

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 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)

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

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 (\$0.001 par value)	PUMP	New York Stock Exchange
Preferred Stock Purchase Rights	N/A	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the Company's Common Stock held by nonaffiliates on June 30, 2020, determined using the per share closing price on the New York Stock Exchange Composite tape of \$5.14 on that date, was approximately \$369.6 million.

The number of the registrant's common shares, par value \$0.001 per share, outstanding at March 3, 2021, was 101,957,796.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the “Annual Report”) contains forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include the words “may,” “could,” “plan,” “project,” “budget,” “predict,” “pursue,” “target,” “seek,” “objective,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” and other expressions that are predictions of, or indicate, future events and trends and that do not relate to historical matters identify forward-looking statements. Our forward-looking statements include, among other matters, statements about our business strategy, industry, future profitability, expected capital expenditures and the impact of such expenditures on our performance and capital programs.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- the severity and duration of world health events, including the 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;
- the effects of existing and future laws and governmental regulations (or the interpretation thereof) on us and our customers;
- 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;
- technological changes, including lower emissions oilfield services equipment and similar advancements;
- 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 effects of consolidation on our customers or competitors;
- 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, distribution and administration of COVID-19 vaccines 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;
- our ability to successfully implement technological developments and enhancements, including the new *DuraStim*® hydraulic fracturing equipment 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 current and future litigation, including the Logan Lawsuit and the Shareholder Derivative Lawsuit (each defined herein);
- the timing and outcome of, including potential expense associated with, the U.S. Securities and Exchange Commission (“SEC”) pending investigation;
- the potential impact on our business and stock price of any announcements regarding the SEC’s pending investigation, the Logan Lawsuit or the Shareholder Derivative Lawsuit;
- our ability to successfully execute on our plans and objectives.

You should not place undue reliance on our forward-looking statements. Although forward-looking statements reflect our good faith beliefs at the time they are made, forward-looking statements involve known and unknown risks, uncertainties and other factors, including the factors described under “Item 1A. Risk Factors” of this Annual Report, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, unless required by law.

Unless the context indicates otherwise, all references to “ProPetro Holding Corp.,” “the Company,” “we,” “our” or “us” or like terms refer to ProPetro Holding Corp. and its consolidated subsidiary, ProPetro Services, Inc.

SUMMARY RISK FACTORS

Our business is subject to varying degrees of risk and uncertainty. Investors should consider the risks and uncertainties summarized below, as well as the risks and uncertainties discussed in Part I, "Item 1A. Risk Factors" of this Annual Report on Form 10-K. Additional risks not presently known to us or that we currently deem immaterial may also affect us. If any of these risks occur, our business, financial condition or results of operations could be materially and adversely affected.

Our business is subject to the following principal risks and uncertainties:

Risks Inherent in Our Business and Industry

- Our business and financial performance depends on the oil and natural gas industry and particularly on the level of capital spending and exploration and production activity within the United States and in the Permian Basin, and a decline in prices for oil and natural gas has had and may continue to have an adverse effect on our revenue, cash flows, profitability and growth.
- The cyclical nature of the oil and natural gas industry may cause our operating results to fluctuate.
- Events outside of our control, including an epidemic or outbreak of an infectious disease, such as COVID-19, may materially adversely affect our business.
- The majority of our operations are located in the Permian Basin, making us vulnerable to risks associated with operating in one major geographic area.
- Our operations require substantial capital and we may be unable to obtain needed capital or financing on satisfactory terms, or at all, which could limit our ability to grow.
- We may become more leveraged and our indebtedness could adversely affect our operations and financial condition.
- Our operations are subject to unforeseen interruptions and hazards inherent in the oil and natural gas industry, for which we may not be adequately insured and which could cause us to lose customers and substantial revenue.
- We may be subject to claims for personal injury and property damage, which could materially adversely affect our financial condition and results of operations.
- We may grow through acquisitions and our failure to properly plan and manage those acquisitions may adversely affect our performance.
- The SEC's pending investigation, the Logan Lawsuit and the Shareholder Derivative Lawsuit could have a material adverse effect on our business, financial condition, results of operation, and cash flows.

Risks Related to Customers, Suppliers and Competition

- We face significant competition that may cause us to lose market share, and competition in our industry has intensified during the industry downturn.
- Our business depends upon our ability to obtain specialized equipment, parts and key raw materials, including sand and chemicals, from third-party suppliers, and we may be vulnerable to delayed deliveries and future price increases.
- We may be required to pay fees to certain of our sand suppliers based on minimum volumes under long-term contracts regardless of actual volumes received.
- Reliance upon a few large customers may adversely affect our revenue and operating results.

Risks Related to Employees

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

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

Risks Related to Regulatory Matters

- We are subject to environmental laws and regulations, and future compliance, claims, and liabilities relating to such matters may have a material adverse effect on our results of operations, financial position or cash flows.
- Our and our customers' operations are subject to a series of risks arising out of the threat of climate change that could result in increased operating costs, limit the areas in which oil and natural gas production may occur, and reduce demand for the products and services we provide.
- Federal and state legislative and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.
- Conservation measures, commercial development and technological advances could reduce demand for oil and natural gas and our services.

Risks Related to our Tax Matters

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

Risks Inherent to an Investment in our Common Stock

- We are subject to certain requirements of Section 404 of the Sarbanes-Oxley Act ("Section 404"). If we fail to comply with the requirements of Section 404 or if we or our auditors identify and report material weaknesses in internal control over financial reporting, our investors may lose confidence in our reported information and our stock price may be negatively affected.
- Certain provisions of our certificate of incorporation, bylaws and stockholder rights plan, as well as Delaware law, may discourage acquisition bids or merger proposals, which may adversely affect the market price of our common stock.
- Our business could be negatively affected as a result of the actions of activist shareholders.
- Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.
- There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

PART I

Item 1. Business.

Our Company

We are a 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 longstanding 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 one of the leading providers of hydraulic fracturing services in the region by hydraulic horsepower (“HHP”).

Changes to our customers’ well design, shale formations, operating conditions and new technology have resulted in continuous changes to the number of pumps that constitute a fleet. As a result of the asymmetric nature of the number of pumps that constitute a fleet across our customer base and competitors, which we believe will continue to evolve, we view HHP to be an appropriate metric to measure our available hydraulic fracturing capacity. Our total available HHP at December 31, 2020 was 1,373,000 HHP (excluding approximately 150,000 HHP we are in the process of permanently retiring), which was comprised of 1,265,000 HHP of conventional Tier II equipment and 108,000 HHP of our new *DuraStim*® electric powered hydraulic fracturing equipment. In addition, we have committed to purchase 50,000 HHP of Tier IV Dynamic Gas Blending (“DGB”) dual fuel equipment, that is expected to be delivered before the end of the first half of 2021. Our Tier IV DGB equipment could be powered by either diesel or natural gas, an improvement from Tier II conventional equipment that can only be powered with diesel. With the industry transition to lower emissions equipment and changes to the number of pumps or HHP that constitute a fleet, we believe that our available fleet capacity could decline as we reconfigure our fleets to increase active HHP and backup HHP based on our customers’ operational needs or as we retire and replace conventional Tier II equipment. In light of the energy industry transition to lower emissions equipment, the Company made a strategic decision to permanently retire approximately 150,000 HHP of its existing conventional Tier II pressure pumping equipment.

In 2019, we entered into a purchase commitment for 108,000 HHP *DuraStim*® electric powered hydraulic fracturing equipment. Our *DuraStim*® equipment is still being tested and has only been deployed to our customers’ wellsites on a limited scale. As we continue with our testing of the equipment, the number of *DuraStim*® pumps that constitute a fleet will depend on a combination of factors, including the ultimate operating performance of *DuraStim*® pumps following the completion of testing, the particular shale formation where a well is completed, customer service requirements and job design. The Company has set a goal to commercialize its first *DuraStim*® fleet to our customer wellsites in the second half of 2021. We also have an option to purchase up to an additional 108,000 HHP of *DuraStim*® hydraulic fracturing equipment in the future through July 31, 2022. We currently have gas turbines to provide electrical power to our *DuraStim*® fleet. The electrical power sources for future *DuraStim*® fleets are still being evaluated and could either be supplied by the Company, customers or a third-party supplier.

All of our hydraulic fracturing fleets have been designed to handle the most challenging Permian Basin operating conditions and the region’s increasingly high-intensity well completions, which are characterized by longer horizontal wellbores, more fractured stages, increased number of wells per pad and increasing amounts of proppant per well.

In addition to our core pressure pumping segment operations, which consist of our hydraulic fracturing and 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 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.

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 depressed demand in the energy sector and uncertainty in global production levels. In response to the global economic slowdown and depressed demand in the oil and gas industry, OPEC+ has made adjustments to production levels with the objective of rebalancing the energy market. After the March 2020 failed negotiations, OPEC+ subsequently agreed to cut production by 7.7 million barrels of oil per day, or BOPD. In January 2021, OPEC+ reconvened to discuss the matter of production cuts in light of unprecedented disruption and supply and demand imbalances. Agreements were reached to gradually increase production by 0.5 million BOPD, starting in January 2021, and adjusting the production reduction from 7.7 million BOPD to 7.2 million BOPD. OPEC+ members have shown compliance with previously agreed upon production levels, and we have seen recovery in crude oil prices from its low point in 2020.

The combined effect of COVID-19 and the energy industry disruptions led to a decline in West Texas Intermediate (“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, with OPEC+ managing production levels and with the development and distribution of COVID-19 vaccines, there has been gradual recovery in crude oil prices from the low point in March 2020. As of March 3, 2021, the WTI price for a barrel of crude oil was approximately \$62, a significant increase from its low point in 2020. However, with the uncertainty in the global market resulting from the COVID-19 pandemic, the risk that currently developed vaccines may not be successful in preventing the COVID-19 virus or the outbreak of a new virus, the global demand for crude oil could continue to be depressed and crude oil prices could decline.

In order to mitigate the impact of COVID-19 and the economic effects of the unprecedented decline in economic activity and global energy markets, we undertook several actions since March 2020 in support of the efficient continuity of our operations. These actions are described in greater detail in Part 2, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our Services

We have historically conducted our business through five operating segments: hydraulic fracturing, cementing, coiled tubing, flowback and drilling. For reporting purposes, the hydraulic fracturing and cementing operating segments are aggregated into one reportable segment—pressure pumping. Our coiled tubing, flowback, and drilling operating segments and corporate administrative expense are aggregated into our “All Other” reportable segment. For additional financial information on our reportable segment, please see reportable segment information in Part II - Item 8. “Financial Statements and Supplementary Data.”

Pressure Pumping

Hydraulic Fracturing

We primarily provide hydraulic fracturing services to E&P companies in the Permian Basin. These services are intended to optimize hydrocarbon flow paths during the completion phase of horizontal shale wellbores. We have significant expertise in multi-stage fracturing of horizontal oil-producing wells in unconventional geological formations. Our total available HHP at December 31, 2020 was 1,373,000 HHP (excluding approximately 150,000 HHP we are in the process of permanently retiring), which was comprised of 1,265,000 HHP of conventional Tier II equipment and 108,000 HHP of our new *DuraStim*® hydraulic fracturing equipment. Our *DuraStim*® hydraulic fracturing equipment has been tested on a limited scale basis with certain of our customers. The Company has set a goal to commercialize its first *DuraStim*® fleet to our customers’ wellsites in the second half of 2021.

The fracturing process consists of pumping a fracturing fluid into a well at sufficient pressure to fracture the formation. Materials known as proppants, which in our business are comprised primarily of sand, are suspended in the fracturing fluid and are pumped into the fracture to prop it open. The fracturing fluid is designed to “break,” or loosen viscosity, and be forced out of the formation by its pressure, leaving the proppants suspended in the fractures created, thereby increasing the mobility of the hydrocarbons. As a result of the fracturing process, production rates are usually enhanced substantially, thus increasing the rate of return of hydrocarbons for the operator.

We own and operate a fleet of mobile hydraulic fracturing units and other auxiliary equipment to perform fracturing services. We also refer to all of our fracturing units, other equipment and vehicles necessary to perform a fracturing job as a “fleet” and the personnel assigned to each fleet as a “crew.” On average, one conventional Tier II hydraulic fracturing

fleet consists of approximately 50,000 HHP, depending on job design and customer demand. Our conventional Tier II hydraulic fracturing units consist primarily of a high pressure hydraulic pump, diesel engine, transmission and various hoses, valves, tanks and other supporting equipment like blenders, irons and datavans. Our *DuraStim*® hydraulic fracturing fleet can be powered by turbines, generators or similar equipment that could generate electricity.

We provide dedicated equipment, personnel and services that are tailored to meet each of our customer's needs. Each fleet has a designated team of personnel, which allows us to provide responsive and customized services, such as project design, proppant and other consumables procurement, real-time data provision and post-completion analysis for each of our jobs. Many of our hydraulic fracturing fleets and associated personnel have worked continuously with the same customer for the past several years promoting deep relationships and a high degree of coordination and visibility into future customer activity levels. Furthermore, in light of our substantial market presence and historically high fleet utilization levels, we have established a variety of trusted relationships with key equipment, sand and other downhole consumable suppliers. These strategic relationships ensure ready access to equipment, parts and materials on a timely and economic basis and allow our dedicated procurement and logistics team to ensure consistently safe and reliable operations.

Cementing

We provide cementing services for completion of new wells and remedial work on existing wells. 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. Cementing provides isolation between fluid zones behind the casing to minimize potential damage to hydrocarbon bearing formations or the integrity of freshwater aquifers, and provides structural integrity for the casing by securing it to the earth. Cementing is also done when re-completing wells, where one zone is plugged and another is opened.

We believe that our cementing segment provides an organic growth opportunity for us to expand our service offerings within our existing customer base.

Other Services

Coiled Tubing

Coiled tubing services involve injecting coiled tubing into wells to perform various completion well intervention operations. Coiled tubing is a flexible steel pipe with a diameter of typically less than three inches and manufactured in continuous lengths of thousands of feet. It is wound or coiled on a truck-mounted reel for onshore applications. Due to its small diameter, coiled tubing can be inserted into existing production tubing and used to perform a variety of services (including drillout of plugs) to enhance the flow of oil or natural gas.

The principal advantages of using coiled tubing include the ability to (i) continue production from the well without interruption, thus reducing the risk of formation damage, (ii) move continuous coiled tubing in and out of a well significantly faster than conventional pipe used with a workover rig, which must be jointed and unjointed, (iii) direct fluids into a wellbore with more precision, allowing for improved stimulation fluid placement, (iv) provide a source of energy to power a downhole motor or manipulate downhole tools and (v) enhance access to remote fields due to the smaller size and mobility.

Flowback Services

Our flowback services consisted of production testing, solids control and hydrostatic testing. Flowback involves the process of allowing fluids to flow from the well following a treatment, either in preparation for an impending phase of treatment or to return the well to production. Our flowback equipment consisted of manifolds, accumulators, valves, flare stacks and other associated equipment that combine to form up to a total of five well-testing spreads. Historically, we provided flowback services in the Permian Basin and Mid-Continent markets. In March 2020, the Company shut down its flowback operations and disposed of all the assets.

Drilling

Our vertical drilling assets in our drilling segment have been idled since 2016, and in September 2020, the Company shut down its drilling operations and disposed of all of its drilling rigs and ancillary assets.

Our Customers

Our customers consist primarily of oil and natural gas producers in North America. Our top five customers accounted for approximately 86.5%, 77.1% and 68.7% of our revenue, for the years ended December 31, 2020, 2019 and 2018, respectively. For the year ended December 31, 2020, Pioneer Natural Resources USA Inc. (“Pioneer”) and XTO Energy Inc. accounted for 42.5% and 20.3%, respectively, of total revenue. No other customer accounted for more than 10% of our total revenue for the year ended December 31, 2020.

Competition

The markets in which we operate are highly competitive. To be successful, an oilfield services company must provide services that meet the specific needs of oil and natural gas E&P companies at competitive prices. Competitive factors impacting sales of our services are price, reputation, technical expertise, emissions profile, service and equipment design and quality, and health and safety standards. Although we believe our customers consider all of these factors, we believe price is a key factor in E&P companies’ criteria in choosing a service provider. However, we have recently observed the energy industry and our customers shift to lower emissions equipment, which we believe will be an increasingly important factor in an E&P company’s selection of a service provider. While we seek to price our services competitively, we believe many of our customers elect to work with us based on our operational efficiencies, productivity, equipment quality, commitment to safety and the ability of our people to handle the most complex Permian Basin well completions.

We provide our services primarily in the Permian Basin, and we compete against different companies in each service and product line we offer. Our competition includes many large and small oilfield service companies, including the largest integrated oilfield services companies. Our major competitors for hydraulic fracturing services include Halliburton Company, Liberty Oilfield Services Inc., Nextier Oilfield Solutions Inc., Patterson-UTI Energy Inc., RPC, Inc., and FTS International, Inc. and a number of private and locally-oriented businesses.

Seasonality

Our results of operations have historically reflected seasonal tendencies, generally in the fourth quarter, relating to the conclusion of our customers’ annual capital expenditure budgets, the holidays and inclement winter weather during which we may experience declines in our operating results.

Operating Risks and Insurance

Our operations are subject to hazards inherent in the oilfield services industry, such as accidents, blowouts, explosions, fires and spills and releases that can cause personal injury or loss of life, damage or destruction of property, equipment, natural resources and the environment and suspension of operations.

In addition, claims for loss of oil and natural gas production and damage to formations can occur in the oilfield services industry. If a serious accident were to occur at a location where our equipment and services are being used, it could result in us being named as a defendant in lawsuits asserting large claims.

Our business involves the transportation of heavy equipment and materials, and as a result, we may also experience traffic accidents which may result in spills, property damage and personal injury.

Despite our efforts to maintain safety standards, we have suffered accidents from time to time in the past and anticipate that we could experience accidents in the future. In addition to the property damage, personal injury and other losses from these accidents, the frequency and severity of these incidents affect our operating costs and insurability and our relationships with customers, employees, regulatory agencies and other parties. Any significant increase in the frequency or severity of these incidents, or the general level of compensation awards, could adversely affect the cost of, or our ability to obtain, workers’ compensation and other forms of insurance, and could have other material adverse effects on our financial condition and results of operations.

We maintain commercial general liability, workers’ compensation, business automobile, commercial property, umbrella liability, excess liability, and directors and officers insurance policies providing coverages of risks and amounts that we believe to be customary in our industry. Further, we have pollution legal liability coverage for our business entities, which would cover, among other things, third party liability and costs of clean up relating to environmental contamination on our premises while our equipment is in transit and on our customers’ job site. With respect to our

hydraulic fracturing operations, coverage would be available under our pollution legal liability policy for any surface or subsurface environmental clean-up and liability to third parties arising from any surface or subsurface contamination. We also have certain specific coverages for some of our businesses, including our hydraulic fracturing services.

We maintain director and officer insurance; however, our insurance coverage is subject to certain exclusions (including, for example, any required SEC disgorgement or penalties) and we are responsible for meeting certain deductibles under the policies. Moreover, we cannot assure you that our insurance coverage will adequately protect us from claims made in the Logan Lawsuit, the Shareholder Derivative Lawsuit, the SEC investigation or any future claims.

Although we maintain insurance coverage of types and amounts that we believe to be customary in the industry, we are not fully insured against all risks, either because insurance is not available or because of the high premium costs relative to perceived risk. Further, insurance rates have in the past been subject to wide fluctuation and changes in coverage could result in less coverage, increases in cost or higher deductibles and retentions. Liabilities for which we are not insured, or which exceed the policy limits of our applicable insurance, could have a material adverse effect on us. See “Risk Factors” for a description of certain risks associated with our insurance policies.

Environmental and Occupational Health and Safety Regulations

Our operations are subject to stringent laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection, and occupational health and safety. Numerous federal, state and local governmental agencies issue regulations that often require difficult and costly compliance measures that could carry substantial administrative, civil and criminal penalties and may result in injunctive obligations for non-compliance. These laws and regulations may, for example, restrict the types, quantities and concentrations of various substances that can be released into the environment, limit or prohibit construction or drilling activities on certain lands lying within wilderness, wetlands, ecologically or seismically sensitive areas and other protected areas, or require action to prevent or remediate pollution from current or former operations. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances, hydrocarbons or other waste products into the environment. Changes in environmental, health and safety laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially adversely affect our operations and financial position. For example, following the election of President Biden and Democratic control in both houses of Congress, it is possible that our operations may be subject to greater environmental, health and safety restrictions, particularly with regards to hydraulic fracturing, permitting and greenhouse gases (“GHG”) emissions. We have not experienced any material adverse effect from compliance with current requirements; however, this trend may not continue in the future.

Below is an overview of some of the more significant environmental, health and safety requirements with which we must comply. Our customers’ operations are subject to similar laws and regulations. Any material adverse effect of these laws and regulations on our customers’ operations and financial position may also have an indirect material adverse effect on our operations and financial position.

Waste Handling. We handle, transport, store and dispose of wastes that are subject to the Resource Conservation and Recovery Act (“RCRA”) and comparable state laws and regulations, which affect our activities by imposing requirements regarding the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. With federal approval, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Although certain petroleum production wastes are exempt from regulation as hazardous wastes under RCRA, such wastes may constitute “solid wastes” that are subject to the less stringent requirements of non-hazardous waste provisions.

Administrative, civil and criminal penalties can be imposed for failure to comply with waste handling requirements. Moreover, the U.S. Environmental Protection Agency (“EPA”) or state or local governments may adopt more stringent requirements for the handling of non-hazardous wastes or recategorize some non-hazardous wastes as hazardous for future regulation. Indeed, legislation has been proposed from time to time in Congress to recategorize certain oil and natural gas exploration, development and production wastes as hazardous wastes. Several environmental organizations have also petitioned the EPA to modify existing regulations to recategorize certain oil and natural gas exploration, development and production wastes as hazardous. Any such changes in these laws and regulations could have a material adverse effect on our capital expenditures and operating expenses. Although we do not believe the current costs of managing our wastes, as presently classified, to be significant, any legislative or regulatory reclassification of oil and natural gas exploration and production wastes could increase our costs to manage and dispose of such wastes.

Remediation of Hazardous Substances. The Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA” or “Superfund”) and analogous state laws generally impose liability without regard to fault or legality of the original conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the current owner or operator of a contaminated facility, a former owner or operator of the facility at the time of contamination and those persons that disposed or arranged for the disposal of the hazardous substance at the facility. Liability for the costs of removing or remediating previously disposed wastes or contamination, damages to natural resources, the costs of conducting certain health studies, amongst other things, is strict and joint and several. In the course of our operations, we use materials that, if released, would be subject to CERCLA and comparable state laws. Therefore, governmental agencies or third parties may seek to hold us responsible under CERCLA and comparable state statutes for all or part of the costs to clean up sites at which such hazardous substances have been released.

NORM. In the course of our operations, some of our equipment may be exposed to naturally occurring radioactive materials (“NORM”) associated with oil and gas deposits and, accordingly, may result in the generation of wastes and other materials containing NORM. NORM exhibiting levels of radiation in excess of established state standards are subject to special handling and disposal requirements, and any storage vessels, piping and work area affected by NORM may be subject to remediation or restoration requirements.

