus expense	2,157	157	2,314
Adjusted EBITDA	\$ 151,040	\$ (765)	\$ 150,275

(1) Other general and administrative expense relates to nonrecurring professional fees paid to external consultants in connection with the Company's expanded audit committee review.

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 6 - Net Income (Loss) Per Share

Basic net income (loss) per common share is computed by dividing the net income (loss) relevant to the common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share uses the same net income (loss) 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 months ended March 31, 2020 and 2019, (in thousands, except for per share data).

	Three Months Ended March 31,	
	2020	2019
<i>Numerator (both basic and diluted)</i>		
Net income (loss) relevant to common stockholders	\$ (7,804)	\$ 69,805
<i>Denominator</i>		
Denominator for basic income (loss) per share	100,687	100,232
Dilutive effect of stock options	—	3,160
Dilutive effect of performance share units	—	555
Dilutive effect of restricted stock units	—	176
Denominator for diluted income (loss) per share	100,687	104,123
Basic income (loss) per share	\$ (0.08)	\$ 0.70
Diluted income (loss) per share	\$ (0.08)	\$ 0.67

As shown in the table below, the following stock options, restricted stock units and performance stock units outstanding as of March 31, 2020 and 2019, respectively, have not been included in the calculation of diluted income (loss) per common share because they will be anti-dilutive to the calculation of diluted net income (loss) per common share.

(In thousands)

	2020	2019
Stock options	4,230	—
Restricted stock units	1,228	—
Performance stock units	1,051	—
Total	6,509	—

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 - Stock-Based Compensation

Stock Options

There were no new stock option grants during the three months ended March 31, 2020 and 2019. As of March 31, 2020, the aggregate intrinsic value for our outstanding stock options was approximately \$0.3 million, and the aggregate intrinsic value for our exercisable stock options was \$0.3 million. The remaining exercise period for the outstanding and exercisable stock options as of March 31, 2020, was 4.5 years and 4.6 years, respectively.

A summary of the stock option activity for the three months ended March 31, 2020 is presented below.

	Number of Shares		Weighted Average Exercise Price
Outstanding at January 1, 2020	4,300,088	\$	5.03
Granted	—	\$	—
Exercised	—	\$	—
Forfeited	(69,673)	\$	14.00
Expired	—	\$	—
Outstanding at March 31, 2020	<u>4,230,415</u>	\$	4.88
Exercisable at March 31, 2020	<u>4,092,276</u>	\$	4.58

Restricted Stock Units

During the three months ended March 31, 2020, we granted a total of 949,214 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. As of March 31, 2020, the total unrecognized compensation expense for all RSUs was approximately \$10.5 million, and is expected to be recognized over a weighted average period of approximately 2.4 years.

The following table summarizes RSUs activity during the three months ended March 31, 2020:

	Number of Shares		Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	613,217	\$	18.75
Granted	949,214	\$	7.74
Vested	(64,615)	\$	21.57
Forfeited	(270,316)	\$	16.18
Canceled	—	\$	—
Outstanding at March 31, 2020	<u>1,227,500</u>	\$	10.65

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 - Stock-Based Compensation (Continued)

Performance Share Units

During the three months ended March 31, 2020, we granted 966,242 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.

The following table summarizes information about PSUs activity during the three months ended March 31, 2020:

Period Granted	Target Shares Outstanding at January 1, 2020	Target Shares Granted	Target Shares Vested	Target Shares Forfeited	Target Shares Outstanding at March 31, 2020	Weighted Average Grant Date Fair Value per Share
2017	151,492	—	(151,492)	—	—	\$ 10.73
2018	156,576	—	—	(72,254)	84,322	\$ 27.51
2019	214,553	—	—	(88,235)	126,318	\$ 34.82
2020	—	966,242	—	(125,391)	840,851	\$ 9.42
Total	<u>522,621</u>	<u>966,242</u>	<u>(151,492)</u>	<u>(285,880)</u>	<u>1,051,491</u>	<u>\$ 13.92</u>

The total stock compensation expense for the three months ended March 31, 2020 and 2019 for all stock awards was \$0.5 million and \$1.8 million, respectively. The total unrecognized compensation expense as of March 31, 2020 was approximately \$20.7 million, and is expected to be recognized over a weighted average period of approximately 2.4 years.

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 8 - Related-Party Transactions

Corporate Office Building

The Company rented 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 three months ended March 31, 2020, the total improvements on our corporate office building that we rent from the related party was approximately \$0.2 million. In April 2020, the Company acquired the corporate office building and the 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 the 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 approximately \$0.1 million.

Transportation and Equipment Rental

For the three months ended March 31, 2020 and 2019, the Company incurred costs for transportation services with an entity, in which a former executive officer of the Company has an equity interest, of approximately \$0 and \$0.1 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 three months ended March 31, 2019, the Company incurred equipment rental costs of approximately \$0.05 million. This rental arrangement was terminated in January 2020.

Other Services

The Company obtains equipment maintenance and repair services from an entity that has a family relationship with an executive officer of the Company. During the three months ended March 31, 2020, the Company incurred approximately \$0.3 million for equipment maintenance and repair services associated with this related party.

At March 31, 2020, the Company had approximately \$0.2 million in payables to the above related parties. As of December 31, 2019, there were no outstanding payables in connection with transactions to the above related parties.

Pioneer

On December 31, 2018, we consummated the purchase of certain pressure pumping assets and real property in connection with Pioneer Natural Resources USA, Inc. ("Pioneer") and Pioneer Pumping Services (the "Pioneer Pressure Pumping Acquisition"). In connection with the Pioneer Pressure Pumping Acquisition, Pioneer acquired 16.6 million shares of our common stock. We terminated our crew camp facility lease with Pioneer in July 2019, and the total payment to Pioneer in 2019 in connection with the crew camp facility lease was approximately \$0.1 million. Revenue from services provided to Pioneer accounted for approximately \$127.4 million and \$159.9 million of our total revenue during the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020, the total accounts receivable due from Pioneer, including estimated unbilled receivable for services we provided, amounted to approximately \$77.7 million and the amount due to Pioneer was \$0. During the three months ended March 31, 2020 and 2019, the Company reimbursed Pioneer approximately \$2.6 million and \$0, respectively, for our portion of the retention bonuses paid to former Pioneer employees that were subsequently employed by the Company in connection with the Pioneer Pressure Pumping Acquisition. As of December 31, 2019, the balance due from Pioneer for services provided and billed amounted to approximately \$61.7 million and the amount due to Pioneer was \$0.

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 9 - Leases

Operating Leases

Description of Lease

In March 2013, we entered into a ten 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 three months ended March 31, 2020 and 2019, the Company made lease payments of approximately \$0.1 million and \$0.1 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.

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 March 31, 2020, the weighted average discount rate and remaining lease term was approximately 6.7% and 3.0 years, respectively.

As of March 31, 2020, our total operating lease right-of-use asset cost was approximately \$1.2 million, and accumulated amortization was approximately \$0.3 million. For the three months ended March 31, 2020 and 2019, we recorded operating lease cost of approximately \$0.1 million and \$0.1 million, respectively, in our statement of operations.

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 did not include any residual value guarantee, covenants or financial restrictions. Further, the Ground Lease did 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 approximately 1.2 years, assuming we will exercise our option to purchase the land immediately after the option becomes exercisable. In March 2020, the Company exercised its option and purchased the land associated with the Ground Lease for approximately \$2.5 million. For the three months ended March 31, 2020 and 2019, the interest on our finance lease was approximately \$0 and \$0.03 million, respectively.

The maturity analysis of liabilities and reconciliation to undiscounted and discounted remaining future lease payments for our operating lease as of March 31, 2020 are as follows:

(\$ in thousands)	
2020	\$ 277
2021	377
2022	389
2023	97
2024	—
Total undiscounted future lease payments	<u>1,140</u>
Less: amount representing interest	(111)
Present value of future lease payments (lease obligation)	<u>\$ 1,029</u>

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 9 - Leases (Continued)

The total cash paid for amounts included in the measurement of our operating and finance lease liabilities during the three months ended March 31, 2020 was approximately \$0.1 million and \$0.03 million, respectively. During the three months ended March 31, 2019, total cash paid for amounts included in the measurement of our operating and finance lease liabilities was approximately \$0.1 million and \$0.1 million, respectively.

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 three months ended March 31, 2020, our short-term leases and lodging expense was approximately \$0.3 million and \$2.1 million, respectively. During the three months ended March 31, 2019 our short-term leases and lodging expense was approximately \$0.3 million and \$2.2 million, respectively. At March 31, 2020, the total remaining lease commitments for all of our short-term leases and lodging commitments was approximately \$5.1 million.