Water Discharges. The Clean Water Act, Safe Drinking Water Act, Oil Pollution Act and analogous state laws and regulations impose restrictions and strict controls regarding the unauthorized discharge of pollutants, including produced waters and other gas and oil wastes, into regulated waters. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or the state. Also, spill prevention, control and countermeasure plan requirements require appropriate containment berms and similar structures to help prevent the contamination of regulated waters.

Air Emissions. The Clean Air Act (“CAA”) and comparable state laws and regulations, regulate emissions of various air pollutants through the issuance of permits and the imposition of other emissions control requirements. The EPA has developed, and continues to develop, stringent regulations governing emissions of air pollutants from specified sources. New facilities may be required to obtain permits before work can begin, and existing facilities may be required to obtain additional permits and incur capital costs in order to remain in compliance. These and other laws and regulations may increase the costs of compliance for some facilities where we operate. Obtaining or renewing permits also has the potential to delay the development of oil and natural gas projects.

Climate Change. In the United States, no comprehensive climate change legislation has been implemented at the federal level. However, following the U.S. Supreme Court finding that GHG emissions constitute a pollutant under the CAA, the EPA has adopted regulations that, among other things, establish construction and operating permit reviews for GHG emissions from certain large stationary sources, require the monitoring and annual reporting of GHG emissions from certain petroleum and natural gas system sources in the United States, implement New Source Performance Standards directing the reduction of certain pollutant from certain new, modified, or reconstructed facilities in the oil and natural gas sector, and together with the Department of Transportation (“DOT”), implementing GHG emissions limits on vehicles manufactured for operation in the United States. For example, in June 2016, the EPA finalized rules that establish new air emission controls for methane emissions from certain new, modified, or reconstructed equipment and processes in the oil and natural gas source category, including production, processing, transmission, and storage activities, otherwise known as Subpart OOOOa. The EPA finalized amendments to the 2016 standards in September 2020 that removed the transmission and storage segment from the oil and natural gas source category and rescinded the methane-specific requirements for production and processing facilities. However, several lawsuits have been filed challenging these amendments, and President Biden has called for the issuance of regulations that would suspend, revise or rescind the September 2020 rule and the introduction of new or more stringent emissions standards for new, modified and existing oil and gas facilities.

Additionally, various states and groups of states have adopted or are considering adopting legislation, regulations or other regulatory initiatives that are focused on such areas such as GHG cap and trade programs, carbon taxes, reporting and tracking programs, and restriction of emissions. At the international level, there is an agreement, the United Nations-sponsored “Paris Agreement,” that requires nations to submit non-binding emissions reduction targets every five years after 2020. Although the United States had previously withdrawn from the Paris Agreement, President Biden has signed executive orders on his first day in office recommitting the United States to the agreement and calling for the federal government to begin formulating the United States’ nationally determined emissions reduction targets under the agreement. However, the impacts of these executive orders, and the terms of any legislation or regulation to implement the United States’ commitment under the Paris Agreement, are unclear at this time.

Governmental, scientific, and public concern over the threat of climate change arising from GHG emissions has resulted in increasing political risks in the United States, including climate-change-related pledges made by certain candidates for public office. On January 27, 2021, President Biden issued an executive order that commits to substantial action on climate change, calling for, among other things, the increased use of zero-emissions vehicles by the federal government, the elimination of subsidies provided to the fossil fuel industry and an increased emphasis on climate-related risk across government agencies and economic sectors. The executive order also suspends the issuance of new leases for oil and gas development on federal land; for more information, see our regulatory disclosure titled “Regulation of Hydraulic Fracturing and Related Activities.” Other actions that the Biden Administration may take include the imposition of more restrictive requirements for the development of pipeline infrastructure or liquefied natural gas export facilities or more restrictive GHG emissions limitations for oil and gas facilities. Litigation risks are also increasing as a number of cities and other local governments have sought to bring suit against the largest oil and natural gas companies in state or federal court, alleging among other things, that such companies created public nuisances by producing fuels that contributed to climate change or that such companies have been aware of the adverse effects of climate change but failed to adequately disclose those impacts to their investors or customers.

The adoption and implementation of new or more stringent international, federal or state legislation, regulations or other regulatory initiatives that impose more stringent standards for GHG emissions from the oil and natural gas sector or otherwise restrict the areas in which this sector may produce oil and natural gas or generate GHG emissions could result in increased costs of compliance or costs of consuming, and thereby reduce demand for, oil and natural gas, which could reduce demand for our services and products.

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

Endangered and Threatened Species. Environmental laws such as the Endangered Species Act (“ESA”) and analogous state laws may impact exploration, development and production activities in areas where we operate. The ESA provides broad protection for species of fish, wildlife and plants that are listed as threatened or endangered. Similar protections are offered to migratory birds under the Migratory Bird Treaty Act and various state analogs. The U.S. Fish and Wildlife Service (“FWS”) may identify previously unidentified endangered or threatened species or may designate critical habitat and suitable habitat areas that it believes are necessary for survival of a threatened or endangered species. For example, the dunes sagebrush lizard, which is found only in the active and semi-stable shinnery oak dunes of southeastern New Mexico and adjacent portions of Texas (including areas where our customers operate), was a candidate species for listing under the ESA by the FWS for many years. As a result of a recent settlement with the environmental groups, the FWS, in July 2020, acted on a petition to list the dunes sagebrush lizard finding sufficient information to warrant a formal one-year review to consider listing the species. While the listing review is ongoing, FWS has also solicited comments on a proposed conservation agreement that would implement certain protective practices for the species and authorize incidental take of the species resulting from certain covered activities, including exploration and development of oil and gas fields. However, to the extent any protections are implemented for this or any other species, it could cause us or our customers to incur additional costs or become subject to operating restrictions or operating bans in the affected areas.

Regulation of Hydraulic Fracturing and Related Activities. Our hydraulic fracturing operations are a significant component of our business. Hydraulic fracturing is an important and common practice that is used to stimulate production of hydrocarbons, particularly natural gas, from tight formations, including shales. The process, which involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production, is typically regulated by state oil and natural gas commissions. However, federal agencies have asserted regulatory authority over certain aspects of the process. For example, the EPA has previously issued a series of rules under the CAA that establish new emission control requirements for certain oil and natural gas production and natural gas processing operations and associated equipment. Separately, the Bureau of Land Management (“BLM”) previously finalized a rule governing hydraulic fracturing on federal lands, but in June 2016, a federal district court judge in Wyoming struck down the final rule, finding that the BLM lacked congressional authority to promulgate the rule. While this ruling was initially challenged, in December 2017, the BLM published a rulemaking to rescind the final rule and reinstate the regulations that existed immediately before the published effective date of the rule. Although several of these rulemakings have been rescinded or modified, new or more stringent regulations may be promulgated by the Biden administration. For example, on January 20, the Biden Administration’s Department of the Interior (“DOI”) issued an order that temporarily suspended the issuance of any fossil fuel authorizations, including leases and permits, for a period of 60 days, and President Biden subsequently issued a longer suspension on the issuance of new oil and gas leases on federal land, pending a review of current practices. Although the orders do not limit existing operations under valid leases, any restrictions for new or existing production activities on federal land could adversely impact our customers’ operations, and consequently demand for our services. Further, legislation to amend the Safe Drinking Water Act to repeal the

exemption for hydraulic fracturing (except when diesel fuels are used) from the definition of “underground injection” and require federal permitting and regulatory control of hydraulic fracturing, as well as legislative proposals to require disclosure of the chemical constituents of the fluids used in the fracturing process, have previously been proposed in Congress. Several states and local jurisdictions in which we or our customers operate also have adopted or are considering adopting regulations that could restrict or prohibit hydraulic fracturing in certain circumstances, impose more stringent operating standards and/or require the disclosure of the composition of hydraulic fracturing fluids.

Federal and state governments have also investigated whether the disposal of produced water into underground injection wells has caused increased seismic activity in certain areas. In response to concerns regarding induced seismicity, regulators in some states have imposed, or are considering imposing, additional requirements in the permitting of produced water disposal wells or otherwise to assess any relationship between seismicity and the use of such wells. For example, Oklahoma has issued rules for wastewater disposal wells that impose permitting and operating restrictions and reporting requirements on disposal wells in proximity to faults and also, from time to time, has implemented plans directing certain wells where seismic incidents have occurred to restrict or suspend disposal well operations. In particular, the Oklahoma Corporation Commission’s well completion seismicity guidelines for operators in the SCOOP and STACK require hydraulic fracturing operations to be suspended following earthquakes of certain magnitudes in the vicinity. In addition, the Oklahoma Corporation Commission’s Oil and Gas Conservation Division has previously issued an order limiting future increases in the volume of oil and natural gas wastewater injected into the ground in an effort to reduce the number of earthquakes in the state. The Texas Railroad Commission has adopted similar rules.

Increased regulation of hydraulic fracturing and related activities could subject us and our customers to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and record keeping obligations, and plugging and abandonment requirements. New requirements could result in increased operational costs for us and our customers, and reduce the demand for our services.

OSHA Matters. The Occupational Safety and Health Act (“OSHA”) and comparable state statutes regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and the public.

Human Capital

Our employees are our key asset. Our primary human capital management objectives are to effectively engage, develop, retain and reward our employees. As of December 31, 2020, we employed approximately 1,100 people, none of which are unionized. Of the total population over 80% of our headcount worked for our pressure pumping segment. Our employees are a key component of our ability to attract and retain customers as a result of their operational excellence in the field.

Some examples of significant programs and initiatives that are focused to attract, develop and retain our diverse workforce include:

- **Diversity and inclusion.** We believe that in order to attract and retain talent with the skill sets and expertise required to maximize our operational efficiencies across all levels in the Company, it is in our best interest to attempt to recruit and develop a diverse team and create a culture that is inclusive and provides equal opportunities for hiring and advancement for all employees and prospective employees. Some examples of this effort include:
 - a commitment to conducting business in a manner that respects all human rights in compliance within the requirements of applicable laws;
 - efforts to promote and encourage respect for human rights and fundamental freedoms for all without distinctions of any kind such as race, color, sex, language, religion, political or other opinions;
 - working in partnership with personnel, business parties and other parties directly linked to our operations that share our commitment to these same principles;
 - efforts in our employment practices, including through our code of conduct, our equal employment opportunity employer policy, and our anti-harassment policy; and

- to make it possible for grievances regarding health and safety to be addressed early and remediated directly, in confidence and without fear of retaliation; the Company provides an anonymous whistleblower hotline that is promoted internally and accessible from our intranet and internet.
- **Training and Safety.** We offer in-depth, role-appropriate safety training upon hiring and as part of the continuous development of our employees. The safety of our employees, our customers, and the communities in which we operate is paramount. We track and evaluate safety incidents at wellsites and offices, and if an accident does occur, we take actions to mitigate similar incidents from reoccurring in the future. The Company incentivizes employees to focus on conducting operations in accordance with our strict safety standards and encourages employees to immediately report any breach of safety protocol. Twenty percent of our executive officers' annual target bonuses under the 2020 annual incentive program were based upon the Company's achievement of certain safety goals, including a target total recordable incident rate of less than one.
- **Health and Wellness.** Our employee benefit offerings are designed to meet the varied and evolving needs of a diverse workforce across the Company and we believe are consistent with those provided by our peer companies with which we compete for talent. The Company provides employees with the ability to participate in health and welfare plans, including medical, dental, life, accidental death and dismemberment and short-term and long-term disability insurance plans. In 2020, we made the following adjustments to address the COVID-19 pandemic:
 - instituted a remote work environment to the extent feasible to help protect our workforce from exposure to COVID-19 by limiting physical contact as much as possible;
 - limited visitors to our offices and other work locations and encouraged all employees and visitors to wear masks at our offices and other work locations; and
 - provided coverage for COVID-19 testing and vaccination under the Company's medical plan at no cost to our employees.

Availability of Filings

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are made available free of charge on our internet web site at www.propetroservices.com, as soon as reasonably practicable after we have electronically filed the material with, or furnished it to, the SEC. The SEC maintains an internet site that contains our reports, proxy and information statements and our other SEC filings. The address of that web site is www.sec.gov. Please note that information contained on our website, whether currently posted or posted in the future, is not a part of this Annual Report or the documents incorporated by reference in this Annual Report.

Item 1A. Risk Factors.

The following is a description of significant factors that could cause actual results to differ materially from those contained in forward-looking statement made in this Annual Report and presented elsewhere by management from time to time. Such factors may have a material adverse effect on our business, financial condition and results of operations. It is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete statement of all our potential risks or uncertainties. Due to these, and other factors, past performance should not be considered an indication of future performance.

Risks Inherent in Our Business and Industry

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

Demand for most of our services depends substantially on the level of capital expenditures in the Permian Basin by companies in the oil and natural gas industry. As a result, our operations are dependent on the levels of capital spending and activity in oil and gas exploration, development and production. Demand for our services is largely dependent on oil and natural gas prices, and our customers' completion budgets and rig count. Prolonged low oil and gas prices would generally depress the level of oil and natural gas exploration, development, production, and well completion activity and would result in a corresponding decline in the demand for the hydraulic fracturing services that we provide. For many years, oil prices and markets have been extremely volatile. Prices are affected by many factors beyond our control. WTI oil prices declined significantly in 2015 and 2016 to approximately \$30 per barrel, but subsequently recovered in 2017. However, in 2020, oil and natural gas prices were highly volatile. The average WTI oil prices per barrel were approximately \$39, \$57 and \$65 for the years ended December 31, 2020, 2019 and 2018, respectively. In March 2020, WTI oil prices declined significantly, to a low of approximately \$20 per barrel towards the end of March 2020. On March 3, 2021, the WTI oil price was approximately \$62 per barrel. In 2020, the highly volatile and unpredictable nature of oil and natural gas prices caused a reduction in our customers' spending and associated drilling and completion activities, which has had and may continue to have an adverse effect on our revenue and cash flows, if WTI oil prices do not recover and remain highly volatile. We are also experiencing pricing pressure on our services from substantially all of our customers which has decreased margins for us. If prices continue to decline or remain low and are highly unpredictable, additional declines in our customers' spending would have a further adverse effect on our revenue, margins and cash flows. In addition, a worsening of these conditions may result in a material adverse impact on certain of our customers' liquidity and financial position resulting in further spending reductions, delays in the collection of amounts owed to us and similar impacts.

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

- the severity and duration of world health events, including the recent COVID-19 pandemic, related economic repercussions and the resulting severe disruption in the oil and gas industry and negative impact on demand for oil and gas, which is negatively impacting our business;
- the current supply and demand imbalance for crude oil, and actions by the members of OPEC+ with respect to oil production levels and announcements of potential changes in such levels, including the ability of the OPEC+ countries to agree on and comply with supply limitations;
- uncertainty regarding the timing, pace and extent of an economic recovery in the United States and elsewhere, which in turn will likely affect demand for crude oil and natural gas and therefore the demand for our services;
- the domestic and foreign supply of, and demand for, oil and natural gas;
- the level of prices, and expectations about future prices, of oil and natural gas;
- the level of global oil and natural gas exploration and production;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- the supply of and demand for drilling and hydraulic fracturing equipment, including the supply and demand for lower emissions hydraulic fracturing equipment;

- the expected decline rates of current production;
- the price and quantity of foreign imports;
- political and economic conditions in oil and natural gas producing countries and regions, including the United States, the Middle East, Africa, South America and Russia;
- operational challenges relating to the COVID-19 pandemic and efforts to mitigate the spread of the virus, including logistical challenges, protecting the health and well-being of our employees, remote work arrangements, performance of contracts and supply chain disruptions;
- speculative trading in crude oil and natural gas derivative contracts;
- the level of consumer product demand;
- the discovery rates of new oil and natural gas reserves;
- contractions in the credit market;
- the strength or weakness of the U.S. dollar;
- available pipeline and other transportation capacity;
- the levels of oil and natural gas storage;
- weather conditions and other natural disasters;
- domestic and foreign tax policy;
- domestic and foreign governmental approvals and regulatory requirements and conditions, including tighter emissions standards in the energy industry;
- the continued threat of terrorism and the impact of military and other action, including military action in the Middle East;
- political or civil unrest in the United States or elsewhere;
- technical advances affecting energy consumption;
- the proximity and capacity of oil and natural gas pipelines and other transportation facilities;
- the price and availability of alternative fuels;
- the ability of oil and natural gas producers to raise equity capital and debt financing;
- merger and divestiture activity among oil and natural gas producers; and
- overall domestic and global economic conditions.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements with any certainty. For example, in March 2020, Saudi Arabia and Russia failed to agree on a plan to cut production of oil and gas within OPEC and Russia. Subsequently, Saudi Arabia announced plans to increase production and reduce the prices at which they sell oil. These events, combined with the COVID-19 pandemic that has negatively impacted the economic activity and disrupted the supply chain of certain of our customers, have contributed to the depressed demand for crude oil and crude oil prices. Regulatory action to curtail production has been contemplated; for example, the Texas Railroad Commission, which regulates the production of oil and gas in the state of Texas, held a hearing in April 2020 regarding potential production cuts for producers in Texas in light of the recent decline in oil prices globally. The Railroad Commission ultimately declined to institute mandatory production cuts, but the agency may choose to revisit the issue if market weakness persists, which could further reduce demand for our services. While an agreement to significantly cut production was reached by OPEC+ in April 2020, and in January 2021 the production levels continued to be adjusted by OPEC+ with the aim to rebalance demand and supply, oil prices have remained volatile, and global oil demand is expected to remain challenged at least until the COVID-19 virus and infection rate can be contained. The

impacts of the uncertainties in the energy industry and global economy have had, and may continue to have, a material adverse effect on our business, results of operation and financial condition.

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

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

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

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

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

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

Our operations are geographically concentrated in the Permian Basin. For the years ended December 31, 2020, 2019 and 2018, approximately 99.5%, 99.4% and 99.0%, respectively, of our revenues were attributable to our operations in the Permian Basin. As a result of this concentration, we may be disproportionately exposed to the impact of regional supply and demand factors, delays or interruptions of production from wells in the Permian Basin caused by significant governmental regulation, processing or transportation capacity constraints, market limitations, curtailment of production or interruption of the processing or transportation of oil and natural gas produced from the wells in these areas. In addition, the effect of fluctuations on supply and demand may become more pronounced within specific geographic oil and natural gas producing areas such as the Permian Basin, which may cause these conditions to occur with greater frequency or magnify the effects of these conditions. Due to the concentrated nature of our operations, we could experience any of the same conditions at the same time, resulting in a relatively greater impact on our revenue than they might have on other companies that have more geographically diverse operations.

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

A prolonged economic slowdown or recession in the United States, adverse events relating to the energy industry or regional, national and global economic conditions and factors, particularly a further slowdown in the exploration and production industry, could negatively impact our operations and therefore adversely affect our results. The risks associated with our business are more acute during periods of economic slowdown or recession because such periods may be accompanied by decreased exploration and development spending by our customers, decreased demand for oil and natural gas and decreased prices for oil and natural gas. In 2020, the COVID-19 pandemic and the recent turmoil between the members of OPEC+ caused oil prices to fall substantially and have impacted the global economy; such factors have heightened the risk of a prolonged economic slowdown or recession in the United States.

New technology may cause us to become less competitive.

The oilfield services industry is subject to the introduction of new drilling and completion techniques and services using new technologies, some of which may be subject to patent or other intellectual property protections. As competitors and others use or develop new or comparable technologies in the future, we may lose market share or be placed at a competitive disadvantage. The transition to lower emissions equipment is capital intensive and could require us to convert our conventional Tier II equipment to lower emissions equipment. If we are unable to quickly transition to lower emissions equipment, the demand for our services could be adversely impacted. For example, many E&P companies, including our customers, are transitioning to a lower emissions operating environment and may require us to invest in pressure pumping equipment with lower emissions profile. Further, we may face competitive pressure to develop, implement or acquire and deploy certain technology improvements at a substantial cost, such as our new *DuraStim*® fleets or the cost of implementing or purchasing a technology like the new *DuraStim*® fleets may be substantially higher than anticipated, and we may not be able to successfully implement the *DuraStim*® fleets or other technologies we may purchase. Some of our competitors have greater financial, technical and personnel resources that may allow them to enjoy technological advantages and develop and implement new products on a timely basis or at an acceptable cost. We cannot be certain that we will be able to develop and implement new technologies or products on a timely basis or at an acceptable cost. Limits on our ability to develop, effectively use and implement new and emerging technologies could have a material adverse effect on our business, financial condition, prospects or results of operations.

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

The oilfield services industry is capital intensive. In conducting our business and operations, we have made, and expect to continue to make, substantial capital expenditures. Our total capital expenditures incurred were approximately \$81.2 million, \$400.7 million and \$592.6 million during the years ended December 31, 2020, 2019 and 2018. We have historically financed capital expenditures primarily with funding from cash on hand, cash flow from operations, equipment and vendor financing and borrowings under our credit facility. We may be unable to generate sufficient cash from operations and other capital resources to maintain planned or future levels of capital expenditures which, among other things, may prevent us from acquiring new equipment (including equipment with a lower emissions profile) or properly maintaining our existing equipment. With the current depressed oil and gas market conditions, our availability under our ABL Credit Facility has been adversely impacted by the expected decline in our customers' activity and we may be unable to borrow under our ABL Credit Facility if our eligible accounts receivable continues to decline. Further, any disruptions or continuing volatility in the global financial markets may lead to an increase in interest rates or a contraction in credit availability impacting our ability to finance our operations. For example, our borrowing base changed from \$55.6 million as of December 31, 2020 to approximately \$48.9 million as of March 3, 2021 due to a decrease in our eligible accounts receivable. If our customer activity levels do not improve or decline in the future, our borrowing base could decline. This could put us at a competitive disadvantage or interfere with our growth plans. Further, our actual capital expenditures could exceed our capital expenditure budget. In the event our capital expenditure requirements at any time are greater than the amount of liquidity we have available, we could be required to seek additional sources of capital, which may include debt financing, joint venture partnerships, sales of assets, offerings of debt or equity securities or other means. We may not be able to obtain any such alternative source of capital. We may be required to curtail or eliminate contemplated activities. If we can obtain alternative sources of capital, the terms of such alternative may not be favorable to us. In particular, the terms of any debt financing may include covenants that significantly restrict our operations. Our inability to grow as planned may reduce our chances of maintaining and improving profitability.

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

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

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

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

- increasing our vulnerability to general adverse economic and industry conditions;
- the covenants that are contained in the agreements governing our indebtedness could limit our ability to borrow funds, dispose of assets, pay dividends and make certain investments;
- our debt covenants could also affect our flexibility in planning for, and reacting to, changes in the economy and in our industry;
- any failure to comply with the financial or other debt covenants, including covenants that impose requirements to maintain certain financial ratios, could result in an event of default, which could result in some or all of our indebtedness becoming immediately due and payable;
- our level of debt could impair our ability to obtain additional financing, or obtain additional financing on favorable terms in the future for working capital, capital expenditures, acquisitions or other general corporate purposes; and
- our business may not generate sufficient cash flow from operations to enable us to meet our obligations under our indebtedness.

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

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

- grant liens;
- incur additional indebtedness;
- engage in a merger, consolidation or dissolution;
- enter into transactions with affiliates;
- sell or otherwise dispose of assets, businesses and operations;

- materially alter the character of our business as currently conducted; and
- make acquisitions, investments and capital expenditures.

Furthermore, our ABL Credit Facility contains certain other operating and financial covenants. Our ability to comply with the covenants and restrictions contained in the ABL Credit Facility may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in our ABL Credit Facility, a significant portion of our indebtedness may become immediately due and payable and our lenders' commitment to make further loans to us may terminate. Further, our borrowing base, as redetermined monthly, is tied to 85.0% of eligible accounts receivable. Changes to our operational activity levels or customer concentration levels have an impact on our total eligible accounts receivable, which could result in significant changes to our borrowing base and therefore our availability under our ABL Credit Facility. For example, our borrowing base changed from \$55.6 million as of December 31, 2020 to approximately \$48.9 million as of March 3, 2021 due to a decrease in our eligible accounts receivable. If our customer activity declines in the future, our borrowing base could decline. If our borrowing base is reduced below the amount of our outstanding borrowings, we will be required to repay the excess borrowings immediately on demand by the lenders. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our ABL Credit Facility or any new indebtedness could have similar or greater restrictions. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Credit Facility and Other Financing Arrangements."

We may incur debt and our indebtedness could adversely affect our operations and financial condition.

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

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

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

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

Changes in future market conditions and prolonged periods of low utilization, changes in technology or the sale of assets below their carrying value may cause us to experience losses in our results of operations. These events could result in the recognition of impairment charges or losses from asset sales that negatively impact our financial results. Significant impairment charges or losses from asset sales as a result of a decline in market conditions or otherwise could have a material adverse effect on our results of operations in future periods. For example, in 2020, we recorded an impairment charge related to goodwill, our hydraulic fracturing and drilling assets, and deposits related to options to purchase additional *DuraStim*® equipment of \$38.0 million. If oil and natural gas prices trade at depressed price levels as experienced in the first half of 2020, and our equipment remains idle or under-utilized, the estimated fair value of such equipment may decline, which will result in additional impairment expense in the future.

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

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

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

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

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

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

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

We operate with most of our customers under master service agreements (“MSAs”). We endeavor to allocate potential liabilities and risks between the parties in the MSAs. Generally, under our MSAs, including those relating to our hydraulic fracturing services, we assume responsibility for, including control and removal of, pollution or contamination which originates above surface and originates from our equipment or services. Our customer assumes responsibility for, including control and removal of, all other pollution or contamination which may occur during operations, including that which may result from seepage or any other uncontrolled flow of drilling fluids. We may have liability in such cases if we are negligent or commit willful acts. Generally, our customers also agree to indemnify us against claims arising from their employees’ personal injury or death to the extent that, in the case of our hydraulic fracturing operations, their employees are injured or their properties are damaged by such operations, unless resulting from our gross negligence or willful misconduct. Similarly, we generally agree to indemnify our customers for liabilities arising from personal injury to or death of any of our employees, unless resulting from gross negligence or willful misconduct of the customer. In addition,

our customers generally agree to indemnify us for loss or destruction of customer-owned property or equipment and in turn, we agree to indemnify our customers for loss or destruction of property or equipment we own. Losses due to catastrophic events, such as blowouts, are generally the responsibility of the customer. However, despite this general allocation of risk, we might not succeed in enforcing such contractual allocation, might incur an unforeseen liability falling outside the scope of such allocation or may be required to enter into an MSA with terms that vary from the above allocations of risk. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in our being named as a defendant in lawsuits asserting large claims. As a result, we may incur substantial losses which could materially and adversely affect our financial condition and results of operation.

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

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

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

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

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

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

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

In July 2020, the Logan Lawsuit Lead Plaintiffs Nykredit Portefølje Administration A/S, Oklahoma Firefighters Pension and Retirement System, Oklahoma Law Enforcement Retirement System, Oklahoma Police Pension and Retirement System, 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 third amended class action complaint against the Company and certain of its then current and former officers and directors in the U.S. District Court for the Western District of Texas, alleging violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act of 1933, as amended (the "Securities Act"), based on allegedly inaccurate or misleading statements, or omissions of material facts, about the Company's business, operations and prospects. In August 2020, the Company filed a motion to dismiss the Logan Lawsuit and in September

2020, the plaintiffs filed their opposition. In October 2020, the Company filed its reply brief in support of the motion to dismiss.

In May 2020, the U.S. District Court for the Western District of Texas consolidated two shareholder derivative lawsuits previously filed against the Company and certain of its then current and former officers and directors into a single lawsuit captioned *In re ProPetro Holding Corp. Derivative Litigation* (the “Shareholder Derivative Lawsuit”). In August 2020, the plaintiffs in the Shareholder Derivative Lawsuit filed a consolidated complaint alleging (i) breaches of fiduciary duties, (ii) unjust enrichment and (iii) contribution. The plaintiffs did not quantify any alleged damages in the complaint but, in addition to attorneys’ fees and costs, they seek various forms of relief, including (i) damages sustained by the Company as a result of the alleged misconduct, (ii) punitive damages and (iii) equitable relief in the form of improvements to the Company’s governance and controls. In October 2020, the Company and other defendants filed motions to dismiss the Shareholder Derivative Lawsuit and in December 2020, the plaintiffs filed their opposition. In January 2021, the Company and other defendants filed reply briefs in support of the motion to dismiss.

In October 2019, the Company received a letter from the SEC indicating that the SEC had opened an investigation into the Company, which followed the SEC’s issuance of a formal order of investigation, 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 Shareholder Derivative Lawsuit, the SEC investigation, or any other related lawsuit or investigation.

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

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

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

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

Risks Related to Customers, Suppliers and Competition

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

The oilfield services industry is highly competitive and has relatively few barriers to entry. The principal competitive factors impacting sales of our services are price, reputation and technical expertise, equipment and service

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

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

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

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

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

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

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

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

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

impact our ability to purchase new equipment, to update or expand our existing fleets, to timely repair equipment in our existing fleets or meet the current demands of our customers. In addition, the COVID-19 pandemic may have a negative impact on our suppliers' ability or willingness to provide necessary equipment, parts or raw materials, and they may otherwise fail to deliver the products timely and in the quantities required.

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

We enter into purchase agreements with sand suppliers (the "Sand suppliers") to secure supply of sand in the normal course of our business. The agreements with the Sand suppliers require that we purchase certain sand volumes, which is based on a certain percentage of our overall sand requirements and agreed minimum volumes, otherwise certain penalties may be charged. Under certain of the purchase agreements, a shortfall fee applies if we purchase less than the agreed percentage of our sand requirements or agreed minimum volumes. 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. Our current agreements with Sand suppliers expire at different times prior to April 30, 2022.

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

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

The majority of our revenue is generated from our hydraulic fracturing services. Due to the large percentage of our revenue historically derived from our hydraulic fracturing services with recurring customers and the limited availability of our fracturing units, we have had some degree of customer concentration. Our top ten customers represented approximately 97.3%, 95.5% and 85.5% of our consolidated revenue for the years ended December 31, 2020, 2019 and 2018, respectively. It is likely that we will depend on a relatively small number of customers for a significant portion of our revenue in the future. If a major customer fails to pay us, revenue would be impacted and our operating results and financial condition could be harmed.

Additionally, if we were to lose any material customer, we may not be able to redeploy our equipment at similar utilization or pricing levels and such loss could have an adverse effect on our business until the equipment is redeployed at similar utilization or pricing levels. One customer, Pioneer, accounted for 42.5% of our revenue for the year ended December 31, 2020. The revenue generated from our relationship with Pioneer is largely derived from pressure pumping and related services provided pursuant to the Pressure Pumping Services Agreement (the "Pioneer Services Agreement"). Although the Pioneer Services Agreement provides for the provision of services for a term of up to 10 years, Pioneer has the right to terminate the Pioneer Services Agreement in its sole discretion, in whole or part, effective as of December 31 of each of the calendar years of 2022, 2024 and 2026. While management believes our relationship with Pioneer will continue beyond December 31, 2022, if Pioneer elects to terminate the Pioneer Services Agreement effective December 31, 2022, or seeks to renegotiate the terms on which we provide services to Pioneer, it could have a material adverse effect on our financial condition, results of operations and cash flows.

Risks Related to Employees

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

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

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

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

Risks Related to Regulatory Matters

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

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

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

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

In the United States, no comprehensive climate change legislation has been implemented at the federal level. However, following the U.S. Supreme Court finding that GHG emissions constitute a pollutant under the CAA, the EPA

has adopted regulations that, among other things, establish construction and operating permit reviews for GHG emissions from certain large stationary sources, require the monitoring and annual reporting of GHG emissions from certain petroleum and natural gas system sources in the United States and together with the DOT, implementing GHG emissions limits on vehicles manufactured for operation in the United States. For example, in June 2016, the EPA finalized rules that establish new air emission controls for methane emissions from certain new, modified, or reconstructed equipment and processes in the oil and natural gas source category, including production, processing, transmission, and storage activities, otherwise known as Subpart OOOOa. The EPA finalized amendments to the 2016 standards in September 2020 that removed the transmission and storage segment from the oil and natural gas source category and rescinded the methane-specific requirements for production and processing facilities. However, several lawsuits have been filed challenging these amendments, and President Biden has called for the issuance of regulations that would restore the previous 2016 standards or the introduction of more stringent standards for the oil and gas sector.

Additionally, various states and groups of states have adopted or are considering adopting legislation, regulations or other regulatory initiatives that are focused on such areas GHG cap and trade programs, carbon taxes, reporting and tracking programs, and restriction of emissions. At the international level, there is an agreement, the United Nations-sponsored "Paris Agreement," that requires nations to submit non-binding emissions reduction targets every five years after 2020. Although the United States had previously withdrawn from the Paris Agreement, President Biden has signed executive orders on his first day in office recommitting the United States to the agreement and calling for the federal government to begin formulating the United States' nationally determined emissions reduction targets under the agreement. However, the impacts of these executive orders, and the terms of any legislation or regulation to implement the United States' commitment under the Paris Agreement, are unclear at this time.

Governmental, scientific, and public concern over the threat of climate change arising from GHG emissions has resulted in increasing political risks in the United States, including climate-change-related pledges made by certain candidates for public office. On January 27, 2021, President Biden issued an executive order that commits to substantial action on climate change, calling for, among other things, the increased use of zero-emissions vehicles by the federal government, the elimination of subsidies provided to the fossil fuel industry, and an increased emphasis on climate-related risk across government agencies and economic sectors. The executive order also suspends the issuance of new leases for oil and gas development on federal land; for more information, see our regulatory disclosure titled "Regulation of Hydraulic Fracturing and Related Activities. Other actions that the Biden Administration may take include the imposition of more restrictive requirements for the development of pipeline infrastructure or LNG export facilities, or more restrictive GHG emissions limitations for oil and gas facilities. Litigation risks are also increasing as a number of cities and other local governments have sought to bring suit against the largest oil and natural gas companies in state or federal court, alleging among other things, that such companies created public nuisances by producing fuels that contributed to climate change or that such companies have been aware of the adverse effects of climate change but failed to adequately disclose those impacts to their investors or customers.

There are also increasing financial risks for fossil fuel producers as shareholders currently invested in fossil-fuel energy companies concerned about the potential effects of climate change may elect in the future to shift some or all of their investments into non-energy related sectors. Institutional lenders who provide financing to fossil-fuel energy companies also have become more attentive to sustainable lending practices and some of them may elect not to provide funding for fossil fuel energy companies. There is also a risk that financial institutions will be required to adopt policies that have the effect of reducing the funding provided to the fossil fuel sector. Recently, the Federal Reserve announced that it has joined the Network for Greening the Financial System, a consortium of financial regulators focused on addressing climate-related risks in the financial sector. Limitation of investments in and financings for fossil fuel energy companies could result in the restriction, delay or cancellation of drilling programs or development or production activities.

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

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

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

Our hydraulic fracturing operations are a significant component of our business, and it is an important and common practice that is used to stimulate production of hydrocarbons, particularly oil and natural gas, from tight formations, including shales. The process, which involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production, is typically regulated by state oil and natural gas commissions. However, federal agencies have asserted regulatory authority over certain aspects of the process. For example, the EPA has previously issued a series of rules under the CAA that establish new emission control requirements for emissions of volatile organic compounds and methane from certain oil and natural gas production and natural gas processing operations and equipment. Separately, the BLM finalized a rule governing hydraulic fracturing on federal lands but this rule was subsequently rescinded. Although several of these rulemakings have been rescinded or modified, new or stringent regulations may be promulgated by the Biden Administration. For example, on January 20, the Biden Administration's DOI issued an order that temporarily suspended the issuance of fossil fuel authorizations, including leases and permits, for a period of 60 days. Although the order specifies that it does not limit existing operations under valid leases, any restrictions for new or existing production activities on federal land could adversely impact our customers' operations, and consequently demand for our services. Further, legislation to amend the Safe Drinking Water Act to repeal the exemption for hydraulic fracturing (except when diesel fuels are used) from the definition of "underground injection" and require federal permitting and regulatory control of hydraulic fracturing, as well as legislative proposals to require disclosure of the chemical constituents of the fluids used in the fracturing process, have been proposed in recent sessions of Congress. Several states and local jurisdictions in which we or our customers operate also have adopted or are considering adopting regulations that could restrict or prohibit hydraulic fracturing in certain circumstances, impose more stringent operating standards and/or require the disclosure of the composition of hydraulic fracturing fluids.

Federal and state governments have also investigated whether the disposal of produced water into underground injection wells has caused increased seismic activity in certain areas. In response to concerns regarding induced seismicity, regulators in some states have imposed, or are considering imposing, additional requirements in the permitting of produced water disposal wells or otherwise to assess any relationship between seismicity and the use of such wells. For example, Oklahoma has issued rules for wastewater disposal wells in 2014 that imposed certain permitting and operating restrictions and reporting requirements on disposal wells in proximity to faults and also, from time to time, has implemented plans directing certain wells where seismic incidents have occurred to restrict or suspend disposal well operations. In particular, the Oklahoma Corporation Commission released well completion seismicity guidelines for operators in the SCOOP and STACK require hydraulic fracturing operations to be suspended following earthquakes of certain magnitudes in the vicinity. In addition, the Oklahoma Corporation Commission's Oil and Gas Conservation Division has previously issued an order limiting future increases in the volume of oil and natural gas wastewater injected into the ground in an effort to reduce the number of earthquakes in the state. The Texas Railroad Commission has adopted similar rules.

Increased regulation of hydraulic fracturing and related activities could subject us and our customers to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and recordkeeping obligations, and plugging and abandonment requirements. New requirements could result in increased operational costs for us and our customers, and reduce the demand for our services.

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

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

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

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

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

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

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

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

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

Risks Related to our Tax Matters

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

The Tax Cuts and Jobs Act (the "TCJA") included a reduction to the maximum deduction allowed for net operating losses generated in tax years after December 31, 2017 and the elimination of carrybacks of net operating losses. Under the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, which modified the TCJA, U.S. federal net operating loss carryforwards ("NOLs") generated in taxable periods beginning after December 31, 2017, may be carried forward indefinitely, but the deductibility of such NOLs in taxable years beginning after December 31, 2020, is limited to 80% of taxable income. As of December 31, 2020, we had approximately \$397.4 million of federal NOLs, some of which will begin to expire in 2035. Approximately \$229.5 million of our federal NOLs relate to pre-2018 periods. As of December 31, 2020, our state net operating losses were approximately \$51.0 million and will begin to expire in 2024.

Utilization of these NOLs depends on many factors, including our future income, which cannot be assured. In addition, Section 382 ("Section 382") of the Internal Revenue Code of 1986, as amended (the "Code"), generally imposes an annual limitation on the amount of taxable income that may be offset by NOLs when a corporation has undergone an

“ownership change” (as determined under Section 382). Generally, a change of more than 50% in the ownership of a corporation’s stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. Any unused annual limitation may, subject to certain limitations, be carried over to later years. We may experience ownership changes, which may result in annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in Section 382, increased under certain circumstances as a result of recognizing built-in gains in our assets existing at the time of the ownership change. The limitations arising from ownership changes may prevent utilization of our NOLs prior to their expiration. Future ownership changes or regulatory changes could further limit our ability to utilize our NOLs. To the extent we are not able to offset our future income with our NOLs, this could adversely affect our operating results and cash flows if we attain profitability.

Risks Inherent to an Investment in our Common Stock

We are subject to certain requirements of Section 404 of the Sarbanes-Oxley Act (“Section 404”). If we fail to comply with the requirements of Section 404 or if we or our auditors identify and report material weaknesses in internal control over financial reporting, our investors may lose confidence in our reported information and our stock price may be negatively affected.

We are required to comply with certain provisions of Section 404, which requires that we document and test our internal control over financial reporting and issue our management’s assessment of our internal control over financial reporting. This section also requires that our independent registered public accounting firm issue an attestation report on such internal control.

If we fail to comply with the requirements of Section 404, or if we or our auditors identify and report material weaknesses in our internal control over financial reporting, the accuracy and timeliness of the filing of our annual and quarterly reports may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock. In addition, a material weakness in the effectiveness of our internal control over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, financial condition, prospects, results of operations and cash flows.

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

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

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

In addition, our Board adopted a short-term stockholder rights plan (currently scheduled to expire on March 31, 2021) that would likely discourage a hostile attempt to acquire control of us.

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

Publicly traded companies have increasingly become subject to campaigns by investors seeking to increase shareholder value by advocating corporate actions such as financial restructuring, increased borrowing, special dividends, stock repurchases, sales of assets or even sale of the entire company. Given our shareholder composition and other factors,

it is possible such shareholders or future activist shareholders may attempt to effect such changes or acquire control over us. Responding to proxy contests and other actions by such activist shareholders or others in the future would be costly and time-consuming, disrupt our operations and divert the attention of our Board and senior management from the pursuit of business strategies, which could adversely affect our results of operations and financial condition. Additionally, perceived uncertainties as to our future direction as a result of shareholder activism or changes to the composition of the Board may lead to the perception of a change in the direction of our business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel. If customers choose to delay, defer or reduce transactions with us or transact with our competitors instead of us because of any such issues, then our business, financial condition, revenues, results of operations and cash flows could be adversely affected.

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

Our corporate headquarters is located at 1706 S. Midkiff, Midland, Texas 79701. In addition to our headquarters, we also own and lease other properties that are used for field offices, yards or storage in the Permian Basin. We believe that our facilities are adequate for our current operations.

Item 3. Legal Proceedings.

Disclosure concerning legal proceedings is incorporated by reference to “Note 15. Commitments and Contingencies—*Contingent Liabilities*” of our Consolidated Financial Statements contained in this Annual Report.

From time to time, we may be subject to various other legal proceedings and claims incidental to or arising in the ordinary course of our business.

Item 4. Mine and Safety Disclosures

None.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

On March 22, 2017, we consummated our initial public offering ("IPO") of our common stock at a price of \$14.00 per share. Our common stock is traded on the New York Stock Exchange under the symbol "PUMP".

Holder

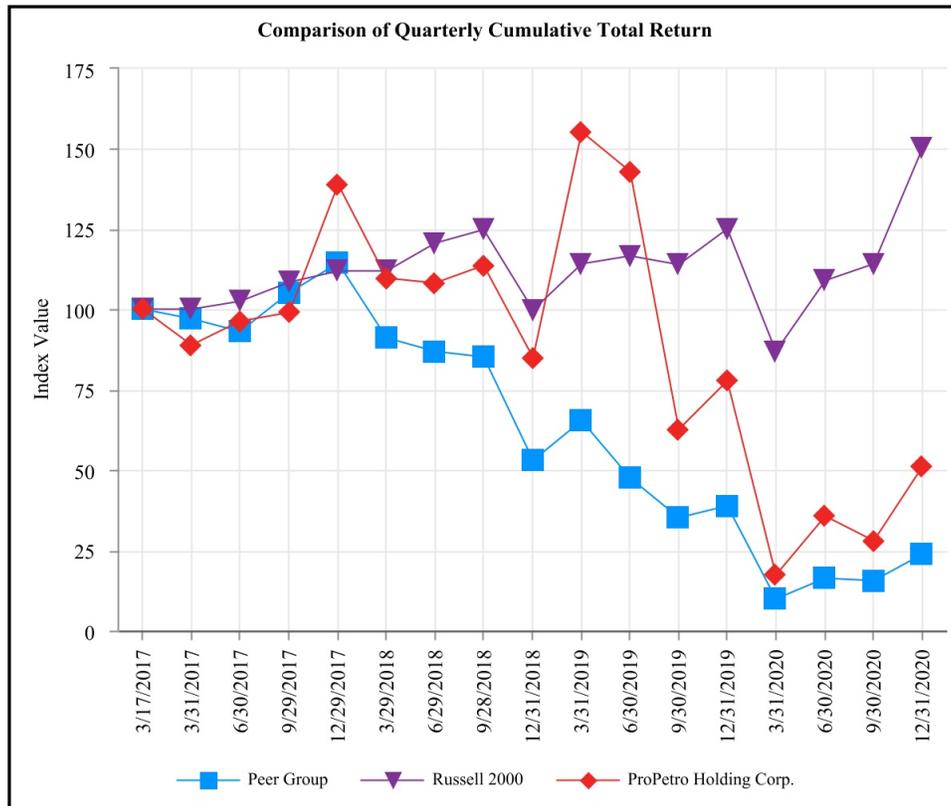
As of December 31, 2020, there were 100,912,777 shares of common stock outstanding, held of record by nine holders. The number of record holders of our common stock does not include Depository Trust Company participants or beneficial owners holding shares through nominee names.

Dividend

We do not anticipate declaring or paying any cash dividends to holders of our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance the growth of our business and repay borrowings under our ABL Credit Facility, if any. Our future dividend policy is within the discretion of our Board and will depend upon then-existing conditions, including our results of operations, financial condition, capital requirements, investment opportunities, statutory restrictions on our ability to pay dividends and other factors our Board may deem relevant. In addition, our ABL Credit Facility places certain restrictions on our ability to pay cash dividends.

Performance Graph

The quarterly changes for the periods shown in the following graph are based on the assumption that \$100 had been invested in our common stock, the Russell 2000 Index ("Russell 2000") and a self-constructed peer group index of comparable companies ("Peer Group") on March 17, 2017 (the first trading date of our common stock), and that all dividends were reinvested at the closing prices of the dividend payment dates. The relevant companies included in our Peer Group consists of Liberty Oilfield Services Inc., Nextier Oilfield Solutions Inc., RPC, Inc., Calfrac Well Services Ltd., Patterson-UTI Energy, Inc. and Mammoth Energy Services, Inc. Subsequent measurement points are the last trading days of each quarter. We did not provide a five-year graph because we became a publicly traded company in March of 2017. The total cumulative dollar returns shown on the graph represent the value that such investments would have had on the last trading date of 2020. The calculations exclude trading commissions and taxes. The stock price performance on the following graph and table is not necessarily indicative of future stock price performance.