Note 10 - Commitments and Contingencies

Commitments

As of March 31, 2020, the Company has an agreement with its equipment manufacturer granting the Company the option to purchase additional 08,000 HHP of *DuraStim*® equipment, with the purchase option expiring at different times through April 30, 2021. The option fee of \$6.1 million, which was classified as a deposit for property and equipment when the agreement was entered into in 2019, has been impaired and written off as of March 31, 2020 as it is not probable that we will exercise our option to purchase the equipment given the current market conditions and the depressed oil and gas industry.

As of March 31, 2020, the total outstanding contractual commitments entered into as part of normal course of business for supply of certain equipment and other assets was approximately \$1.2 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 three months ended March 31, 2020, 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 of the Company has a 44% noncontrolling equity interest in the LandCo. The total sand purchased from SandCo during the three months ended March 31, 2020 and 2019 was approximately \$5.3 million and \$9.5 million, respectively, and the estimated indirect benefit to the former executive officer of the Company was approximately \$0.2 million and \$0.3 million, respectively.

As of March 31, 2020 and December 31, 2019, the Company had issued letters of credit of approximately \$1.5 million and \$1.5 million, respectively, under the Company's ABL Credit Facility relating to the Company's casualty insurance policy.

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

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10 - Commitments and Contingencies (Continued)

Rule 10b-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 March 31, 2020, 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.

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 March 31, 2020, although the audit is still ongoing, we do not believe that any material tax liability will arise from the audit.

PROPETRO HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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.

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 condensed 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 areas 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").

We expect to receive the remaining 54,000 HHP of the *DuraStim*® fleet, which has been fully paid for by us, before the end of 2020. Our total HHP as of March 31, 2020 was 1,469,000 HHP which comprised of 1,415,000 HHP of conventional HHP and 54,000 HHP of the new *DuraStim*® hydraulic fracturing technology.

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 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.

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 29, 2020, the WTI price for a barrel of crude oil was approximately \$40.

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. If the depressed oil prices and the current depressed economic conditions remain for a longer period of time, and our future cash flows are negatively impacted, we may record additional asset impairment charges in future periods.

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 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 (loss) 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 March 31, 2020		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 4,308	\$ (12,112)	\$ (7,804)
Depreciation and amortization	38,969	1,236	40,205
Impairment expense	15,559	1,095	16,654
Interest expense	1	1,280	1,281
Income tax expense	—	(909)	(909)
Loss on disposal of assets	19,815	39	19,854
Stock-based compensation	—	471	471
Other expense	—	3	3
Other general and administrative expense ⁽¹⁾	—	5,135	5,135
Retention bonus and severance expense	12	21	33
Adjusted EBITDA	\$ 78,664	\$ (3,741)	\$ 74,923

	Three Months Ended March 31, 2019		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 98,094	\$ (28,289)	\$ 69,805
Depreciation and amortization	31,783	1,334	33,117
Interest expense	—	1,903	1,903
Income tax expense	—	21,892	21,892
Loss on disposal of assets	19,006	222	19,228
Stock-based compensation	—	1,829	1,829
Other expense	—	187	187
Deferred IPO bonus expense	2,157	157	2,314
Adjusted EBITDA	\$ 151,040	\$ (765)	\$ 150,275

(1) Other general and administrative expense relates to nonrecurring professional fees paid to external consultants in connection with the Company's expanded audit committee review.

Results of Operations

We conducted our business through four operating segments: hydraulic fracturing, cementing, coiled tubing, and drilling. In March 2020, the Company shut down its flowback operating segment and subsequently disposed of the assets for approximately \$1.6 million. 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 expense (inclusive of our total income tax expense and interest expense) for the three months ended March 31, 2020 and 2019 was \$10.3 million and \$29.7 million, respectively.

Our hydraulic fracturing operating segment revenue approximated 94.8% and 95.9% of our pressure pumping revenue during the three months ended March 31, 2020 and 2019, respectively.