Date	Peer Group	Russell 2000	ProPetro Holding Corp.
3/17/2017	\$ 100.0	\$ 100.0	\$ 100.0
3/31/2017	\$ 97.0	\$ 100.1	\$ 88.9
6/30/2017	\$ 93.2	\$ 102.6	\$ 96.3
9/29/2017	\$ 105.2	\$ 108.4	\$ 99.0
12/29/2017	\$ 114.3	\$ 112.0	\$ 139.0
3/29/2018	\$ 91.0	\$ 111.9	\$ 109.6
6/29/2018	\$ 86.9	\$ 120.6	\$ 108.1
9/28/2018	\$ 85.1	\$ 124.9	\$ 113.7
12/31/2018	\$ 52.9	\$ 99.7	\$ 85.0
3/31/2019	\$ 65.2	\$ 114.2	\$ 155.4
6/30/2019	\$ 47.5	\$ 116.6	\$ 142.8
9/30/2019	\$ 35.1	\$ 113.8	\$ 62.7
12/31/2019	\$ 38.8	\$ 125.1	\$ 77.6
3/31/2020	\$ 9.7	\$ 86.8	\$ 17.2
6/30/2020	\$ 16.2	\$ 108.9	\$ 35.5
9/30/2020	\$ 15.5	\$ 114.3	\$ 28.0
12/31/2020	\$ 23.8	\$ 150.1	\$ 51.0

Item 6. Selected Historical Financial Data.

The following table presents the available selected historical financial data of ProPetro Holding Corp. for the years indicated. There were no factors that materially affect the comparability of the information in the selected historical financial data presented, except for the following:

- the impact of the decrease in demand for pressure pumping services following the depressed crude oil prices and the economic slowdown caused by the COVID-19 pandemic that negatively impacted E&P completions activity during the year ended December 31, 2020;
- the purchase of certain pressure pumping assets (510,000 HHP) and real property from Pioneer and Pioneer Pressure Pumping Services, LLC, consummated on December 31, 2018 (the “Pioneer Pressure Pumping Acquisition”) that resulted in increased revenue and profitability in 2019; and
- the growth and utilization of our pressure pumping active fleet size over the years presented, that has impacted our revenues and profitability.

The selected historical consolidated financial and operating data presented below should be read in conjunction with “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes and other financial data included elsewhere in this Annual Report on Form 10-K.

(In thousands, except for per share data)

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Statement of Operations Data:					
Revenue:					
Pressure pumping	\$ 773,474	\$ 2,001,627	\$ 1,658,403	\$ 945,040	\$ 409,014
All other	15,758	50,687	46,159	36,825	27,906
Total revenue	789,232	2,052,314	1,704,562	981,865	436,920
Costs and Expenses:					
Cost of services ⁽¹⁾	584,279	1,470,356	1,270,577	813,823	404,140
General and administrative ⁽²⁾	86,768	105,076	53,958	49,215	26,613
Depreciation and amortization	153,290	145,304	88,138	55,628	43,542
Impairment expense	38,002	3,405	—	—	7,482
Loss on disposal of assets	58,136	106,811	59,220	39,086	22,529
Total costs and expenses	920,475	1,830,952	1,471,893	957,752	504,306
Operating (Loss) Income	(131,243)	221,362	232,669	24,113	(67,386)
Other Income (Expense):					
Interest expense	(2,383)	(7,141)	(6,889)	(7,347)	(20,387)
Gain on extinguishment of debt	—	—	—	—	6,975
Other expense	(874)	(717)	(663)	(1,025)	(321)
Total other income (expense)	(3,257)	(7,858)	(7,552)	(8,372)	(13,733)
Income (loss) before income taxes	(134,500)	213,504	225,117	15,741	(81,119)
Income tax (expense) benefit	27,480	(50,494)	(51,255)	(3,128)	27,972
Net (loss) income	\$ (107,020)	\$ 163,010	\$ 173,862	\$ 12,613	\$ (53,147)
Share Information:					
Net (loss) income per common share:					
Basic	\$ (1.06)	\$ 1.62	\$ 2.08	\$ 0.17	\$ (1.19)
Diluted	\$ (1.06)	\$ 1.57	\$ 2.00	\$ 0.16	\$ (1.19)
Weighted average common shares outstanding:					
Basic	100,829	100,472	83,460	76,371	44,787
Diluted	100,829	103,750	87,046	79,583	44,787
Balance Sheet Data as of:					
Cash and cash equivalents	\$ 68,772	\$ 149,036	\$ 132,700	\$ 23,949	\$ 133,593
Property and equipment — net	\$ 880,477	\$ 1,047,535	\$ 912,846	\$ 470,910	\$ 263,862
Total assets	\$ 1,050,739	\$ 1,436,111	\$ 1,274,522	\$ 719,032	\$ 541,422
Long-term debt — net	\$ —	\$ 130,000	\$ 70,000	\$ 57,178	\$ 159,407
Total shareholders' equity	\$ 870,771	\$ 969,305	\$ 797,355	\$ 413,252	\$ 221,009
Cash Flow Statement Data:					
Net cash provided by operating activities	\$ 139,124	\$ 455,290	\$ 393,079	\$ 109,257	\$ 10,659
Net cash used in investing activities	\$ (94,217)	\$ (495,299)	\$ (280,604)	\$ (281,469)	\$ (41,688)
Net cash (used in) provided by financing activities	\$ (125,171)	\$ 56,345	\$ (3,724)	\$ 62,565	\$ 130,315

(1) Exclusive of depreciation and amortization.

(2) Inclusive of stock-based compensation.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements and the related notes included in this Annual Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Basis of Presentation

This discussion of our results of operations omits our results of operations for the year ended December 31, 2018 and the comparison of our results of operations for the years ended December 31, 2019 and 2018, which may be found in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on June 22, 2020.

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

Overview

Our Business

We are a 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, or E&P, of North American unconventional oil and natural gas resources. Our operations are primarily focused in the Permian Basin, where we have cultivated longstanding 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 one of the leading providers of hydraulic fracturing services in the region by hydraulic horsepower.

Changes to our customers' well design, shale formations, operating conditions and new technology have resulted in continuous changes to the number of pumps that constitute a fleet. As a result of the asymmetric nature of the number of pumps that constitute a fleet across our customer base and competitors, which we believe will continue to evolve, we view HHP to be an appropriate metric to measure our available hydraulic fracturing capacity. On average, one conventional Tier II hydraulic fracturing fleet consists of approximately 50,000 HHP, depending on job design and customer demand.

Our total available HHP at December 31, 2020 was 1,373,000 HHP (excluding approximately 150,000 HHP we are in the process of permanently retiring), which was comprised of 1,265,000 HHP of conventional Tier II equipment and 108,000 HHP of our new *DuraStim*® hydraulic fracturing equipment. In addition, we have committed to purchase 50,000 HHP of Tier IV Dynamic Gas Blending ("DGB") equipment and it is expected to be delivered during the first half of 2021. With the industry transition to lower emission equipment and changes to the number of pumps or HHP that constitute a fleet, we believe that our available fleet capacity could decline if we decide to reconfigure our fleets to increase active HHP and back up HHP at the wellsites based on our customers' and operational needs or as we retire and replace conventional Tier II equipment. In light of the energy industry transition to lower emissions equipment, the Company made a strategic decision to permanently retire approximately 150,000 HHP of its existing conventional Tier II pressure pumping equipment. As a result of the Company's plan to retire 150,000 HHP during the year ended December 31, 2020, we recorded an impairment expense of approximately \$21.3 million.

Our *DuraStim*® hydraulic fracturing equipment is still being tested and to date has only been deployed to our customers' wellsites on a limited scale. The Company has set a goal to commercialize its first *DuraStim*® hydraulic

fracturing equipment to our customer wellsites in the second half of 2021. We also have an option to purchase up to an additional 108,000 HHP oDuraStim® hydraulic fracturing equipment in the future through July 31, 2022. The DuraStim® equipment is powered by electricity. We currently have gas turbines to provide electrical power to our DuraStim® fleet. The electrical power sources for future DuraStim® fleets are still being evaluated and could be supplied by the Company, customers or a third-party supplier.

Pioneer Pressure Pumping Acquisition

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

While management believes our relationship with Pioneer will continue beyond December 31, 2022, if Pioneer elects to terminate the Pioneer Services Agreement effective December 31, 2022, or seeks to renegotiate the terms on which we provide services to Pioneer, it could have a material adverse effect on our financial condition, results of operations and cash flows.

Commodity Price and Other Economic Conditions

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 activity restrictions 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.

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 depressed demand in the energy sector and uncertainty in global production levels. In response to the global economic slowdown and depressed demand in the oil and gas industry, OPEC+ has made adjustments to production levels with the objective of rebalancing the energy market. After the March 2020 failed negotiations, OPEC+ subsequently agreed to cut production by 7.7 million BOPD. In January 2021, OPEC+ reconvened to discuss the matter of production cuts in light of unprecedented disruption and supply and demand imbalances. Agreements were reached to gradually increase production by 0.5 million BOPD, starting in January 2021, and adjusting the production reduction from 7.7 million BOPD to 7.2 million BOPD. OPEC+ members have shown compliance with previously agreed upon production levels, and we have seen recovery in crude oil prices from its low point in 2020.

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, with OPEC+ managing production levels and with the development and distribution of COVID-19 vaccines, there has been a gradual recovery in crude oil prices from the low point in March 2020. However, with the uncertainty in the global market resulting from the COVID-19 pandemic, the risk that currently developed vaccines may not be successful in preventing the COVID-19 virus or the outbreak of a new virus, the global demand for crude oil could continue to

be depressed and crude oil prices could decline. As of March 3, 2021, the WTI price for a barrel of crude oil was approximately \$62.

In light of the COVID-19 pandemic and the energy industry disruptions, the Permian Basin rig count decreased significantly from approximately 403 at the beginning of January 2020 to approximately 175 at the end of December 2020, according to Baker Hughes. However, the rig count slowly increased exiting 2020 from its August low of 117 rigs. If the rig count and market conditions do not continue to improve or worsen, the Company expects a material adverse impact on its business, results of operations and cash flows, resulting from a decrease in customer activity and pricing pressure from its customers.

Government regulations and investors are demanding the oil and gas industry transition to a lower emissions operating environment, including the E&P and oilfield service companies. As a result, we are working with our customers and equipment manufacturers to transition to a lower emissions profile. The transition to lower emissions equipment is capital intensive and could require us to convert our conventional Tier II equipment to lower emissions equipment. If we are unable to quickly transition to lower emissions equipment, the demand for our services could be adversely impacted.

Although the oil and gas industry 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 oil and gas industry recovers, we believe there will be increased demand for pressure pumping services in the Permian Basin. If market conditions remain depressed for a longer period of time, our profitability and future cash flows will be negatively impacted, and as a result, we may be required to 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.

2020 Operational Highlights

Over the course of the year ended December 31, 2020:

- we experienced a significant decline in pressure pumping equipment utilization and demand for our services, resulting from the combined effect of COVID-19 and the energy industry disruptions, which negatively impacted our operations;
- our average effectively utilized fleet count was approximately 10 active fleets, a 58% decrease from approximately 24 active fleets in 2019;
- we continued to test and develop, alongside the equipment manufacturer, our existing *DuraStim*® equipment; and
- we improved our existing processes and internal controls in 2020.

2020 Financial Highlights

Financial highlights for the year ended December 31, 2020:

- revenue decreased \$1,263.1 million, or 61.5%, to \$789.2 million, as compared to \$2,052.3 million for the year ended December 31, 2019, primarily a result of the decrease in demand for pressure pumping services following the depressed oil prices and economic slowdown caused by the COVID-19 pandemic that negatively impacted E&P completions activity;
- cost of services (exclusive of depreciation and amortization) decreased \$886.1 million or 60.3% to \$584.3 million, as compared to \$1,470.4 million for the year ended December 31, 2019, primarily a result of our

lower utilization and activity levels, following the depressed oil prices and economic slowdown caused by the COVID-19 pandemic that negatively impacted E&P completions activity; cost of services as a percentage of revenue increased to 74.0% in 2020 compared to 71.6% for the year ended December 31, 2019;

- general and administrative expenses, inclusive of stock-based compensation, decreased \$18.3 million, or 17.4% to \$86.8 million, as compared to \$105.1 million for the year ended December 31, 2019;
- the total impairment expense recorded during the year December 31, 2020 was approximately \$38.0 million compared to \$3.4 million during the year ended December 31, 2019;
- net loss was \$107.0 million, compared to a net income of \$163.0 million for the year ended December 31, 2019. Diluted net loss per common share was \$1.06, compared to diluted net income per common share of \$1.57 for the year ended December 31, 2019. Adjusted EBITDA was approximately \$141.5 million, compared to \$519.1 million for the year ended December 31, 2019 (see reconciliation of Adjusted EBITDA to net income in the subsequent section “How We Evaluate Our Operations”); and
- maintained a conservative balance sheet, with cash of \$69 million and no debt as of December 31, 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 second half of 2020. Our 2021 capital expenditures will be driven by customer activity levels and demand for our pressure pumping services;
- **Other Expenditures:** we significantly reduced our maintenance expenditures and field level consumable costs due to our reduced activity levels in 2020. In 2021, we will continue to seek lower pricing and cost saving measures for our expendable items, materials used in day-to-day operations and large component replacement parts;
- **Labor Force Reductions:** we reduced our workforce by over 60% between April and May 2020 due to the changing activity levels for our services; in 2021, we will continue to make appropriate adjustments to our workforce to reflect outlook related to our customers’ activity levels;
- **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 caused in part by COVID-19 and the depressed energy market.

Our Assets and Operations

Through our pressure pumping segment, which includes cementing operations, we primarily provide hydraulic fracturing services to E&P companies in the Permian Basin. Our modern hydraulic fracturing fleets have 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 frac stages per lateral and increasing amounts of proppant per well. We plan to continually reinvest in our equipment to ensure optimal performance and reliability.

In addition to our core pressure pumping segment 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 in the future.

How We Generate Revenue

We generate revenue primarily through our pressure pumping segment, and more specifically, by providing hydraulic fracturing services to our customers. We own and operate a fleet of mobile hydraulic fracturing units and other auxiliary equipment to perform fracturing services. We also provide personnel and services that are tailored to meet each of our customers' needs. We charge our customers on a per-job basis, in which we set pricing terms after receiving full specifications for the requested job, including the lateral length of the customer's wellbore, the number of frac stages per well, the amount of proppant and chemicals to be used and other parameters of the job. We also could generate revenue from idle fees from Pioneer in certain circumstances when committed fleets are idled.

In addition to hydraulic fracturing services, we generate revenue through the complementary services that we provide to our customers, including cementing, coiled tubing and other related services. These complementary services are provided through various contractual arrangements, including on a turnkey contract basis, in which we set a price to perform a particular job, or a daywork contract basis, in which we are paid a set price per day for our services. We are also sometimes paid by the hour for these complementary services.

Demand for our services is largely dependent on oil and natural gas prices, and our customers' well completion budgets and rig count. Our revenue, profitability and cash flows are highly dependent upon prevailing crude oil prices and expectations about future prices. For many years, oil prices and markets have been extremely volatile. Prices are affected by many factors beyond our control. WTI oil prices declined significantly in 2015 and 2016 to approximately \$30 per barrel, but subsequently recovered in 2017. However, in 2020, oil and natural gas prices were highly volatile. The average WTI oil prices per barrel were approximately \$39, \$57 and \$65 for the years ended December 31, 2020, 2019 and 2018, respectively. In March 2020, WTI oil prices declined significantly, to a low of approximately \$20 per barrel towards the end of March 2020. On March 3, 2021, the WTI oil price was approximately \$62 per barrel. If WTI oil prices decline or continue to be depressed and do not improve or stabilize, demand for our services may be negatively impacted, which could result in a significant decrease in our profitability and cash flows. We monitor the oil and natural gas prices and the Permian Basin rig count to enable us to more effectively plan our business and forecast the demand for our services.

The historical weekly average Permian Basin rig count based on the Baker Hughes Company rig count information were as follows:

Drilling Type (Permian Basin)	Year Ended December 31,		
	2020	2019	2018
Directional	1	5	6
Horizontal	212	405	418
Vertical	8	32	43
Total	221	442	467
Average Permian Basin rig count to U.S rig count	51.0 %	46.9 %	45.2 %

Costs of Conducting our Business

The principal direct costs involved in operating our business are direct labor, expendables and other direct costs.

Direct Labor Costs. Payroll and benefit expenses related to our crews and other employees that are directly attributable to the effective delivery of services are included in our operating costs. Direct labor costs amounted to 22.7% and 19.6% of total costs of service for the years ended December 31, 2020 and 2019, respectively. The percentage increase was primarily attributable to the decrease in our revenue, resulting from customer pricing

pressure and also the increase in the number of our customers directly sourcing certain expendables like sand, diesel and chemical, as discussed below, which had the effect of reducing our revenues.

Expendables. Expendables include the product and freight costs associated with proppant, chemicals and other consumables used in our pressure pumping and other operations. These costs comprise a substantial variable component of our service costs, particularly with respect to the quantity and quality of sand and chemicals demanded when providing hydraulic fracturing services. Expendable product costs comprised approximately 37.6%, and 40.8% of total costs of service for the years ended December 31, 2020 and 2019, respectively. The percentage decrease in our expendable product cost in 2020 is primarily attributable to the increase in the number of customers sourcing these expendables directly from the vendors, and overall depressed sand prices, which has the effect of reducing our revenues.

Other Direct Costs. We incur other direct expenses related to our service offerings, including the costs of fuel, repairs and maintenance, general supplies, equipment rental and other miscellaneous operating expenses. Fuel is consumed both in the operation and movement of our hydraulic fracturing fleet and other equipment. Repairs and maintenance costs are expenses directly related to upkeep of equipment, which have been amplified by the demand for higher horsepower jobs. Capital expenditures to upgrade or extend the useful life of equipment are capitalized and are not included in other direct costs. Other direct costs were 39.7% and 39.6% of total costs of service for the years ended December 31, 2020 and 2019, respectively.

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) stock-based compensation, and (iii) other unusual or nonrecurring (income)/expenses, such as impairment charges, severance, costs related to asset acquisitions, costs related to SEC investigation and class action lawsuits and one-time professional and advisory 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 generally accepted accounting principles in the United States of America ("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 (income) expenses 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 and 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):

	Pressure Pumping	All Other	Total
Year ended December 31, 2020			
Net income (loss)	\$ (68,271)	\$ (38,749)	\$ (107,020)
Depreciation and amortization	148,659	4,631	153,290
Interest expense	1	2,382	2,383
Income tax benefit	—	(27,480)	(27,480)
Loss on disposal of assets	56,659	1,477	58,136
Impairment expense	36,907	1,095	38,002
Stock-based compensation	—	9,100	9,100
Other expense	—	874	874
Other general and administrative expense ⁽¹⁾	—	13,038	13,038
Retention bonus and severance expense	75	1,065	1,140
Adjusted EBITDA	\$ 174,030	\$ (32,567)	\$ 141,463

	Pressure Pumping	All Other	Total
Year ended December 31, 2019			
Net income (loss)	\$ 281,090	\$ (118,080)	\$ 163,010
Depreciation and amortization	139,348	5,956	145,304
Interest expense	51	7,090	7,141
Income tax expense	—	50,494	50,494
Loss on disposal of assets	106,178	633	106,811
Impairment expense	—	3,405	3,405
Stock-based compensation	—	7,776	7,776
Other expense	—	717	717
Other general and administrative expense ⁽¹⁾	—	25,208	25,208
Deferred IPO bonus, retention bonus and severance expense	7,093	2,110	9,203
Adjusted EBITDA	\$ 533,760	\$ (14,691)	\$ 519,069
Year ended December 31, 2018			
Net income (loss)	\$ 253,196	\$ (79,334)	\$ 173,862
Depreciation and amortization	83,404	4,734	88,138
Interest expense	—	6,889	6,889
Income tax expense	—	51,255	51,255
Loss on disposal of assets	59,962	(742)	59,220
Stock-based compensation	—	5,482	5,482
Other expense	—	663	663
Other general and administrative expense ⁽¹⁾	2	203	205
Deferred IPO bonus	1,832	977	2,809
Adjusted EBITDA	\$ 398,396	\$ (9,873)	\$ 388,523

(1) During the years ended December 31, 2020 and 2019, other general and administrative expense primarily relates to nonrecurring professional fees paid to external consultants in connection with the Company's expanded audit committee review, SEC investigation and shareholder litigation. All nonrecurring professional fees incurred after the end of June 2020 are in connection with the pending SEC investigation and shareholder litigation. The other general and administrative expense during the year ended December 31, 2018 primarily relates to legal settlements.

Results of Operations

We conduct our business through three operating segments: hydraulic fracturing, cementing and coiled tubing. In March 2020, the Company shut down its flowback operating segment and subsequently disposed of the assets for approximately \$1.6 million. In September 2020, the Company disposed of all of its drilling rigs and ancillary assets for approximately \$0.5 million and shut down its drilling operations. For reporting purposes, the hydraulic fracturing and cementing operating segments are aggregated into our one reportable segment—pressure pumping.

The comparability of the results of operations for the years ended December 31, 2020 and 2019 have been impacted by the decrease in demand for pressure pumping services following the depressed oil prices and economic slowdown caused by the COVID-19 pandemic that negatively impacted E&P completions activity during the year ended December 31, 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

(\$ in thousands, except percentages)

	Year Ended December 31,		Change	
	2020	2019	Variance	%
Revenue	\$ 789,232	\$ 2,052,314	\$ (1,263,082)	(61.5)%
Less (Add):				
Cost of services ⁽¹⁾	584,279	1,470,356	(886,077)	(60.3)%
General and administrative expense ⁽²⁾	86,768	105,076	(18,308)	(17.4)%
Depreciation and amortization	153,290	145,304	7,986	5.5 %
Impairment expense	38,002	3,405	34,597	1,016.1 %
Loss on disposal of assets	58,136	106,811	(48,675)	(45.6)%
Interest expense	2,383	7,141	(4,758)	(66.6)%
Other expense	874	717	157	21.9 %
Income tax expense	(27,480)	50,494	(77,974)	(154.4)%
Net (loss) income	\$ (107,020)	\$ 163,010	\$ (270,030)	(165.7)%
Adjusted EBITDA ⁽³⁾	\$ 141,463	\$ 519,069	\$ (377,606)	(72.7)%
Adjusted EBITDA Margin ⁽³⁾	17.9 %	25.3 %	(7.4)%	(29.2)%
Pressure pumping segment results of operations:				
Revenue	\$ 773,474	\$ 2,001,627	\$ (1,228,153)	(61.4)%
Cost of services	\$ 570,442	\$ 1,428,620	\$ (858,178)	(60.1)%
Adjusted EBITDA	\$ 174,030	\$ 533,760	\$ (359,730)	(67.4)%
Adjusted EBITDA Margin ⁽⁴⁾	22.5 %	26.7 %	(4.2)%	(15.7)%

(1) Exclusive of depreciation and amortization.