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

(in thousands, except for percentages)

	Three Months Ended March 31,		Change	
	2020	2019	Variance	%
Revenue	\$ 395,069	\$ 546,179	\$ (151,110)	(27.7)%
Cost of services ⁽¹⁾	300,848	381,523	(80,675)	(21.1)%
General and administrative expense ⁽²⁾	24,937	18,524	6,413	34.6 %
Depreciation and amortization	40,205	33,117	7,088	21.4 %
Impairment expense	16,654	—	16,654	100.0 %
Loss on disposal of assets	19,854	19,228	626	3.3 %
Interest expense	1,281	1,903	(622)	(32.7)%
Other expense	3	187	(184)	(98.4)%
Income tax expense (benefit)	(909)	21,892	(22,801)	(104.2)%
Net income (loss)	\$ (7,804)	\$ 69,805	\$ (77,609)	(111.2)%
Adjusted EBITDA ⁽³⁾	\$ 74,923	\$ 150,275	\$ (75,352)	(50.1)%
Adjusted EBITDA Margin ⁽³⁾	19.0 %	27.5 %	(8.5)%	(30.9)%

Pressure pumping segment results of operations:

Revenue	\$ 386,919	\$ 532,064	\$ (145,145)	(27.3)%
Cost of services	\$ 294,224	\$ 371,105	\$ (76,881)	(20.7)%
Adjusted EBITDA ⁽³⁾	\$ 78,664	\$ 151,040	\$ (72,376)	(47.9)%
Adjusted EBITDA Margin ⁽⁴⁾	20.3 %	28.4 %	(8.1)%	(28.5)%

(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 March 31, 2020 Compared to the Three Months Ended March 31, 2019

Revenues. Revenues decreased 27.7%, or \$151.1 million, to \$395.1 million during the three months ended March 31, 2020, as compared to \$546.2 million during the three months ended March 31, 2019. The decrease was primarily attributable to the decrease in demand for pressure pumping services that led to a significant decrease in our hydraulic fracturing fleet utilized and also pricing discounts we provided to our customers in March 2020 following the depressed oil prices and slowdown in economic activity from the COVID-19 pandemic. Our average active fleet count decreased to approximately 18.6 active fleets during the three months ended March 31, 2020 from approximately 27.0 active fleets for the three months ended March 31, 2019. Our pressure pumping segment revenues decreased 27.3%, or \$145.1 million, for the three months ended March 31, 2020, as compared to the three months ended March 31, 2019.

Revenues from services other than pressure pumping decreased 42.3%, or \$6.0 million, to \$8.2 million for the three months ended March 31, 2020 as compared \$14.1 million for the three months ended March 31, 2019. The decrease in revenue from services other than pressure pumping was primarily attributable to the significant reduction in our customers' well stimulation and completions activity and pricing discounts which were driven by depressed oil prices and the COVID-19 pandemic.

Cost of Services. Cost of services decreased 21.1%, or \$80.7 million, to \$300.8 million for the three months ended March 31, 2020, as compared to \$381.5 million during the three months ended March 31, 2019. Cost of services in our pressure pumping segment decreased \$76.9 million for the three months ended March 31, 2020, as compared to the three months ended March 31, 2019. These decreases were primarily attributable to the significantly lower activity levels resulting from our customers idling fleets following the depressed oil prices and economic slowdown caused by the COVID-19 pandemic. As a percentage of pressure pumping segment revenues, pressure pumping cost of services increased to 76.0% for the three months ended March 31, 2020, as compared to 69.7% for the three months ended March 31, 2019. The increase in cost of services as a percentage of revenue for our pressure pumping segment resulted from an unfavorable change in our cost structure resulting from the pricing discounts we provided to our customers and certain cost of services that was absorbed by the Company and not passed to the customers either because of idling fleets or depressed market conditions.

General and Administrative Expenses. General and administrative expenses increased 34.6%, or \$6.4 million, to \$24.9 million for the three months ended March 31, 2020, as compared to \$18.5 million for the three months ended March 31, 2019. The net increase was primarily attributable to the increases of \$5.1 million relating to professional fees paid to external consultants in connection with the Company's expanded audit committee review, credit losses of \$4.3 million and partially offset by a net decrease of \$3.0 million in other remaining general and administrative expenses.

Depreciation and Amortization. Depreciation and amortization increased 21.4%, or \$7.1 million, to \$40.2 million for the three months ended March 31, 2020, as compared to \$33.1 million for the three months ended March 31, 2019. The increase was primarily attributable to the increase in our fixed asset base as of March 31, 2020, resulting primarily from an increase in our pressure pumping fleet capacity by 3.8% to 1,469,000 HHP as of March 31, 2020.

Impairment Expense. During the three months ended March 31, 2020, the depressed market conditions, crude oil prices and negative near-term outlook for the utilization of our assets, resulted in the Company recording an impairment expense of approximately \$16.7 million, of which approximately \$9.4 million relates to goodwill impairment and approximately \$7.2 million relates to property and equipment impairment. There was no impairment expense during the three months ended March 31, 2019.