(2) Inclusive of stock-based compensation of \$9.1 million and \$7.8 million for 2020 and 2019, respectively.

(3) For definitions of the non-GAAP financial measures of Adjusted EBITDA and Adjusted EBITDA margin and reconciliation of Adjusted EBITDA and Adjusted EBITDA margin to our most directly comparable financial measures calculated in accordance with GAAP, please read "How We Evaluate Our Operations." Included in our Adjusted EBITDA is idle fees of \$47.2 million and \$13.3 million for the years ended December 31, 2020 and 2019, respectively.

(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 revenues for the pressure pumping segment.

Revenue. Revenue decreased 61.5%, or \$1,263.1 million, to \$789.2 million for the year ended December 31, 2020, as compared to \$2,052.3 million for the year ended December 31, 2019. Our pressure pumping segment revenues decreased 61.4%, or \$1,228.2 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decreases were primarily attributable to the significant decrease in demand for pressure pumping services, as well as pricing discounts we provided to our customers following the depressed oil prices and slowdown in economic activity resulting from the COVID-19 pandemic. The decrease in demand for our pressure pumping services resulted in a significant decrease in our average effectively utilized fleet count to approximately 10.2 active fleets in 2020 from 23.9 active fleets in 2019. Furthermore, the decrease in our revenue was also driven by the increase in our customers directly sourcing from vendors certain consumables like sand, chemicals and fuel. Included in our revenue for the years ended December 31, 2020 and 2019 was revenue generated from idle fees charged to our customer of approximately \$47.2 million and \$13.3 million, respectively.

Revenues from services other than pressure pumping decreased 68.9%, or approximately \$34.9 million, for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease in revenues from services other than pressure pumping during the year ended December 31, 2020, was primarily attributable to the shutdown of our flowback operations and also a significant reduction in utilization experienced in our coiled tubing operations, which was driven by lower E&P completions activity following the depressed oil prices and impact of the COVID-19 pandemic.

Cost of Services. Cost of services decreased 60.3%, or \$886.1 million, to \$584.3 million for the year ended December 31, 2020, from \$1,470.4 million during the year ended December 31, 2019. Cost of services in our pressure pumping segment decreased \$858.2 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decreases were primarily attributable to our lower utilization and activity levels, following the depressed oil prices and economic slowdown caused by the COVID-19 pandemic that negatively impacted E&P completions activity. As a percentage of pressure pumping segment revenues (including idle fees), pressure pumping cost of services increased to 73.8% for the year ended December 31, 2020, as compared to 71.4% for the year ended December 31, 2019. Excluding idle fees revenue of \$47.2 million and \$13.3 million for the years ended December 31, 2020 and 2019, respectively, our pressure pumping cost of services as a percentage of pressure pumping revenues for the years ended December 31, 2020 and 2019 was approximately 78.5% and 71.9%, respectively. The increase in our cost of services percentage was primarily attributable to pricing pressure on our services resulting from customer discounts. Our pricing in 2020 was significantly depressed following the economic slowdown caused by COVID-19 pandemic and depressed oil prices.

General and Administrative Expenses. General and administrative expenses decreased 17.4%, or \$18.3 million, to \$86.8 million for the year ended December 31, 2020, as compared to \$105.1 million for the year ended December 31, 2019. The net decrease was primarily attributable to a decrease during 2020 in (i) nonrecurring professional fees of \$12.2 million, which was primarily attributable to the Company's expanded audit committee internal review, pending SEC investigation and shareholder litigation, (ii) retention and other bonuses, and severance expense of \$8.1 million; (iii) property taxes of \$1.6 million, and (iv) \$5.0 million in other remaining general and administrative expenses, which was partially offset by a net increase of approximately \$7.2 million paid in legal, accounting and consulting professional fees, and stock based compensation expense of \$1.3 million.

Depreciation and Amortization. Depreciation and amortization increased 5.5%, or \$8.0 million, to \$153.3 million for the year ended December 31, 2020, as compared to \$145.3 million for the year ended December 31, 2019. The increase was primarily attributable to the overall increase in our fixed asset base as of December 31, 2020.

Impairment Expense. During the year ended December 31, 2020, the depressed market conditions, crude oil prices and negative near-term outlook for the utilization of certain of our equipment, resulted in the Company recording an impairment expense of approximately \$38.0 million, of which \$9.4 million relates to goodwill impairment and \$28.6 million relates to property and equipment impairment. The substantial portion of our impairment expense relates to our pressure pumping segment. During the year ended December 31, 2019, we recorded \$3.4 million property and equipment impairment expense in connection with our drilling rigs and flowback assets.

Loss on Disposal of Assets. Loss on the disposal of assets decreased 45.6%, or \$48.7 million, to \$58.1 million for the year ended December 31, 2020, as compared to \$106.8 million for the year ended December 31, 2019. The decrease was primarily attributable to a decrease in utilization resulting from a reduction in the operational intensity of our equipment during 2020. Upon sale or retirement of property and equipment, including certain major components like fluid ends and power ends 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 66.6%, or \$4.8 million, to \$2.4 million for the year ended December 31, 2020, as compared to \$7.1 million for the year ended December 31, 2019. The decrease in interest expense was primarily attributable to a decrease in our average debt balance in 2020 compared to 2019.

Other Expense. Other expense was relatively flat at \$0.9 million for the year ended December 31, 2020, similar to \$0.7 million for the year ended December 31, 2019. Our other expense primarily comprised of our lenders administration fees.

Income Tax Expense. Income tax benefit was \$27.5 million for the year ended December 31, 2020, as compared to income tax expense of \$50.5 million for the year ended December 31, 2019. The income tax benefit recorded during the year ended December 31, 2020 is primarily attributable to the Company ending in a pre-tax loss position in 2020 as compared to a pre-tax income in 2019. Our effective tax rate was 20.4% during the year ended December 31, 2020 compared to 23.7% during the year ended December 31, 2019.

Liquidity and Capital Resources

Our liquidity is currently provided by (i) existing cash balances, (ii) operating cash flows and (iii) borrowings under our revolving credit facility (“ABL Credit Facility”). Our primary uses of cash will be to continue to fund our operations, support growth opportunities and satisfy debt payments, if any. Our borrowing base, as redetermined monthly, is tied to 85.0% of eligible accounts receivable. Our borrowing base as of December 31, 2020 was approximately \$55.6 million and was approximately \$48.9 million as of March 3, 2021. 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. We believe our remaining monthly availability under our ABL Credit Facility will be adversely impacted if the current depressed oil and gas market conditions continue or worsen.

As of December 31, 2020, we had no borrowings under our ABL Credit Facility and our total liquidity was \$120.7 million, consisting of cash and cash equivalents of \$68.8 million and \$51.9 million of availability under our ABL Credit Facility.

As of March 5, 2021, we had no borrowings under our ABL Credit Facility and our total liquidity was approximately \$89.6 million, consisting of cash and cash equivalents of \$44.4 million and \$45.2 million of availability under our ABL Credit Facility.

During the second quarter of 2020 and through July 2020, when demand for our services was significantly depressed following the rapidly rising health crisis associated with the COVID-19 pandemic and the energy industry disruptions led by depressed WTI crude oil prices, the Company experienced a decrease in its liquidity. If there is a reduction in the COVID-19 infection rate and the ongoing distribution and administration of COVID-19 vaccines lead to a gradual recovery in crude oil prices, we would expect demand for crude oil and consequently the demand for our pressure pumping services to improve during 2021. Combined with our cost reduction initiatives, we have slowly increased our liquidity position over the second half of 2020 and into 2021 and expect our liquidity to continue to gradually increase in 2021, if market conditions continue to improve. The current market conditions resulting from the COVID-19 pandemic are rapidly changing and there could be a new outbreak of a COVID-19 variant. Our future revenue, results of operations and cash flows could be negatively impacted if the COVID-19 pandemic is not contained or if the vaccines currently distributed and administered to people are not as effective as anticipated, and if current market conditions do not improve.

There can be no assurance that our 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.

Cash and Cash Flows

The following table sets forth our net cash provided by (used in) operating, investing and financing activities during the years ended December 31, 2020 and 2019, respectively.

(\$ in thousands)	Year Ended December 31,	
	2020	2019
Net cash provided by operating activities	\$ 139,124	\$ 455,290
Net cash used in investing activities	\$ (94,217)	\$ (495,299)
Net cash (used in) provided by financing activities	\$ (125,171)	\$ 56,345

Operating Activities

Net cash provided by operating activities was \$139.1 million for the year ended December 31, 2020, as compared to \$455.3 million for the year ended December 31, 2019. The net decrease of \$316.2 million was primarily due to the reduction in our activity levels in 2020, resulting from the depressed oil prices and economic slowdown caused by the COVID-19 pandemic that negatively impacted our operations. The net decrease in cash

provided by operating activities was also impacted by the timing of our receivable collections from our customers and payment to our vendors.

Investing Activities

Net cash used in investing activities decreased to \$94.2 million for the year ended December 31, 2020, from \$495.3 million for the year ended December 31, 2019. The net decrease in our cash used in investing activities was primarily attributable to the reduction in growth and maintenance capital expenditures in 2020 following the lower number of pressure pumping active fleets, equipment rotation (resulting in lower intensity on our pressure pumping equipment) and the depressed demand for our pressure pumping services. During the year ended December 31, 2019, the Company made a cash payment of approximately \$110.0 million in connection with the Pioneer Pressure Pumping Acquisition and paid approximately \$145.3 million for 108,000 HHP of *DuraStim*® hydraulic fracturing equipment and turbines (including an option payment of \$6.1 million to purchase an additional 108,000 HHP of *DuraStim*® equipment). The remaining cash payments in 2019 were incurred in connection with our maintenance capital expenditures and other growth initiatives.

Financing Activities

Net cash used in financing activities was \$125.2 million for the year ended December 31, 2020, compared to net cash provided of \$56.3 million for the year ended December 31, 2019. The net decrease in cash flow from financing activities during the year ended December 31, 2020 was primarily driven by the repayment of our outstanding borrowings under ABL Credit Facility of \$130.0 million, compared to net borrowings of \$60.0 million during the year ended December 31, 2019. During the year ended December 31, 2020, we received cash flow from our insurance financing arrangement of \$6.8 million and made repayments of \$1.3 million related to our insurance financing.

Credit Facility and Other Financing Arrangements

ABL Credit Facility

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 December 31, 2020 was approximately \$55.6 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 under our ABL Credit Facility for the year ended December 31, 2020 was 3.6%.

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 provided to our lenders.

As of December 31, 2020, we had no borrowings outstanding under our ABL Credit Facility. During the year ended December 31, 2020, we repaid all borrowings under our ABL Credit Facility of approximately \$130.0 million with cash flows from operations and our available cash. Our objective is to maintain a conservative leverage ratio throughout 2021.

Off Balance Sheet Arrangements

We had no material off balance sheet arrangements as of December 31, 2020.

Capital Requirements, Future Sources and Use of Cash

Capital expenditures incurred were \$81.2 million during the year ended December 31, 2020, as compared to \$400.7 million during the year ended December 31, 2019. During the year ended December 31, 2020, we reduced our capital expenditures following the depressed demand for our pressure pumping services as a result of the COVID-19 pandemic and depressed energy market. During the year ended December 31, 2020, the significant portion of our total capital expenditures were comprised of maintenance capital expenditures.

Our future material use of cash will be to fund our capital expenditures. Capital expenditures for 2021 are projected to be primarily related to maintenance capital expenditures to support our existing assets (including costs to convert existing equipment to lower emissions pressure pumping equipment), depending on market conditions and customer demand. Our future capital expenditures depend on our projected operational activity, emission requirements and new technology, among other factors, which could vary throughout the year. Based on our current projected activity levels for 2021, we expect our capital expenditures to range between \$115.0 million to \$130.0 million (which includes approximately \$37.0 million to acquire new Tier IV DGB dual fuel equipment and convert some of our conventional Tier II equipment to lower emissions Tier IV DGB equipment), which is highly dependent on several factors including market conditions. The Company will continue to evaluate the emissions profile of its fleet over the coming years and may convert or retire conventional Tier II equipment in favor of lower emissions equipment. The Company's decisions regarding the retirement or conversion of equipment or the addition of lower emissions equipment will be subject to a number of factors, including (among other factors) the future impact of the COVID-19 pandemic, prevailing and expected commodity prices, customer demand and requirements and the Company's evaluation of projected returns on conversion or other capital expenditures. Depending on the impacts of these factors, the Company may decide to retain conventional equipment for a longer period of time or accelerate the retirement, replacement or conversion of that equipment.

In addition, we have option agreements with our equipment manufacturer to purchase an additional 108,000 HHP of *DuraStim*® hydraulic fracturing equipment through July 31, 2022. We believe the cost to acquire the *DuraStim*® hydraulic fracturing equipment will be comparable to our previously purchased *DuraStim*® hydraulic fracturing equipment. In the current economic environment, it is not probable we would exercise these options before they expire.

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.

Contractual Obligations

The following table presents our contractual obligations and other commitments as of December 31, 2020:

(\$ in thousands)	Period		
	Total	1 year or less	More than 1 year
ABL Credit Facility ⁽¹⁾	\$ —	\$ —	\$ —
Operating leases ⁽²⁾	863	377	486
Other purchase obligation ⁽³⁾	1,250	1,250	—
Total	\$ 2,113	\$ 1,627	\$ 486

(1) As of December 31, 2020, we had no borrowings under our ABL Credit Facility. If we decide to borrow from our ABL Credit Facility in the future, interest expense will be charged based on the agreed contractual interest rates. However, we are obligated to pay agency and commitment fees on unused balance which could be up to approximately \$1.2 million annually, depending on our utilization of the ABL Credit Facility.

(2) Operating leases exclude short-term leases and other commitments (see Note 14. Leases and Note 15. Commitments and Contingencies in the financial statements for additional disclosures).

(3) Other purchase obligation relates to vendor related commitments in connection with the supply and storage of certain consumables.

The Company enters into purchase agreements with the Sand suppliers to secure supply of sand in the normal course of its business. The agreements with the Sand suppliers require that we purchase certain sand volumes, which is based on a certain percentage of our overall sand requirements and agreed minimum volumes, otherwise certain penalties may be charged. Under certain of the purchase agreements, a shortfall fee applies if we purchase less than the agreed percentage of our sand requirements or agreed minimum volumes. 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. Our current agreements with Sand suppliers expire at different times prior to April 30, 2022. Our agreed upon sand requirements or minimum volumes are based on certain future events such as our customer demand, which cannot be reasonably estimated.

Recent Accounting Pronouncements

Disclosure concerning recently issued accounting standards is incorporated by reference to "Note 2- Significant Accounting Policies" of our Consolidated Financial Statements contained in this Annual Report.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally acceptable in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported revenues and expenses during the years. We evaluate these estimates and assumptions on an ongoing basis and base our estimates on historical experience, current conditions and various other assumptions that we believe to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.

Listed below are the accounting policies that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved, and that we believe are critical to the understanding of our operations.

Property and Equipment

Our property and equipment are recorded at cost, less accumulated depreciation.

Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the balance sheet and the net amount, less proceeds from disposal, is recognized as a gain or loss in earnings.

We primarily retired certain components of equipment such as fluid ends and power ends, rather than the entire pieces of equipment, and the associated loss is recorded in our statement of operations as part of net loss on disposal of assets, which was \$58.1 million, \$106.8 million and \$59.2 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The estimated useful lives and salvage values of property and equipment is subject to key assumptions such as maintenance, utilization and job variation. Unanticipated future changes in these assumptions could negatively or positively impact our net income (loss). A 10% change in the useful lives of our property and equipment would have resulted in approximately \$15.3 million impact on pre-tax loss during the year ended December 31, 2020. Depreciation of property and equipment is provided on the straight-line method over estimated useful lives as shown in the table below.

Land	Indefinite
Buildings and property improvements	5 - 30 years
Vehicles	1 - 5 years
Equipment	1 - 20 years
Leasehold improvements	5 - 20 years

Impairment of Long-Lived Assets

In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 360 regarding *Accounting for the Impairment or Disposal of Long-Lived Assets*, we review the long-lived assets to be held and used whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. An impairment loss is indicated if the sum of the expected future undiscounted cash flows attributable to the assets is less than the carrying amount of such assets. In this circumstance, we recognize an impairment loss for the amount by which the carrying amount of the assets exceeds the estimated fair value of the asset. Our cash flow forecasts require us to make certain judgments regarding long-term forecasts of future revenue and costs and cash flows related to the assets subject to review. The significant assumption in our cash flow forecasts is our estimated equipment utilization and profitability. The significant assumption is uncertain in that it is driven by future demand for our services and utilization, which could be impacted by crude oil market prices, future market conditions and technological advancements. Our fair value estimates for certain long-lived assets require us to use significant other observable inputs, including assumptions related to market based on recent auction sales or selling prices of comparable equipment. The estimates of fair value are also subject to significant variability, are sensitive to changes in market conditions, and are reasonably likely to change in the future.

During the first quarter of 2020, management determined the reductions in commodity prices driven by the impact of the novel COVID-19 virus and global supply and demand dynamics coupled with the sustained decrease in the Company’s share price were triggering events for asset impairment. Furthermore, in light of the energy industry transition to lower emissions equipment, the Company made a strategic decision in December 2020 to retire approximately 150,000 HHP of our conventional Tier II pressure pumping equipment. As a result of these triggering events, we performed recoverability tests on each of the assets groups and recorded impairment expense during the year ended December 31, 2020 as follows:

- in the first quarter of 2020, we recorded drilling asset impairment of approximately \$1.1 million as a result of the negative near-term outlook of our drilling assets utilization;
- in the first quarter of 2020, we recorded an impairment expense of \$6.1 million in our pressure pumping reportable segment related to our options deposit to purchase additional *DuraStim*® equipment, for which the options expire at various times through the end of July 2022, as it is not probable we would exercise our options due to the events described above; and
- in the fourth quarter of 2020, we recorded an impairment expense of approximately \$21.3 million, in our pressure pumping reportable segment, in connection with our planned retirement of approximately 150,000 HHP of our conventional Tier II pressure pumping equipment.

If the crude oil market declines or the demand for our services does not recover, and if our equipment remains idle or under-utilized, the estimated fair value of such equipment may decline, which could result in future impairment charges. Though the impacts of variations in any of these factors can have compounding or off-setting impacts, a 10% decline in the estimated future cash flows of our existing asset groups will not indicate an impairment.

Goodwill

Goodwill is the excess of the consideration transferred over the fair value of the tangible and identifiable intangible assets and liabilities recognized. Goodwill is not amortized. We perform an annual impairment test of goodwill as of December 31, or more frequently if circumstances indicate that impairment may exist.

There were no additions to, or disposal of, goodwill during the year ended December 31, 2020. The quantitative impairment test we perform for goodwill utilizes certain assumptions, including forecasted active fleet revenue and cost assumptions. Our discounted cash flow analysis includes significant assumptions regarding discount rates, fleet utilization, expected profitability margin, forecasted maintenance capital expenditures, the timing of an anticipated market recovery, and the timing of expected cash flow. As such, our goodwill analysis incorporates inherent uncertainties that are difficult to predict in volatile economic environments and could result in impairment charges in future periods if actual results materially differ from the estimated assumptions utilized in our forecast. In March 2020, crude oil prices declined significantly, an indication that a triggering event has occurred, and as such, we recorded in our pressure pumping reportable segment, goodwill impairment expense of \$9.4 million during the year ended December 31, 2020. There was no carrying value for goodwill in our balance sheet as of December 31, 2020 because our goodwill carrying value was fully written off during the year.

Income Taxes

Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of differences between the consolidated financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, and the results of recent operations. If we determine that we would not be able to fully realize our deferred tax assets in the future in excess of their net recorded amount, we would record a valuation allowance, which would increase our provision for income taxes. In determining our need for a valuation allowance as of December 31, 2020, we have considered and made judgments and estimates regarding estimated future taxable income. These estimates and judgments include some degree of uncertainty and changes in these estimates and assumptions could require us to record additional valuation allowances for our deferred tax assets and the ultimate realization of tax assets depends on the generation of sufficient taxable income.

Our methodology for recording income taxes requires a significant amount of judgment in the use of assumptions and estimates. Additionally, we forecast certain tax elements, such as future taxable income, as well as evaluate the feasibility of implementing tax planning strategies. Given the inherent uncertainty involved with the use of such variables, there can be significant variation between anticipated and actual results. Unforeseen events may significantly impact these variables, and changes to these variables could have a material impact on our income tax accounts. The final determination of our income tax liabilities involves the interpretation of local tax laws and related authorities in each jurisdiction. Changes in the operating environments, including changes in tax law, could impact the determination of our income tax liabilities for a tax year.

Item 7A. Quantitative and Qualitative Disclosure of Market Risks

Foreign Currency Exchange Risk

Our operations are currently conducted entirely within the U.S.; therefore, we had no significant exposure to foreign currency exchange risk in 2020.

Commodity Price Risk

Our material and fuel purchases expose us to commodity price risk. Our material costs primarily include the cost of inventory consumed while performing our pressure pumping services such as proppants, chemicals, guar, trucking and fluid supplies. Our fuel costs consist primarily of diesel and natural gas used by our various trucks and other motorized equipment. The prices for fuel and materials in our inventory are volatile and are impacted by changes in supply and demand, as well as market uncertainty and regional shortages. Historically, we have generally been able to pass along price increases to our customers; however, we may be unable to do so in the future. We do not engage in commodity price hedging activities.

Interest Rate Risk

We may be subject to interest rate risk on variable rate borrowings under our ABL Credit Facility. We do not currently engage in interest rate derivatives to hedge our interest rate risk. The impact of a 1% increase in interest rates on our variable rate debt would have resulted in an increase in interest expense and corresponding (increase)/decrease in pre-tax (loss)/income of approximately \$0.4 million, \$1.3 million and \$0.7 million, for the years ended December 31, 2020, 2019 and 2018, respectively.

Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are trade receivables. We extend credit to customers and other parties in the normal course of business. We have established various procedures to manage our credit exposure, including maintaining an allowance for doubtful accounts.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
ProPetro Holding Corp. and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ProPetro Holding Corp. and Subsidiary (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, shareholders' equity and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Related-party transactions — Refer to Note 13 to the financial statements

Critical Audit Matter Description

The Company engages in various related party transactions, including leasing real estate, renting of equipment, purchasing assets, obtaining equipment maintenance and repair services, and providing pressure pumping and related services.

We identified related-party transactions as a critical audit matter because of the Company's material weaknesses reported in the Company's internal controls processes as of the year ended December 31, 2019, related to the identification and approval of transactions involving related parties or potential conflicts of interest. As a

result, of these previously identified internal control matters, we believe the risk that related-party transactions were not timely identified and properly disclosed by the Company in the financial statements was elevated and required us to exercise significant auditor judgment when designing and performing audit procedures on related-party transactions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures for related-party transactions included the following, among others:

- We evaluated the completeness of related-party transactions by obtaining the Company's list of related-party relationships and transactions and performing the following:
 - Comparing it to public filings, external news, third-party information or research reports, selected vendor and customer websites, questionnaires completed by the Company's directors and officers, and other sources.
 - Searching for potential related-party transactions within the accounts receivable, accounts payable, and vendor listings master files and journal entries by searching for the name, vendor identification numbers, and customer identification numbers of the related parties.
 - Inspecting the Company's minutes from meetings of the Board of Directors and related committees.
 - Making inquiries of executive officers, key members of management, and the Audit Committee of the Board of Directors regarding related party transactions.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 5, 2021

We have served as the Company's auditor since 2013.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
ProPetro Holding Corp. and Subsidiary

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of ProPetro Holding Corp. and Subsidiary (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated March 5, 2021, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
March 5, 2021

PROPETRO HOLDING CORP.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND 2019
(In thousands, except share data)

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 68,772	\$ 149,036
Accounts receivable - net of allowance for credit losses of \$1,497 and \$1,049, respectively	84,244	212,183
Inventories	2,729	2,436
Prepaid expenses	11,199	10,815
Other current assets	782	1,121
Total current assets	167,726	375,591
PROPERTY AND EQUIPMENT - Net of accumulated depreciation	880,477	1,047,535
OPERATING LEASE RIGHT-OF-USE ASSETS	709	989
OTHER NONCURRENT ASSETS:		
Goodwill	—	9,425
Other noncurrent assets	1,827	2,571
Total other noncurrent assets	1,827	11,996
TOTAL ASSETS	\$ 1,050,739	\$ 1,436,111
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 79,153	\$ 193,096
Accrued and other current liabilities	24,676	36,343
Operating lease liabilities	334	302
Finance lease liabilities	—	2,831
Accrued interest payable	—	394
Total current liabilities	104,163	232,966
DEFERRED INCOME TAXES	75,340	103,041
LONG-TERM DEBT	—	130,000
NONCURRENT OPERATING LEASE LIABILITIES	465	799
Total liabilities	179,968	466,806
COMMITMENTS AND CONTINGENCIES (Note 15)		
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, 100,912,777 and 100,624,099 shares issued, respectively	101	101
Additional paid-in capital	835,115	826,629
Retained earnings	35,555	142,575
Total shareholders' equity	870,771	969,305
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,050,739	\$ 1,436,111

See notes to consolidated financial statements. 51

PROPETRO HOLDING CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In thousands, except per share data)

	2020	2019	2018
REVENUE - Service revenue	\$ 789,232	\$ 2,052,314	\$ 1,704,562
COSTS AND EXPENSES:			
Cost of services (exclusive of depreciation and amortization)	584,279	1,470,356	1,270,577
General and administrative (inclusive of stock-based compensation)	86,768	105,076	53,958
Depreciation and amortization	153,290	145,304	88,138
Impairment expense	38,002	3,405	—
Loss on disposal of assets	58,136	106,811	59,220
Total costs and expenses	920,475	1,830,952	1,471,893
OPERATING (LOSS) INCOME	(131,243)	221,362	232,669
OTHER EXPENSE:			
Interest expense	(2,383)	(7,141)	(6,889)
Other expense	(874)	(717)	(663)
Total other expense	(3,257)	(7,858)	(7,552)
(LOSS) INCOME BEFORE INCOME TAXES	(134,500)	213,504	225,117
INCOME TAX BENEFIT/ (EXPENSE)	27,480	(50,494)	(51,255)
NET (LOSS) INCOME	\$ (107,020)	\$ 163,010	\$ 173,862
NET (LOSS) INCOME PER COMMON SHARE:			
Basic	\$ (1.06)	\$ 1.62	\$ 2.08
Diluted	\$ (1.06)	\$ 1.57	\$ 2.00
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	100,829	100,472	83,460
Diluted	100,829	103,750	87,046

See notes to consolidated financial statements. 52

PROPETRO HOLDING CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In thousands)

	Preferred Stock			Common Stock			Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Preferred Additional Paid-In Capital	Shares	Amount	Additional Paid-In Capital		
BALANCE - January 1, 2018	—	\$ —	\$ —	83,040	\$ 83	\$ 607,466	\$ (194,297)	\$ 413,252
Stock-based compensation cost	—	—	—	—	—	5,482	—	5,482
Issuance of equity award—net	—	—	—	550	1	246	—	247
Issuance of common stock	—	—	—	16,600	16	204,496	—	204,512
Net income	—	—	—	—	—	—	173,862	173,862
BALANCE - December 31, 2018	—	\$ —	\$ —	100,190	\$ 100	\$ 817,690	\$ (20,435)	\$ 797,355
Stock-based compensation cost	—	—	—	—	—	7,776	—	7,776
Issuance of equity awards—net	—	—	—	434	1	1,163	—	1,164
Issuance of common stock	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	163,010	163,010
BALANCE - December 31, 2019	—	\$ —	\$ —	100,624	\$ 101	\$ 826,629	\$ 142,575	\$ 969,305
Stock-based compensation cost	—	—	—	—	—	9,100	—	9,100
Issuance of equity awards—net	—	—	—	289	—	—	—	—
Tax withholdings paid for net settlement of equity	—	—	—	—	—	(614)	—	(614)
Net loss	—	—	—	—	—	—	(107,020)	(107,020)
BALANCE - December 31, 2020	—	\$ —	\$ —	100,913	\$ 101	\$ 835,115	\$ 35,555	\$ 870,771

See notes to consolidated financial statements. 53

PROPETRO HOLDING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In thousands)

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ (107,020)	\$ 163,010	\$ 173,862
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	153,290	145,304	88,138
Impairment expense	38,002	3,405	—
Deferred income tax (benefit) expense	(27,701)	48,758	49,704
Amortization of deferred revenue rebate	—	—	615
Amortization of deferred debt issuance costs	543	542	403
Stock-based compensation	9,100	7,776	5,482
Provision for credit losses	448	949	—
Loss on disposal of assets	58,136	106,812	59,220
Changes in operating assets and liabilities:			
Accounts receivable	127,491	(10,177)	(3,300)
Other current assets	1,978	1,351	207
Inventories	(293)	3,917	(168)
Prepaid expenses	(232)	(4,386)	(1,418)
Accounts payable	(95,697)	(25,242)	9,720
Accrued liabilities	(18,527)	13,088	9,853
Accrued interest	(394)	183	761
Net cash provided by operating activities	139,124	455,290	393,079
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(100,603)	(502,894)	(284,197)
Proceeds from sale of assets	6,386	7,595	3,593
Net cash used in investing activities	(94,217)	(495,299)	(280,604)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	—	110,000	77,378
Repayments of borrowings	(130,000)	(50,000)	(80,946)
Payment of finance lease obligation	(30)	(272)	—
Proceeds from insurance financing	6,821	—	5,824
Repayments of insurance financing	(1,348)	(4,547)	(4,495)
Payment of debt issuance costs	—	—	(1,732)
Proceeds from exercise of equity awards	—	1,164	247
Tax withholdings paid for net settlement of equity awards	(614)	—	—
Net cash (used in) provided by financing activities	(125,171)	56,345	(3,724)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(80,264)	16,336	108,751
CASH AND CASH EQUIVALENTS — Beginning of year	149,036	132,700	23,949
CASH AND CASH EQUIVALENTS — End of year	\$ 68,772	\$ 149,036	\$ 132,700

See notes to consolidated financial statements. 54

1. ORGANIZATION AND HISTORY

ProPetro Holding Corp. (“Holding”), a Texas corporation was formed on April 14, 2007, to serve as a holding company for its wholly owned subsidiary ProPetro Services, Inc. (“Services”), a Texas corporation. Services offers hydraulic fracturing, cementing and coiled tubing services to oil and gas producers, located primarily in Texas, New Mexico and Utah. Holding was converted and incorporated to a Delaware Corporation on March 8, 2017.

Unless otherwise indicated, references in these notes to consolidated financial statements to “ProPetro Holding Corp.,” “the Company,” “we,” “our,” “us” or like terms refer to ProPetro Holding Corp. and Services.

On December 31, 2018, we consummated the purchase of pressure pumping and related assets of Pioneer Natural Resources USA, Inc. (“Pioneer”) and Pioneer Pumping Services, LLC (the “Pioneer Pressure Pumping Acquisition”). The pressure pumping assets acquired were used to provide integrated well completion services in the Permian Basin to Pioneer’s completion and production operations. The acquisition cost of the assets was comprised of \$110.0 million of cash and 16.6 million shares of our common stock. The pressure pumping assets acquired included hydraulic fracturing pumps of 510,000 hydraulic horsepower (“HHP”), four coiled tubing units and the associated equipment maintenance facility. In connection with the acquisition, we became a long-term service provider to Pioneer under a pressure pumping services agreement (the “Pioneer Services Agreement”), providing pressure pumping and related services for a term of up to 10 years; provided, that Pioneer has the right to terminate the Pioneer Services Agreement, in whole or in part, effective as of December 31 of each of the calendar years of 2022, 2024 and 2026. Pioneer can increase the number of committed fleets prior to December 31, 2022. Pursuant to the Pioneer Services Agreement, the Company is entitled to receive compensation if Pioneer were to idle committed fleets (“idle fees”); however, we are first required to use all economically reasonable effort to deploy the idled fleets to another customer. At the present, we have eight fleets committed to Pioneer.

Risks and Uncertainties

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 the Organization of the Petroleum Exporting Countries (“OPEC”) and Russia (together with OPEC and other allied producing countries, “OPEC+”).

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 depressed demand in the energy sector and uncertainty in global production levels. In response to the global economic slowdown and depressed demand in the oil and gas industry, OPEC+ has made adjustments to production levels with the objective of rebalancing the energy market. After the March 2020 failed negotiations, OPEC+ subsequently agreed to cut production by 7.7 million barrels of oil per day (“BOPD”). In January 2021, OPEC+ reconvened to discuss the matter of production cuts in light of unprecedented disruption and supply and demand imbalances. Agreements were reached to gradually increase production by 0.5 million BOPD, starting in January 2021, and adjusting the production reduction from 7.7 million BOPD to 7.2 million BOPD. OPEC+ members have shown compliance with previously agreed upon production levels, and we have seen recovery in crude oil prices from its low point in 2020.

The combined effect of COVID-19 and the energy industry disruptions led to a decline in the West Texas Intermediate (“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, with OPEC+ managing production levels and with the development and distribution of COVID-19 vaccines, there has been a gradual recovery in crude oil prices from the low point in March 2020. However, with the uncertainty in the global market resulting from the COVID-19 pandemic, the risk that currently developed vaccines may not be successful in preventing the COVID-19 virus or the outbreak of a new virus, the global demand for crude oil could continue to be depressed and crude oil prices could decline. As of March 3, 2021, the WTI price for

1. ORGANIZATION AND HISTORY (Continued)

a barrel of crude oil was approximately \$62.

If the market continues to be depressed, the aforementioned factors are 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, and (iv) negotiating more favorable payment terms with certain of our larger vendors and proactively managing our portfolio of accounts receivable.

2. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements are as follows:

Principles of Consolidation — The accompanying consolidated financial statements include the accounts of Holding and its wholly owned subsidiary, Services. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation — The accompanying consolidated financial statements and related notes have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) and in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates — Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Such estimates include, but are not limited to, allowance for credit losses, useful lives for depreciation of property and equipment, estimates of fair value of property and equipment, estimates related to fair value of reporting units for purposes of assessing goodwill, estimates related to deferred tax assets and liabilities, including any related valuation allowances, and estimates of fair value of stock-based compensation and leases. Actual results could differ from those estimates.

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 into our one 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 wellbores. The process involves the injection of water, sand and chemicals under high pressure into formations. Hydraulic fracturing contracts with our customer have one performance obligation, which is the contracted total stages, satisfied over time. We recognize revenue over time using a progress output, 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. Acidizing provides downhole solutions, and contracts with customers have one performance obligation, which is 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. Cementing involves well bonding solutions, and contracts with customers have one performance obligation, which is satisfied at a point-in-time, upon completion of the contracted service when control is transferred to the customer. Jobs for these services are

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are fixed per our contract with customer.

All Other— All other services consist of coiled tubing operations, which are downhole well 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. Payment is typically due in full, upon completion of the job for all of our services to customers. At December 31, 2020 and 2019 accrued revenue (unbilled receivable) included as part of our accounts receivable was \$6.6 million and \$37.0 million, respectively. At December 31, 2020, the transaction price allocated to the remaining performance obligation for our partially completed hydraulic fracturing operations was \$14.7 million, which is expected to be completed and recognized in approximately one month following the current period balance sheet date, in our pressure pumping reportable segment. At December 31, 2019 the transaction price allocated to the remaining performance obligation for our then partially completed hydraulic fracturing operations was \$47.5 million, which was recorded as part of our pressure pumping segment revenue for the year ended December 31, 2020.

As of December 31, 2020, the Company had \$1.5 million allowance for credit losses. Our allowance for credit losses is based on the evaluation of both our historic collection experience and the expected impact of currently deteriorating economic conditions in 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 negatively impacted by current economic developments and market conditions. 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 COVID-19 pandemic, including the potential impact of periodically adjusted borrowing base limits, level of hedged production or unforeseen well shut-downs may affect 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.

(\$ in thousands)

	2020	2019	2018
Balance - January 1, 2020	\$ 1,049	\$ 100	\$ 443
Provision for credit losses during the period	4,291	949	114
Provision for credit losses no longer required	(3,843)	—	(457)
Balance - December 31, 2020	<u>\$ 1,497</u>	<u>\$ 1,049</u>	<u>\$ 100</u>

Inventories — Inventories, which consists only of raw materials, are stated at lower of average cost and net realizable value.

Property and Equipment — The Company's property and equipment are recorded at cost, less accumulated depreciation.

Depreciation — Depreciation of property and equipment is provided on the straight-line method over the following estimated useful lives:

Land	Indefinite
Buildings and property improvements	5 - 30 years
Vehicles	1 - 5 years
Equipment	1 - 20 years
Leasehold improvements	5 - 20 years

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, less proceeds from disposal, is recognized as a gain or loss in the statement of operations. The Company recorded a loss on disposal of assets of \$58.1 million, \$106.8 million and \$59.2 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Impairment of Long-Lived Assets — In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews its long-lived assets to be held and used whenever events or circumstances indicate that the carrying value of those assets may not be recoverable.

An impairment loss is indicated if the sum of the expected future undiscounted cash flows attributable to the asset group is less than the carrying amount of such asset group. In this circumstance, the Company recognizes an impairment loss for the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. Property and equipment impairment loss of \$27.5 million and \$1.1 million was recorded during the year ended December 31, 2020 relating to our pressure pumping and drilling assets, respectively. Property and equipment impairment loss of \$1.2 million and \$2.2 million was recorded during the year ended December 31, 2019 relating to our drilling and flowback asset groups, respectively. No impairment expense was recorded during the year ended December 31, 2018. Our drilling and flowback asset groups are included in the “all other” category in our reportable segment disclosure.

The Company accounts for long-lived assets to be disposed of at the lower of their carrying amount or fair value, less cost to sell once management has committed to a plan to dispose of the assets.

Goodwill — Goodwill is the excess of the consideration transferred over the fair value of the tangible and identifiable intangible assets and liabilities recognized. Goodwill is not amortized. We perform an annual impairment test of goodwill as of December 31, or more frequently if circumstances indicate that impairment may exist. The determination of impairment is made by comparing the carrying amount of a reporting unit with its fair value, which is generally calculated using a combination of market and income approaches. If the fair value of the reporting unit exceeds the carrying value, no further testing is performed. If the fair value of the reporting unit is less than the carrying value, we consider goodwill to be impaired, and the amount of impairment loss is estimated and recorded in the statement of operations.

In 2011, we acquired Technology Stimulation Services, LLC (“TSS”) for \$24.4 million. The assets acquired from TSS were recorded as \$5.0 million of equipment with the excess of the purchase price over fair value of the assets recorded as goodwill of \$9.4 million. The acquisition complemented our existing pressure pumping business. The transaction was accounted for using the acquisition method of accounting and, accordingly, assets and liabilities assumed were recorded at their fair values as of the acquisition date. In the first quarter of 2020, we performed an interim impairment test and concluded that goodwill was fully impaired. As a result of our interim impairment test, we recorded goodwill impairment expense of \$9.4 million during the year ended December 31, 2020. Based on our goodwill impairment tests as of December 31, 2019 and 2018, we concluded that the goodwill related to TSS acquisition was not impaired.

Intangible Assets — Intangible assets with finite useful lives are amortized on a basis that reflects the pattern in which the economic benefits of the intangible assets are realized, which is generally on a straight-line basis over the asset’s estimated useful life.

Income Taxes — Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of differences between the consolidated financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all positive and negative evidence, including future reversals

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

of existing taxable temporary differences, projected future taxable income, and the results of recent operations. If we determine that we would not be able to fully realize our deferred tax assets in the future, we would record a valuation allowance.

Advertising Expense — All advertising costs are expensed as incurred. For the years ended December 31, 2020, 2019 and 2018, advertising expense was \$0.4 million, \$1.2 million and \$1.3 million, respectively.

Deferred Loan Costs — The Company capitalized certain costs in connection with obtaining its borrowings, including lender, legal, and accounting fees. These costs are being amortized over the term of the related loan using the straight-line method. Unamortized deferred loan costs associated with loans paid off or refinanced with different lenders are expensed in the period in which such an event occurs. Deferred loan costs are classified as a reduction of long-term debt or in certain instances as an asset in the consolidated balance sheet. Amortization of deferred loan costs is recorded as interest expense in the statement of operations, and during the years ended December 31, 2020, 2019 and 2018, the amount of expense recorded was \$0.5 million, \$0.5 million and \$0.4 million, respectively.

Stock-Based Compensation — The Company recognizes the cost of stock-based awards on a straight-line basis over the requisite service period of the award, which is usually the vesting period under the fair value method. Total compensation cost is measured on the grant date using fair value estimates.

Insurance Financing — The Company annually renews its commercial insurance policies and records a prepaid insurance asset and amortizes it monthly over the coverage period. The Company may choose to finance a portion of the premiums and will make repayments monthly over the financing period in equal installments.

Concentration of Credit Risk — The Company's assets that are potentially subject to concentrations of credit risk are cash and cash equivalents and trade accounts receivable. Cash balances are maintained in financial institutions, which at times exceed federally insured limits. The Company monitors the financial condition of the financial institutions in which accounts are maintained and has not experienced any losses in such accounts. The receivables of the Company are spread over a number of customers, a majority of which are credible operators and suppliers to the oil and natural gas industries. The Company performs ongoing evaluations as to the financial condition of its customers with respect to trade receivables.

Recently Issued Accounting Standards Adopted in 2020

In June 2016, the FASB issued Accounting Standards 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 Accounting Standards Codification ("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 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 were 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. There was no material impact to our consolidated financial statements as a result of adoption of 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 consolidated financial statements.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated financial statements.

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 early adoption permitted. The Company does not expect ASU 2019-12 to have a material effect on the Company's 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 consolidated financial statements.

3. SUPPLEMENTAL CASH FLOWS INFORMATION

(\$ in thousands)

	Year Ended December 31,		
	2020	2019	2018
Supplemental cash flows disclosures			
Interest paid	\$ 2,207	\$ 6,433	\$ 5,068
Income taxes paid	\$ 1,786	\$ 1,018	\$ —
Supplemental disclosure of non-cash investing and financing activities			
Capital expenditures included in accounts payable and accrued liabilities	\$ 14,803	\$ 31,226	\$ 137,647
Non-cash purchases of property and equipment	\$ —	\$ —	\$ 204,512

4. FAIR VALUE MEASUREMENTS

Fair value ("FV") 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:

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENTS (Continued)

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 liabilities and long-term debt. The estimated fair value of our financial instruments — cash and cash equivalent, accounts receivable and accounts payable and accrued liabilities at December 31, 2020 and 2019 approximated or equaled their carrying value as reflected in our consolidated balance sheets because of their short-term nature.

Assets Measured at Fair Value on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis at December 31, 2020 and 2019, respectively, are set forth below (\$ in thousands):

	Balance	Estimated fair value measurements		
		Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
2020:				
Property and equipment, net	\$ —	\$ —	\$ —	\$ —
Goodwill	\$ —	\$ —	\$ —	\$ —
2019:				
Property and equipment, net	\$ 2,000	\$ —	\$ 2,000	\$ —

Whenever events or circumstances indicate that the carrying value of long-lived assets may not be recoverable, the Company reviews the carrying value of long-lived assets, such as property and equipment and other assets to determine if they are recoverable. If any long-lived assets are determined to be unrecoverable, an impairment is recorded in the period. Asset recoverability is estimated using undiscounted future net cash flows at the lowest identifiable level, excluding interest expense and nonrecurring other income and expense adjustments. During the year, the Company determined the lowest level of identifiable cash flows to be at the asset group level.

In the first quarter of 2020, we determined that the carrying value of our Permian drilling assets were greater than its estimated fair value because of the negative future near-term outlook resulting from the continued idling of our Permian drilling assets and the depressed market conditions. Our fair value estimate for our drilling assets was determined using a market transaction, which represents a level 2 in the fair value measurement hierarchy. Accordingly, an impairment expense of \$1.1 million was recorded for our Permian drilling assets during the year ended December 31, 2020. Prior to the impairment expense, our Permian drilling net carrying value was \$1.8 million. During the fourth quarter of 2020, we shut down our drilling operations and disposed all of the drilling assets.

4. FAIR VALUE MEASUREMENTS (Continued)

In 2019, the Company entered an agreement with its equipment manufacturer granting the Company the option to purchase an additional 108,000 hydraulic horsepower (“HHP”) of *DuraStim*® equipment, with the purchase option expiring at different times through July 31, 2022, as amended. The option fee of \$6.1 million, classified as a deposit for property and equipment as part of our pressure pumping reportable segment, was fully impaired and written off in the first quarter of 2020 because it was not probable that the Company will exercise the option to purchase the equipment given the depressed crude oil prices and other market conditions that have resulted in a decline in the demand for our hydraulic fracturing services. The estimated fair value of our *DuraStim*® equipment option was based on unobservable inputs, which represents a level 3 in the fair value measurement hierarchy. Prior to the impairment expense, our carrying value for the option fee equipment deposit was \$6.1 million. As of December 31, 2020, we have fully impaired the carrying value of the equipment deposit related to the option fees.

In light of the energy industry transition to lower emissions equipment, the Company made a strategic decision to retire approximately 150,000 HHP of conventional Tier II pressure pumping equipment. As of December 31, 2020, we recorded an impairment expense of approximately \$21.3 million, which is a full write-off of the net carrying value of the conventional Tier II pressure pumping equipment that we are reasonably certain will be permanently retired, in our pressure pumping reportable segment.