Loss on Disposal of Assets. Loss on the disposal of assets increased 3.3%, or \$0.6 million, to \$19.9 million for the three months ended March 31, 2020, as compared to \$19.2 million for the three months ended March 31, 2019. Upon sale or retirement of property and equipment, including certain major components of our pressure pumping equipment that are replaced, the cost and related accumulated depreciation are removed from the balance sheet and the net amount is recognized as loss on disposal of assets.

Interest Expense. Interest expense decreased 32.7%, or \$0.6 million, to \$1.3 million for the three months ended March 31, 2020, as compared to \$1.9 million for the three months ended March 31, 2019. The decrease in interest expense was primarily attributable to the decrease in our average debt balance during the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

Income Tax Expense. Total income tax benefit was \$0.9 million resulting in an effective tax rate of 10.4% for the three months ended March 31, 2020, as compared to income tax expense of \$21.9 million or an effective tax rate of 23.9% for the three months ended March 31, 2019. The income tax benefit recorded in the three months ended March 31, 2020 is primarily attributable to the Company projecting a pre-tax loss in 2020 as compared to a pre-tax income in 2019. Furthermore, the change in the effective tax rate from 23.9% to 10.4% in the three months ended March 31, 2020 was primarily attributable to nondeductible expenses and discrete items such as stock compensation expense reducing the benefit recorded for the pre-tax loss.

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 any future 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 March 31, 2020, our borrowings under our ABL Credit Facility was \$110.0 million and our total liquidity was approximately \$194.1 million, consisting of cash and cash equivalents of \$143.7 million and \$50.4 million of availability under our ABL Credit Facility.

As of June 29, 2020, we had no borrowings under our ABL Credit Facility and our total liquidity was approximately \$49.8 million, consisting of cash and cash equivalents of \$36.7 million and \$13.1 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 March 31, 2020 was approximately \$161.9 million and was approximately \$16.8 million as of June 29, 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 three months ended March 31, 2020 was 3.9%.

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, which we have now provided to our lenders.

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 2021 when 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.

Future Sources and Use of Cash and Contractual Obligations

Future capital expenditures are projected to be primarily related to maintenance capital expenditures to support our active assets depending on fleet utilization, customer demand and market conditions. We anticipate our capital expenditures will be funded by existing cash, cash flows from operations, and if needed, borrowings under our ABL Credit Facility. Our cash flows from operations will be generated from services we provide to our customers and idle fees if a customer (Pioneer) decides to idle committed fleets and we are not able to deploy the idled fleets to another customer. 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 and cash flows from operations. Our maintenance capital expenditures are dependent on our operational activity and the intensity on the equipment, among other factors, which could vary throughout the year. In addition, we have option agreements with our equipment manufacturer to purchase additional 108,000 HHP of *DuraStim*® hydraulic pumps through April 30, 2021. We believe the cost to acquire the *DuraStim*® hydraulic pumps will be comparable to our previously purchased *DuraStim*® hydraulic pumps. In the current economic environment, it is not probable we would exercise these options before they expire.

We have repaid all our borrowings, as of June 29, 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 29, 2020, we repaid \$130.0 million of our borrowings under the ABL Credit Facility.

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 future material contractual obligations as of March 2020.

Cash and Cash Flows

The following table sets forth the historical cash flows for the three months ended March 31, 2020 and 2019:

(\$ in thousands)	Three Months Ended March 31,	
	2020	2019
Net cash provided by (used in):		
Operating activities	\$ 61,724	\$ 36,085
Investing activities	\$ (46,557)	\$ (177,885)
Financing activities	\$ (20,486)	\$ 88,618

Cash Flows From Operating Activities

Net cash provided by operating activities was \$61.7 million for the three months ended March 31, 2020, compared to net cash provided by operating activities of \$36.1 million for the three months ended March 31, 2019. The net increase of \$25.6 million was primarily due to the timing of our collection from our customers and payments to our vendors. We improved the number of days our revenue was outstanding by collecting our receivables quicker during the three months ended March 31, 2020, as compared to the three months ended March 31, 2019.