The total non-cash property and equipment impairment charges recorded during the years ended December 31, 2020, 2019 and 2018 in our hydraulic fracturing, flowback and drilling segments was \$28.6 million, \$3.4 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 years ended December 31, 2020, 2019 and 2018. In the first quarter of 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 interim 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 the carrying value of our goodwill in our pressure pumping reportable segment of \$9.4 million was fully impaired during the first quarter of 2020. Accordingly, we recorded a goodwill impairment expense of \$9.4 million in March 2020, resulting in a full write off of our goodwill. Based on our annual goodwill impairment test on December 31, 2019 and 2018, we determined that there was no impairment of goodwill.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(\$ in thousands)

	December 31,	
	2020	2019
Land	\$ 10,551	\$ 10,772
Buildings	29,312	24,375
Equipment and vehicles	1,242,698	1,333,705
Leasehold improvements	8,035	8,030
Subtotal	1,290,596	1,376,882
Less accumulated depreciation	(410,119)	(329,347)
Property and equipment — net	<u>\$ 880,477</u>	<u>\$ 1,047,535</u>

During the years ended December 31, 2020 and 2019 and 2018, our depreciation expense was \$53.3 million, \$145.3 million and \$87.9 million respectively.

6. LONG-TERM DEBT

ABL Credit Facility

Our revolving credit facility (“ABL Credit Facility”), as amended, has a total borrowing capacity of \$300 million (subject to the Borrowing Base limit), with a maturity date of December 19, 2023. The ABL Credit Facility has a borrowing base, as determined monthly, of 85% of monthly eligible accounts receivable less customary reserves (the “Borrowing Base”). The Borrowing Base as of December 31, 2020 was approximately \$55.6 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 borrowings under the ABL Credit Facility for the year ended December 31, 2020 was 3.6%.

The loan origination costs relating to the ABL Credit Facility are classified as an asset in the balance sheet. The fair value of the ABL Credit Facility approximates its carrying value.

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 provided to our lenders.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Total debt consisted of the following:

(\$ in thousands)

	December 31,	
	2020	2019
ABL Credit Facility	\$ —	\$ 130,000
Total debt	—	130,000
Less current portion of long-term debt	—	—
Total long-term debt	\$ —	\$ 130,000

7. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following:

(\$ in thousands)

	December 31,	
	2020	2019
Accrued insurance	6,553	1,231
Accrued payroll and related expenses	4,640	16,809
Capital expenditure, taxes and others accruals	13,483	18,303
Total	\$ 24,676	\$ 36,343

8. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan, modified effective January 1, 2019, whereby all employees with sixty days of service may contribute up to \$19,500 to the plan annually. The employees vest in the Company contributions to the 401(k) plan 25% per year, beginning in the employee's first year of service, with full vesting occurring after four years of service. The employees are fully vested in their contributions when made. The Company matches 100% of the employee contributions up to 6% of gross salary, up to the annual limit. During the years ended December 31, 2020, 2019 and 2018, the recorded expense under the plan was \$2.1 million, \$3.0 million and \$0.3 million, respectively.

9. REPORTABLE SEGMENT INFORMATION

The Company has three operating segments for which discrete financial information is readily available: hydraulic fracturing, cementing and coiled tubing. These operating segments represent how the Chief Operating Decision Maker evaluates performance and allocates resources.

In September 2020, the Company shut down its drilling operations and disposed of all of its drilling rigs and ancillary assets for approximately \$0.5 million. In March 2020, the Company shut down its flowback operating segment and subsequently disposed of the assets for approximately \$1.6 million. Our drilling and flowback operations were included in our "all other" category. In August 2018, we divested our surface air drilling operations, included in our "all other" category. The divestiture or disposal of our surface drilling assets did not qualify for presentation and disclosure as discontinued operations, and accordingly, during the year ended December 31, 2018, we recorded the resulting loss associated with the asset disposal of \$0.3 million as part of our loss on disposal of asset in our consolidated statement of operations. The shutdown of these operations resulted in a reduction in the number of our current operating segments to three. The change in the number of our operating segments did not impact our reportable segment information reported for the years presented.

In accordance with 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 stock-based compensation expense, income tax expense and interest expense) are included in the "all other" category in the tables below. Total corporate administrative expense for the years ended December 31, 2020, 2019 and 2018 was \$31.6 million, \$113.0 million and \$83.9 million, respectively.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. REPORTABLE SEGMENT INFORMATION (Continued)

Our hydraulic fracturing operating segment revenue approximated 94.2%, 95.6% and 95.4% of our pressure pumping revenue for the years ended December 31, 2020, 2019 and 2018, 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. We define Adjusted EBITDA as earnings before interest expense, income taxes, depreciation and amortization (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 nonrecurring (income)/expenses, such as impairment charges, severance, costs related to our initial public offering (“IPO”), costs related to asset acquisitions, costs related to SEC investigation and class action lawsuits and one-time professional fees.

A reconciliation from segment level financial information to the consolidated statement of operations is provided in the table below (\$ in thousands):

	Pressure Pumping	All Other	Total
Year ended and as of December 31, 2020			
Service revenue	\$ 773,474	\$ 15,758	\$ 789,232
Adjusted EBITDA	\$ 174,030	\$ (32,567)	\$ 141,463
Depreciation and amortization	\$ 148,659	\$ 4,631	\$ 153,290
Impairment expense	\$ 36,907	\$ 1,095	\$ 38,002
Capital expenditures	\$ 78,154	\$ 3,091	\$ 81,245
Total assets	\$ 1,009,631	\$ 41,108	\$ 1,050,739
Year ended and as of December 31, 2019			
Service revenue	\$ 2,001,627	\$ 50,687	\$ 2,052,314
Adjusted EBITDA	\$ 533,760	\$ (14,691)	\$ 519,069
Depreciation and amortization	\$ 139,348	\$ 5,956	\$ 145,304
Impairment expense	\$ —	\$ 3,405	\$ 3,405
Capital expenditures	\$ 387,119	\$ 13,552	\$ 400,671
Goodwill	\$ 9,425	\$ —	\$ 9,425
Total assets	\$ 1,381,811	\$ 54,300	\$ 1,436,111
Year ended and as of December 31, 2018			
Service revenue	\$ 1,658,403	\$ 46,159	\$ 1,704,562
Adjusted EBITDA	\$ 398,396	\$ (9,873)	\$ 388,523
Depreciation and amortization	\$ 83,404	\$ 4,734	\$ 88,138
Capital expenditures	\$ 577,171	\$ 15,431	\$ 592,602
Goodwill	\$ 9,425	\$ —	\$ 9,425
Total assets	\$ 1,230,830	\$ 43,692	\$ 1,274,522

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. REPORTABLE SEGMENT INFORMATION (Continued)

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

	Pressure Pumping	All Other	Total
Year ended December 31, 2020			
Net income (loss)	\$ (68,271)	\$ (38,749)	\$ (107,020)
Depreciation and amortization	148,659	4,631	153,290
Interest expense	1	2,382	2,383
Income tax benefit	—	(27,480)	(27,480)
Loss on disposal of assets	56,659	1,477	58,136
Impairment expense	36,907	1,095	38,002
Stock-based compensation	—	9,100	9,100
Other expense	—	874	874
Other general and administrative expense ⁽¹⁾	—	13,038	13,038
Retention bonus and severance expense	75	1,065	1,140
Adjusted EBITDA	\$ 174,030	\$ (32,567)	\$ 141,463
Year ended December 31, 2019			
Net income (loss)	\$ 281,090	\$ (118,080)	\$ 163,010
Depreciation and amortization	139,348	5,956	145,304
Interest expense	51	7,090	7,141
Income tax expense	—	50,494	50,494
Loss on disposal of assets	106,178	633	106,811
Impairment expense	—	3,405	3,405
Stock-based compensation	—	7,776	7,776
Other expense	—	717	717
Other general and administrative expense ⁽¹⁾	—	25,208	25,208
Deferred IPO bonus, retention bonus and severance expense	7,093	2,110	9,203
Adjusted EBITDA	533,760	(14,691)	519,069
Year ended December 31, 2018			
Net income (loss)	\$ 253,196	\$ (79,334)	\$ 173,862
Depreciation and amortization	83,404	4,734	88,138
Interest expense	—	6,889	6,889
Income tax expense	—	51,255	51,255
Loss on disposal of assets	59,962	(742)	59,220
Stock-based compensation	—	5,482	5,482
Other expense	—	663	663
Other general and administrative expense ⁽¹⁾	2	203	205
Deferred IPO bonus	1,832	977	2,809
Adjusted EBITDA	\$ 398,396	\$ (9,873)	\$ 388,523

(1) During the years ended December 31, 2020 and 2019, other general and administrative expense primarily relates to nonrecurring professional fees paid to external consultants in connection with the Company's expanded audit committee review, SEC investigation and shareholder litigation. All nonrecurring professional fees incurred after the end of June 2020 are in connection with the pending SEC investigation and shareholder litigation. The other general and administrative expense during the year ended December 31, 2018 primarily relates to legal settlements.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. REPORTABLE SEGMENT INFORMATION (Continued)

Major Customers

The Company had revenue from the following significant customers that accounted for the following percentages of the Company's total revenue:

	Year Ended December 31,		
	2020	2019	2018
Customer A	42.5 %	25.5 %	24.1 %
Customer B	20.3 %	20.9 %	16.5 %
Customer C	9.3 %	13.2 %	12.2 %
Customer D	8.6 %	9.2 %	8.9 %
Customer E	5.8 %	8.2 %	7.1 %

The above significant customers' revenue that relates to pressure pumping is below:

	Year Ended December 31,		
	2020	2019	2018
Customer A	99.8 %	99.7 %	97.4 %
Customer B	97.6 %	95.4 %	98.3 %
Customer C	99.9 %	99.9 %	100.0 %
Customer D	99.7 %	100.0 %	100.0 %
Customer E	85.7 %	100.0 %	100.0 %

10. NET (LOSS) INCOME PER SHARE

Basic net (loss) income per common share is computed by dividing the net (loss) income relevant to the common stockholders by the weighted-average number of shares outstanding during the year. Diluted net (loss) income per common share uses the same net (loss) income divided by the sum of the weighted-average number of shares of common stock outstanding during the period, plus dilutive effects of options, performance stock units 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.

(In thousands, except for per share data)

	Year Ended December 31,		
	2020	2019	2018
<i>Numerator (both basic and diluted)</i>			
Net (loss) income relevant to common stockholders	\$ (107,020)	\$ 163,010	\$ 173,862
<i>Denominator</i>			
Denominator for basic net (loss) income per share	100,829	100,472	83,460
Dilutive effect of stock options	—	2,929	3,129
Dilutive effect of performance stock units	—	169	277
Dilutive effect of restricted stock units	—	179	180
Denominator for diluted net (loss) income per share	100,829	103,750	87,046
Basic net (loss) income per common share	\$ (1.06)	\$ 1.62	\$ 2.08
Diluted net (loss) income per common share	\$ (1.06)	\$ 1.57	\$ 2.00

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. NET (LOSS) INCOME PER SHARE (Continued)

As shown in the table below, the following stock options, restricted stock units and performance stock units outstanding as of December 31, 2020, 2019 and 2018 have not been included in the calculation of diluted (loss) income per common share for the years ended December 31, 2020, 2019 and 2018 because they would be anti-dilutive to the calculation of diluted net (loss) income per common share:

(In thousands)	2020	2019	2018
Stock options	4,200	—	—
Restricted stock units	1,165	—	—
Performance stock units	1,019	—	—
Total	6,384	—	—

11. STOCK-BASED COMPENSATION

Stock Option Plan

In March 2013, we approved the Stock Option Plan of ProPetro Holding Corp. (the “Stock Option Plan”) pursuant to which our Board of Directors may grant stock options to our consultants, directors, executives and employees. No awards have been granted under the Stock Option Plan following our IPO, and no further awards will be granted under the Stock Option Plan.

2017 Incentive Award Plan

In March 2017, our shareholders approved the ProPetro Holding Corp. 2017 Incentive Award Plan (the “2017 Incentive Plan”) pursuant to which our Board of Directors was authorized to grant stock options, restricted stock units (“RSUs”), performance stock units (“PSUs”), or other stock-based and cash awards to consultants, directors, executives and employees. The 2017 Incentive Plan originally authorized up to 5,800,000 shares of common stock to be issued under awards granted pursuant to the plan.

2020 Long Term Incentive Plan

In October 2020, our shareholders approved the ProPetro Holding Corp. 2020 Long Term Incentive Plan (the “2020 Incentive Plan”) pursuant to which our Board of Directors may grant stock options, RSUs, PSUs, or other stock-based and cash awards to consultants, directors, executives and employees. The 2020 Incentive Plan authorizes up to 4,650,000 shares of common stock to be issued under awards granted pursuant to the plan. The 2020 Incentive Plan became effective October 22, 2020, and as of such date no further awards will be granted under the 2017 Incentive Plan on or after October 22, 2020.

The 2017 Incentive Plan and the 2020 Incentive Plan are herein collectively referred to as the “Incentive Plans”.

Stock Options

On June 14, 2013, we granted 2,799,408 stock option awards to certain key employees, officers and directors pursuant to the Stock Option Plan that vested and became exercisable based upon the achievement of a service requirement. The options vested in 25% increments for each year of continuous service and an option became fully vested upon the optionee’s completion of the fourth year of service. The contractual term for the options awarded is 10 years. The fair value of each option award granted was estimated on the date of grant using the Black-Scholes option-pricing model.

On July 19, 2016, we granted 1,274,549 stock option awards to certain key employees, officers and directors pursuant to the Stock Option Plan which vested in five substantially equal semi-annual installments commencing in December 2016, subject to a continuing services requirement. The contractual term for the options awarded is 10 years. We fully accelerated vesting of the options in connection with our IPO. The fair value of each option award granted was estimated on the date of grant using the Black-Scholes option-pricing model.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. STOCK-BASED COMPENSATION (Continued)

On March 16, 2017, we granted 793,738 stock option awards to certain key employees, officers and directors pursuant to the 2017 Incentive Plan which are scheduled to vest in four substantially equal annual installments, subject to a continuing service requirement. The contractual term for the options awarded is 10 years. The fair value of each stock option award granted was estimated on the date of grant using the Black-Scholes option-pricing model. There were no new stock option grants during the years ended December 31, 2020, 2019 and 2018.

As of December 31, 2020, the aggregate intrinsic value for our outstanding stock options was \$14.6 million, and the aggregate intrinsic value for our exercisable stock options was \$14.6 million. There were no exercises of stock options during the year ended December 31, 2020. The remaining contractual term for the outstanding and exercisable stock options as of December 31, 2020, was 2.5 years and 2.4 years, respectively.

On March 13, 2020, the Company modified the stock options previously granted to two former officers in connection with one such former officer's separation agreement and the other former officer's amended employment arrangement. Such modifications extended the exercise period such that all vested but unexercised stock options held by such former officers shall not be forfeited or cancelled on the ninety-first day following the former officers' respective separation dates but rather shall remain outstanding and exercisable until the one-year anniversary of such former officers' separation date. In connection with a former officer's separation agreement, on December 31, 2020, the Company modified the stock options previously granted to such former officer to (i) accelerate the vesting of the stock options granted to such former officer in 2017 pursuant to the 2017 Incentive Plan and (ii) extend the exercise period applicable to all vested but unexercised stock options held by such former officer such that all such stock options shall not be forfeited or cancelled on the ninety-first day following the former officer's separation date but rather shall remain outstanding and exercisable until June 14, 2023. As a result of these modifications, we recorded an incremental stock expense of \$2.0 million during the year ended December 31, 2020. For the years ended December 31, 2020, 2019 and 2018, the Company recognized approximately \$2.3 million, \$0.5 million and \$0.6 million, respectively, in compensation expense related to stock options.

A summary of the stock option activity during the year ended December 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	(76,398)	\$ 14.00
Expired	(23,349)	\$ 14.00
Outstanding at December 31, 2020	<u>4,200,341</u>	\$ 4.82
Exercisable at December 31, 2020	<u>4,098,924</u>	\$ 4.59

Restricted Stock Units

In 2020, we granted 1,185,832 RSUs to key employees, officers and directors pursuant to 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 was based on the closing share price of our common stock on the date of grant. For the years ended December 31, 2020, 2019 and 2018, the Company recognized stock compensation expense for RSUs of approximately \$5.1 million, \$3.5 million and \$2.9 million, respectively.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. STOCK-BASED COMPENSATION (Continued)

On October 30, 2020, the Company modified the RSUs previously granted to a former officer in 2019 and 2020 to accelerate the vesting of such RSUs in connection with his separation agreement. On December 31, 2020, the Company modified the RSUs previously granted to a former officer in 2018, 2019 and 2020 to accelerate the vesting of such RSUs in connection with his separation agreement. As a result of these modifications, we recorded an incremental stock expense of \$0.1 million during the year ended December 31, 2020. As of December 31, 2020, the total unrecognized compensation expense for all RSUs was approximately \$5.9 million, and is expected to be recognized over a weighted-average period of approximately 1.8 years.

The following table summarizes the RSUs activity during the year December 31, 2020:

	Number of Shares	Weighted Average Grant Date Fair Value ("FV")
Outstanding at January 1, 2020	613,217	\$ 18.75
Granted	1,185,832	\$ 7.00
Vested	(262,931)	\$ 17.37
Forfeited	(370,749)	\$ 14.37
Canceled	—	\$ —
Outstanding at December 31, 2020	1,165,369	\$ 8.50

Performance Stock Units

In 2020, we granted 1,007,058 PSUs (excluding PSUs that were administratively cancelled and regranted) to certain key employees and officers as new awards under the 2017 Incentive Plan. The actual number of shares of common stock that may be issued under the PSUs ranges from zero 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 from January 1, 2020 through December 31, 2022. 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 was 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.

In connection with a former officer's separation agreement, on October 30, 2020, the Company modified the PSUs previously granted to such former officer in 2019 and 2020 to provide for deemed satisfaction of the service requirement applicable to such PSUs as of October 30, 2020 such that such PSUs shall remain outstanding and eligible to vest based on our TSR relative to a designated peer group over the applicable performance period. In connection with a former officer's separation agreement, on December 31, 2020, the Company modified the PSUs previously granted to such former officer in 2018, 2019 and 2020 to provide for deemed satisfaction of the service requirement applicable to such PSUs as of December 31, 2020 such that such PSUs shall remain outstanding and eligible to vest based on our TSR relative to a designated peer group over the applicable performance period. As a result of these modifications, we recorded an incremental stock expense of \$0.1 million during the year ended December 31, 2020. For the years ended December 31, 2020, 2019 and 2018 the Company recognized stock compensation expense for the PSUs of approximately \$1.7 million, \$3.8 million and \$2.0 million, respectively.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. STOCK-BASED COMPENSATION (Continued)

The following table summarizes the PSU activity during the year ended December 31, 2020:

Period Granted	Target Shares Outstanding at January 1, 2020	Target Shares Granted	Target Shares Vested	Target Shares Forfeited	Target Shares Outstanding at December 31, 2020	Weighted Average Grant Date Fair Value per Share for Outstanding Shares
2017	151,492	—	(151,492)	—	—	\$ 10.73
2018	156,576	—	—	(72,254)	84,322	\$ 27.51
2019	214,553	—	—	(88,235)	126,318	\$ 27.49
2020	—	1,007,058	—	(198,420)	808,638	\$ 8.30
Total	522,621	1,007,058	(151,492)	(358,909)	1,019,278	\$ 12.27
Weighted Average FV Per Share	\$ 23.88	\$ 9.31	\$ 10.73	\$ 21.51	\$ 12.27	

The total stock compensation expense for the years ended December 31, 2020, 2019 and 2018 for all stock awards was approximately \$9.1 million, \$7.8 million and \$5.5 million, respectively. The total unrecognized compensation expense for all stock awards as of December 31, 2020, is approximately \$11.1 million, and is expected to be recognized over a weighted-average period of approximately 1.8 years.

12. INCOME TAXES

The components of the provision for income taxes are as follows:

(\$ in thousands)

	Year Ended December 31,		
	2020	2019	2018
Federal:			
Current	\$ —	\$ —	\$ —
Deferred	(27,104)	47,090	48,738
	(27,104)	47,090	48,738
State:			
Current	221	1,736	1,551
Deferred	(597)	1,668	966
	(376)	3,404	2,517
Total income tax expense	\$ (27,480)	\$ 50,494	\$ 51,255

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. INCOME TAXES (Continued)

Reconciliation between the amounts determined by applying the federal statutory rate of 21% for years ended December 31, 2020, 2019 and 2018 to income tax (benefit) expense is as follows:

(\$ in thousands)

	Year Ended December 31,		
	2020	2019	2018
Taxes at federal statutory rate	\$ (28,245)	\$ 44,836	\$ 47,275
State taxes, net of federal benefit	154	2,504	1,874
Non-deductible expenses	314	3,683	2,423
Stock-based compensation	751	(717)	(426)
Valuation allowance	868	—	(1,151)
Other	(1,322)	188	1,260
Total income tax (benefit) expense	\$ (27,480)	\$ 50,494	\$ 51,255

Deferred tax assets and liabilities are recognized for estimated future tax effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. The significant items giving rise to deferred tax assets (liabilities) are as follows:

(\$ in thousands)

	December 31,	
	2020	2019
Deferred Income Tax Assets		
Accrued liabilities	\$ 472	\$ 633
Allowance for credit losses	316	224
Lease liabilities	—	605
Goodwill and other intangible assets	3,408	2,724
Stock-based compensation	4,015	3,438
Net operating losses	85,827	66,311
Other	56	55
Total deferred tax assets	94,094	73,990
Valuation allowance	(868)	—
Total deferred tax assets — net	\$ 93,226	\$ 73,990
Deferred Income Tax Liabilities		
Property and equipment	\$ (166,494)	\$ (176,404)
Prepaid expenses	(2,073)	(627)
Total deferred tax liabilities	\$ (168,567)	\$ (177,031)
Net deferred tax liabilities	\$ (75,341)	\$ (103,041)

The Tax Cuts and Jobs Act (the “TCJA”) included a reduction to the maximum deduction allowed for net operating losses generated in tax years after December 31, 2017 and the elimination of carrybacks of net operating losses. Under the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, which modified the TCJA, U.S. federal net operating loss carryforwards (“NOLs”) generated in taxable periods beginning after December 31, 2017, may be carried forward indefinitely, but the deductibility of such NOLs in taxable years beginning after December 31, 2020, is limited to 80% of taxable income. As of December 31, 2020, the Company had approximately \$397.4 million of federal NOLs some of which will begin to expire in 2035. Approximately \$229.5 million of the Company’s federal NOLs relate to pre-2018 periods. As of December 31, 2020, the Company’s state net operating losses were approximately \$51.0 million and will begin to expire in 2024. Utilization of net operating loss carryforwards may be limited due to past or future ownership changes. As of December 31, 2020, we determined that \$0.9 million valuation allowance was necessary against our state deferred tax assets.

The Company’s U.S. federal income tax returns for the year ended December 31, 2017, and through the most recent filing remain open to examination by the Internal Revenue Service under the applicable U.S. federal statute of

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. INCOME TAXES (Continued)

limitations provisions. The various states in which the Company is subject to income tax are generally open to examination for the tax years ended December 31, 2016, and through the most recent filing.

The Company records uncertain tax positions in accordance with ASC 740, Income Taxes, on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than fifty percent likely to be realized upon ultimate settlement with the related tax authority. As of December 31, 2020, 2019 and 2018, no uncertain tax positions were recorded. The Company will continue to evaluate its tax positions in accordance with ASC 740 and will recognize any future effect as either a benefit or charge to income in the applicable period.