Cash Flows From Investing Activities

Net cash used in investing activities decreased to \$46.6 million for the three months ended March 31, 2020, from \$177.9 million for the three months ended March 31, 2019. The decrease was primarily attributable to the decrease in capital expenditure during the three months ended March 31, 2020, as compared to the three months ended March 31, 2019. During the three months ended March 31, 2019, the Company acquired and paid approximately \$110.0 million for the purchase of 510,000 HHP, 4 coiled tubing units and maintenance yard, and also made cash deposits of \$18.4 million to its equipment manufacturers for *DuraStim*® hydraulic fracturing pumps.

Cash Flows From Financing Activities

Net cash used in financing activities was \$20.5 million for the three months ended March 31, 2020, and net cash provided by financing activities was \$88.6 million for the three months ended March 31, 2019. The net decrease in cash from financing activities during the three months ended March 31, 2020 was primarily driven by the repayment of our borrowings under our ABL Credit Facility of \$20.0 million, compared to borrowings of \$90.0 million during the three months ended March 31, 2019. During the three months ended March 31, 2020, the Company did not finance its activities from borrowings but rather repaid \$20.0 million of outstanding borrowings under the ABL Credit facility.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2020.

Critical Accounting Policies and Estimates

There have been no material changes during the three months ended March 31, 2020 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.

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 March 31, 2020, 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.

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”).

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

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

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of March 31, 2020, and notwithstanding the material weaknesses in our internal control over financial reporting described below, our management has concluded that our financial statements in this Quarterly Report 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 (“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, 2019 based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO. Based on the evaluation under these criteria, management determined, based upon the existence of the material weaknesses identified and previously reported in our Form 10-K and described below, that we did not maintain effective internal control over financial reporting as of December 31, 2019. Due to the existence of the material weaknesses described below, our internal control over financial reporting remained ineffective as of March 31, 2020.

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 to the identified material weaknesses 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 continue to evaluate the design and implementation and operating effectiveness of the new and existing controls that address all the material weaknesses. 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 for a period of time, 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

Except as described above, 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 March 31, 2020 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 10b-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.

ITEM 1A. Risk Factors

None.

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.

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	Waiver to Credit Agreement, dated as of March 17, 2020 by and among ProPetro Holding Corp., ProPetro Services, Inc., Barclays Bank PLC, as the Agent, the Collateral Agent, a Letter of Credit Issuer and Swingline Lender, and each of the Lenders from time to time party thereto (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated March 23, 2020).
10.2+	Amended and Restated ProPetro Holding Corp. Executive Incentive Bonus Plan (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated February 18, 2020).
10.3+	Separation Agreement and Release, dated March 13, 2020, by and between Dale Redman and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated March 16, 2020).
10.4+	Participation Agreement pursuant to the ProPetro Services, Inc. Executive Severance Plan, dated March 16, 2020, by and between Newton W. Wilson III and ProPetro Services, Inc. (incorporated by reference herein to Exhibit 10.51 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.5+	Letter Agreement, dated March 13, 2020, by and between Jeffrey D. Smith and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.2 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated March 16, 2020).
10.6+	Amended and Restated ProPetro Holding Corp. Non-Employee Director Compensation Policy (incorporated by reference herein to Exhibit 10.53 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.7+	2020 Form of ProPetro Holding Corp. 2017 Incentive Award Plan Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement (Employees) (incorporated by reference herein to Exhibit 10.54 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.8+	2020 Form of ProPetro Holding Corp. 2017 Incentive Award Plan Performance Restricted Stock Unit Grant Notice and Performance Restricted Stock Unit Agreement (incorporated by reference herein to Exhibit 10.55 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.9+	ProPetro Services, Inc. Executive Severance Plan (incorporated by reference herein to Exhibit 10.3 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated March 16, 2020).
10.10+	Form of Participation Agreement pursuant to the ProPetro Services, Inc. Executive Severance Plan (incorporated by reference herein to Exhibit 10.4 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated March 16, 2020).
10.11+	Participation Agreement pursuant to the ProPetro Services, Inc. Executive Severance Plan, between Phillip A. Gobe and ProPetro Services, Inc., dated March 13, 2020 (incorporated by reference herein to Exhibit 10.5 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated March 16, 2020).
31.1*	Certification of Principal Executive 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.
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

+ 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: July 2, 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)

**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: July 2, 2020

/s/ Phillip A. Gobe

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

**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: July 2, 2020

/s/ Darin G. Holderness

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

**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 March 31, 2020, 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: July 2, 2020

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

**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 March 31, 2020, 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: July 2, 2020

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