Income tax penalties and interest assessments recognized under ASC 740 are accrued as a tax expense in the period that the Company's taxes are in an uncertain tax position. Any accrued tax penalties or interest assessments will remain until the uncertain tax position is resolved with the taxing authorities or until the applicable statute of limitations has expired.

13. 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 on our corporate office building was approximately \$0.1 million per year. In April 2020, the Company acquired the corporate office building and associated real property for approximately \$1.5 million.

Operations and Maintenance Yards

The Company also rents five yards from an entity, in which certain former executive officers and a director of the Company have equity interests and total annual rent expense for each of the five yards was approximately \$0.03 million, \$0.03 million, \$0.1 million, \$0.1 million, and \$0.2 million, respectively. The Company also leased our drilling yard from another entity, in which a certain former executive officer of the Company has an equity interest, and with annual lease expense of \$0.1 million. In November 2020, we terminated the drilling yard lease.

Transportation and Equipment Rental

No transportation services were provided by a related party during the year ended December 31, 2020. For the years ended December 31, 2019 and 2018, the Company incurred costs for transportation services with an entity, in which a former executive officer of the Company had an equity interest, of approximately \$0.2 million, and \$0.4 million, respectively. During the year ended December 31, 2018, the partner in the entity with the former executive officer reimbursed the Company approximately \$0.05 million for the use of the Company's personnel to operate the transportation equipment.

The Company rented equipment in Elk City, Oklahoma for our flowback operations from an entity, in which a former executive officer of the Company has an equity interest. For the years ended December 31, 2019 and 2018, the Company incurred and paid \$0.2 million and \$0.2 million, respectively. This rental arrangement was terminated in January 2020, and accordingly, there was no expense incurred from this related party arrangement during the year ended December 31, 2020.

The Company obtains equipment maintenance services from an entity that has a family relationship with an executive officer of the Company. During the year ended December 31, 2020, the Company incurred approximately \$1.2 million for equipment maintenance services associated with this related party.

At December 31, 2020 and 2019, the Company had approximately \$0 and \$0, respectively, as outstanding payables in connection with transactions to all of the above related parties. There were no receivables at December 31, 2020 and 2019 from the above related party transactions.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. RELATED-PARTY TRANSACTIONS (Continued)

PT Petroleum, LLC

For the year ended December 31, 2018, the Company provided services to PT Petroleum, LLC, an entity in which a director was an officer, of approximately \$6.7 million.

Pioneer

On December 31, 2018, we consummated the purchase of certain pressure pumping assets and real property from Pioneer in connection with the Pioneer Pressure Pumping Acquisition. Pioneer received 16.6 million shares of our common stock and approximately \$110.0 million in cash. In July 2019, we terminated our crew camp facility lease entered into with Pioneer in connection with the Pioneer Pressure Pumping Acquisition, and the total crew camp facility lease payments to Pioneer in 2019 were approximately \$0.1 million.

Revenue from services provided to Pioneer (including idle fees) accounted for approximately \$35.4 million, \$524.2 million and \$76.0 million of our total revenue during the years ended December 31, 2020, 2019 and 2018, respectively.

In connection with the Pioneer Pressure Pumping Acquisition, the Company agreed to reimburse Pioneer for our portion of the retention bonuses paid to former Pioneer employees that were subsequently employed by the Company. During years ended December 31, 2020 and 2019, the Company fully reimbursed Pioneer approximately \$2.7 million and \$4.2 million for our portion of the retention bonuses paid to former Pioneer employees that were subsequently employed by the Company. During the year ended December 31, 2019, Pioneer fully reimbursed the Company approximately \$2.5 million for severance payments made on their behalf, in connection with the Pioneer Pressure Pumping Acquisition.

As of December 31, 2020, the total accounts receivable due from Pioneer, including estimated unbilled receivable for services (including idle fees) we provided, amounted to \$41.7 million and the amount due to Pioneer was \$0. As of December 31, 2019, the balance due from Pioneer for services (including idle fees) we provided amounted to approximately \$61.7 million and the amount due to Pioneer was \$0.

14. LEASES

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

Operating Leases

Description of Lease

In March 2013, we entered into 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 former director of the Company has a noncontrolling equity ownership interest. For the years ended December 31, 2020, 2019 and 2018, the Company made lease payments of approximately \$0.4 million, \$0.4 million and \$0.3 million, respectively. The assets and liabilities under this contract are equally allocated between our cementing and coiled tubing segments. In addition to the contractual lease period, the contract includes an optional renewal of up to 10 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.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. LEASES (Continued)

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 December 31, 2020, the weighted average discount rate and remaining lease term was 6.7% and 2.3 years, respectively.

In January 2019, we entered into a four-year real estate lease contract with Pioneer, a related party, (the “Crew Camp Lease”) with a commencement date of January 1, 2019 for purposes of providing housing to Company personnel. The contract does not include a residual value guarantee, covenants or financial restrictions. Further, the Crew Camp Lease does not contain variability in payments resulting from either an index change or rate change. The lease term used in our estimate of the present value of the minimum future lease payments for the purpose of determining our right-of-use asset and lease obligation was four-years. We determined the Crew Camp Lease to be an operating lease. However, effective July 1, 2019, the Crew Camp Lease was terminated in connection with our disposal of our camp assets located at the leased real estate for \$5.0 million. In connection with the Crew Camp Lease termination, we derecognized the right-of-use asset and lease liability of \$0.5 million and \$0.5 million, respectively. Prior to the termination, the total operating lease cost recorded during the year ended December 31, 2019, in connection with the Crew Camp Lease was \$0.1 million. Effective July 1, 2019, we disposed of our camp assets and entered into a twelve month lodging arrangement, to rent a certain number of rooms daily, including related services, for a fixed rate and accordingly, we recorded a gain on sale in our statement of operations during the year ended December 31, 2019 of approximately \$4.2 million.

As of December 31, 2020, our total operating lease right-of-use asset cost was \$1.2 million, and accumulated amortization was \$0.5 million. As of December 31, 2019, our total operating lease right-of-use asset cost was \$1.2 million, and accumulated amortization was \$0.3 million. For the years ended December 31, 2020 and 2019, we recorded operating lease cost of \$0.3 million and \$0.4 million, respectively, in our statement of operations. During the year ended December 31, 2018, our operating lease expense, under legacy GAAP, ASC 840, was \$1.7 million.

Finance Leases

Description of Ground Lease

In 2018, we entered into a ten-year land lease contract (the “Ground Lease”) with an exclusive option to purchase the land exercisable beginning one year from the commencement date of October 1, 2018 through the end of the contractual lease term. The Ground Lease does not include any residual value guarantee, covenants or financial restrictions. Further, the Ground Lease does not contain variability in payments resulting from either an index change or rate change. In March 2020, the Company exercised its option and purchased the land associated with the Ground Lease for approximately \$2.5 million. Prior to the exercise of our purchase option, the interest on our finance lease for the years ended December 31, 2020 and 2019 was approximately \$0 and 0.1 million, respectively.

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

(\$ in thousands)

2021	\$	377
2022		389
2023		98
2024		—
2025		—
Total undiscounted future lease payments		864
Amount representing interest		(65)
Present value of future lease payments (lease obligation)	\$	799

The total cash paid in connection with our operating and finance lease liabilities during the year ended December 31, 2020 was \$0.4 million and \$0.03 million, respectively. During the year ended December 31, 2019, the total cash paid in connection with our operating and finance lease liabilities was \$0.4 million and \$0.4 million,

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. LEASES (Continued)

respectively. The non-cash lease obligation we recorded effective January 1, 2019, upon adopting the new lease standard, ASC 842, was \$0.0 million and \$3.1 million for operating and finance leases, respectively. The non-cash changes to our lease liabilities during the year ended December 31, 2019, relate to the derecognition of the lease liability of \$0.5 million, in connection with the Crew Camp Lease termination on July 1, 2019.

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 year ended December 31, 2020 and 2019, our short-term asset lease expense was approximately \$1.0 million and \$1.3 million, respectively. At December 31, 2020, the total remaining commitments and other obligations for all of our short-term lease and lodging arrangements was \$6.0 million.

15. COMMITMENTS AND CONTINGENCIES

Commitments

As of December 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 July 31, 2022, as amended. The option fee of \$6.1 million, which we have classified as a deposit for property and equipment when the agreement was entered into in 2019, has been impaired and written off during the year ended December 31, 2020, as it was 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 December 31, 2020, there were no additional contractual capital commitments entered into as part of normal course of business for supply of certain equipment.

The Company enters into purchase agreements with its sand suppliers (the “Sand suppliers”) to secure supply of sand in the normal course of its business. The agreements with the Sand suppliers require that we purchase certain sand volumes, which is based on a certain percentage of our overall sand requirements and agreed minimum volumes; otherwise, certain penalties may be charged. Under certain of the purchase agreements, a shortfall fee applies if we purchase less than the agreed percentage of our sand requirements or agreed minimum volumes. 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. Our current agreements with Sand suppliers expire at different times prior to April 30, 2022. During the years ended December 31, 2020, 2019 and 2018, no shortfall fees have been recorded. One of the Sand suppliers (“SandCo”) we entered into an agreement with to purchase sand (“Texas sand”) has an indirect relationship with a former executive officer of the Company, because beginning in 2018, the Texas sand was sourced from a mine located on land owned by an entity (“LandCo”) in which the former executive officer has a 44% noncontrolling equity interest in the LandCo. During the year ended December 31, 2020, the total sand purchased from SandCo through the time the former executive was associated with the Company was approximately \$5.3 million. During the year ended December 31, 2019, the total sand purchased from SandCo was approximately \$44.3 million.

As of December 31, 2020 and 2019, the Company had issued letters of credit of \$3.7 million and \$1.5 million, respectively, under the Company's ABL Credit Facility relating to the Company's casualty insurance policy.

During the year ended December 31, 2020, we accrued severance expense of approximately \$1.0 million relating to the resignation of a former executive officer of the Company, which was included as part of our general and administrative expense in our statement of operations.

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 then current and former officers and directors in the U.S. District Court for the Western District of Texas.

In July 2020, the Logan Lawsuit Lead Plaintiffs Nykredit Portefølje Administration A/S, Oklahoma Firefighters Pension and Retirement System, Oklahoma Law Enforcement Retirement System, Oklahoma Police

15. COMMITMENTS AND CONTINGENCIES (Continued)

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 third amended class action complaint in the U.S. District Court for the Western District of Texas, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act of 1933, as amended, based on allegedly inaccurate or misleading statements, or omissions of material facts, about the Company's business, operations and prospects against the Company, and certain of its current and former officers and directors. In August 2020, the Company filed a motion to dismiss the Logan Lawsuit and in September 2020, the plaintiffs filed their opposition. In October 2020, the Company filed its reply brief in support of the motion to dismiss.

In May 2020, the U.S. District Court for the Western District of Texas consolidated two shareholder derivative lawsuits previously filed against the Company and certain of its current and former officers and directors into a single lawsuit captioned *In re ProPetro Holding Corp. Derivative Litigation* (the "Shareholder Derivative Lawsuit"). In August 2020, the plaintiffs in the Shareholder Derivative Lawsuit filed a consolidated complaint alleging (i) breaches of fiduciary duties, (ii) unjust enrichment and (iii) contribution. The plaintiffs did not quantify any alleged damages in its complaint but, in addition to attorneys' fees and costs, they seek various forms of relief, including (i) damages sustained by the Company as a result of the alleged misconduct, (ii) punitive damages and (iii) equitable relief in the form of improvements to the Company's governance and controls. In October 2020, the Company and other defendants filed motions to dismiss the Shareholder Derivative Lawsuit and in December 2020, the plaintiffs filed their opposition. In January 2021, the Company and other defendants filed reply briefs in support of the motions to dismiss.

In October 2019, the Company received a letter from the SEC indicating that the SEC had opened an investigation into the Company, which followed the SEC's issuance of a formal order of investigation, 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 Shareholder Derivative Lawsuit, the SEC investigation, or any other related lawsuit or investigation. As of December 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 2020, the Texas Comptroller of Public Accounts commenced a routine audit of the Company's motor vehicle and other related fuel taxes for the periods of July 2015 through December 2020. As of December 31, 2020, the audit is still at an early stage and the final outcome cannot be reasonably estimated.

In 2021, the Texas Comptroller of Public Accounts completed a routine audit of gross receipts, and sales, excise and use taxes for the periods of July 2015 through December 2018. The net refund to the Company from the sales and excise and use tax audit was approximately \$2.1 million, which will be recorded in our financial statements in the first quarter of 2021, the period when the refund was received by the Company.

PROPETRO HOLDING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth our unaudited quarterly results for each of the last four quarters for the years ended December 31, 2020 and 2019. This unaudited quarterly information has been prepared on the same basis as our annual audited financial statements and includes all adjustments, consisting only of normal recurring adjustments that are necessary to present fairly the financial information for the fiscal quarters presented.

(In thousands, except for per share data)

	2020			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue - Service revenue	\$ 395,069	\$ 106,109	\$ 133,710	\$ 154,344
Gross profit	\$ 94,221	\$ 37,916	\$ 34,118	\$ 38,698
Net income	\$ (7,804)	\$ (25,920)	\$ (29,184)	\$ (44,112)
Net income per common share:				
Basic	\$ (0.08)	\$ (0.26)	\$ (0.29)	\$ (0.44)
Diluted	\$ (0.08)	\$ (0.26)	\$ (0.29)	\$ (0.44)
Weighted average common shares outstanding:				
Basic	100,687	100,821	100,897	100,911
Diluted	100,687	100,821	100,897	100,911
	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue - Service revenue	\$ 546,179	\$ 529,494	\$ 541,847	\$ 434,794
Gross profit	\$ 164,656	\$ 143,276	\$ 144,925	\$ 129,101
Net income	\$ 69,805	\$ 36,133	\$ 34,397	\$ 22,675
Net income per common share:				
Basic	\$ 0.70	\$ 0.36	\$ 0.34	\$ 0.23
Diluted	\$ 0.67	\$ 0.35	\$ 0.33	\$ 0.22
Weighted average common shares outstanding:				
Basic	100,232	100,425	100,606	100,618
Diluted	104,123	104,379	103,652	103,055

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

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 report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2020.

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.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our internal control over financial reporting as of December 31, 2020 based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management believes that ProPetro Holding Corp. maintained effective internal control over financial reporting as of December 31, 2020. The independent registered public accounting firm, Deloitte & Touche LLP, has audited the consolidated financial statements as of and for the year ended December 31, 2020, and has also issued their report on the effectiveness of the Company's internal control over financial reporting, included in this report on page 53.

Changes in Internal Control over Financial Reporting

There were no changes in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

This information is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders, which is expected to be filed before the end April 2021.

Item 11. Executive Compensation

This information is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders, which is expected to be filed before the end of April 2021.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This information is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders, which is expected to be filed before the end of April 2021.

Item 13. Certain Relationships and Related Party Transactions, and Director Independence.

This information is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders, which is expected to be filed before the end of April 2021.

Item 14. Principal Accounting Fees and Services

This information is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders, which is expected to be filed before the end of April 2021.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements

The Financial Statements in Item 8 are filed as part of this Annual Report.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

The exhibits required to be filed by this Item 15(b) are set forth in the Exhibit Index included below.

(b) See Exhibit Index

(c) None

EXHIBIT INDEX

Exhibit Number	Description
2.1	Purchase and Sale Agreement, dated as of November 12, 2018, by and among Pioneer Natural Resources Pumping Services LLC, Pioneer Natural Resources USA, Inc. and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 2.1 to ProPetro Holding Corp.'s Current Report on Form 8-K dated December 31, 2018).
3.1	Certificate of Incorporation of ProPetro Holding Corp., as amended March 16, 2017 (incorporated by reference herein to Exhibit 3.1 to ProPetro Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017).
3.2	Amended and Restated Bylaws of ProPetro Holding Corp. (incorporated by reference herein to Exhibit 3.2 to ProPetro Holding Corp.'s Current Report on Form 8-K dated June 19, 2019).
3.3	Certificate of Designations of Series B Junior Participating Preferred Stock of ProPetro Holding Corp. (incorporated by reference herein to Exhibit 3.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated April 14, 2020).
4.1	Specimen Stock Certificate (incorporated by reference herein to Exhibit 4.1 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 23, 2017 (Registration No. 333-215940)).
4.2	Investor Rights Agreement, dated as of December 31, 2018, by and between Pioneer Natural Resources Pumping Services LLC and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 4.1 to ProPetro Holding Corp.'s Current Report on Form 8-K dated December 31, 2018).
4.3	Registration Rights Agreement, dated as of December 31, 2018, by and between Pioneer Natural Resources Pumping Services LLC and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 4.2 to ProPetro Holding Corp.'s Current Report on Form 8-K dated December 31, 2018).
4.4	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference herein to Exhibit 4.4 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
4.5	Rights Agreement, dated as of April 14, 2020, by and between ProPetro Holding Corp. and American Stock Transfer & Trust Company, LLC (incorporated by reference herein to Exhibit 4.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated April 14, 2020).
10.1	Credit Agreement, dated as of March 22, 2017 by and among ProPetro Holding Corp., ProPetro Services, Inc., Barclays Bank PLC, as the Agent, the Collateral Agent, a Letter of Credit Issuer and the Swingline Lender, and each of the Lenders from time to time party thereto (incorporated by reference herein to Exhibit 10.2 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated March 28, 2017).
10.2#	Employment Agreement, dated April 17, 2013, by and between ProPetro Holding Corp. and Dale Redman (incorporated by reference herein to Exhibit 10.3 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.3#	Employment Agreement, dated April 17, 2013, by and between ProPetro Holding Corp. and David Sledge (incorporated by reference herein to Exhibit 10.4 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.4#	Employment Agreement, dated April 17, 2013, by and between ProPetro Holding Corp. and Jeffrey D. Smith (incorporated by reference herein to Exhibit 10.5 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.5#	Stock Option Plan of ProPetro Holding Corp., dated March 4, 2013 (incorporated by reference herein to Exhibit 10.6 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.6#	First Amendment to the Stock Option Plan of ProPetro Holding Corp., dated June 14, 2013 (incorporated by reference herein to Exhibit 10.7 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.7#	Second Amendment to the Stock Option Plan of ProPetro Holding Corp., dated December 2, 2016 (incorporated by reference herein to Exhibit 10.8 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.8#	Non-Qualified Stock Option Agreement, dated June 14, 2013, by and between ProPetro Holding Corp. and Dale Redman (incorporated by reference herein to Exhibit 10.9 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.9#	Non-Qualified Stock Option Agreement, dated June 14, 2013, by and between ProPetro Holding Corp. and David Sledge (incorporated by reference herein to Exhibit 10.10 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).

10.10#	Non-Qualified Stock Option Agreement, dated June 14, 2013, by and between ProPetro Holding Corp. and Jeffrey Smith (incorporated by reference herein to Exhibit 10.11 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.11#	Non-Qualified Stock Option Agreement, dated June 14, 2013, by and between ProPetro Holding Corp. and Spencer D. Armour, III (incorporated by reference herein to Exhibit 10.12 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.12#	Non-Qualified Stock Option Agreement, dated July 19, 2016, by and between ProPetro Holding Corp. and Dale Redman (incorporated by reference herein to Exhibit 10.13 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.13#	Non-Qualified Stock Option Agreement, dated July 19, 2016, by and between ProPetro Holding Corp. and David Sledge (incorporated by reference herein to Exhibit 10.14 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.14#	Non-Qualified Stock Option Agreement, dated July 19, 2016, by and between ProPetro Holding Corp. and Jeffrey D. Smith (incorporated by reference herein to Exhibit 10.15 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.15#	Non-Qualified Stock Option Agreement, dated July 19, 2016, by and between ProPetro Holding Corp. and Spencer D. Armour, III (incorporated by reference herein to Exhibit 10.16 to ProPetro Holding Corp.'s Registration Statement on Form S-1, dated February 7, 2017 (Registration No. 333-215940)).
10.16#	Form of ProPetro Holding Corp. 2017 Incentive Award Plan (incorporated by reference herein to Exhibit 10.18 to ProPetro Holding Corp.'s Registration Statement on Form S-1/A, dated March 7, 2017 (Registration No. 333-215940)).
10.17#	ProPetro Holding Corp. 2020 Long Term Incentive Plan (incorporated by reference herein to Exhibit 10.3 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 26, 2020).
10.18#	Form of ProPetro Holding Corp. Senior Executive Incentive Bonus Plan (incorporated by reference herein to Exhibit 10.19 to ProPetro Holding Corp.'s Registration Statement on Form S-1/A, dated February 23, 2017 (Registration No. 333-215940)).
10.19#	Form of ProPetro Holding Corp. 2017 Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement (incorporated by reference herein to Exhibit 10.22 to ProPetro Holding Corp.'s Registration Statement on Form S-1/A, dated February 23, 2017 (Registration No. 333-215940)).
10.20#	Form of ProPetro Holding Corp. Amendment to Non-Qualified Stock Option Agreement (incorporated by reference herein to Exhibit 10.23 to ProPetro Holding Corp.'s Registration Statement on Form S-1/A, dated February 23, 2017 (Registration No. 333-215940)).
10.21#	Amendment to Employment Agreement, dated April 17, 2013, by and between ProPetro Holding Corp. and Dale Redman (incorporated by reference herein to Exhibit 10.24 to ProPetro Holding Corp.'s Registration Statement on Form S-1/A, dated February 23, 2017 (Registration No. 333-215940)).
10.22#	2017 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 10.1 to ProPetro Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017).
10.23#	2017 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 10.2 to ProPetro Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017).
10.24#	2019 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 10.26 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.25#	2019 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 10.27 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.26#	2019 Form of ProPetro Holding Corp. 2017 Incentive Award Plan Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement (Directors) (incorporated by reference herein to Exhibit 10.28 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.27#	2019 Form of ProPetro Holding Corp. 2017 Incentive Award Plan Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement (Holderless) (incorporated by reference herein to Exhibit 10.29 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.28#	2019 Form of ProPetro Holding Corp. 2017 Incentive Award Plan Performance Restricted Stock Unit Grant Notice and Performance Restricted Stock Unit Agreement (Holderless) (incorporated by reference herein to Exhibit 10.30 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019).
10.29#(a)	2020 Form of ProPetro Holding Corp. 2020 Long Term Incentive Plan Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement (Directors).

10.30#	Separation and General Release Agreement, dated August 30, 2019, by and between Mark Howell and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated August 30, 2019).
10.31#	Separation Agreement and Mutual Release, dated October 4, 2019, by and between Ian Denholm and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.6 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 9, 2019).
10.32#	Separation Agreement and Release, dated December 17, 2020, by and between David Sledge and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated December 21, 2020).
10.33#	Separation Agreement and Mutual Release, dated October 23, 2020, by and between Darin G. Holderness and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 26, 2020).
10.34#	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).
10.35#	Letter Agreement, dated October 4, 2019, by and between Phillip Gobe and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 9, 2019).
10.36#	Letter Agreement, dated October 4, 2019, by and between Dale Redman and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.2 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 9, 2019).
10.37#	Letter Agreement, dated October 4, 2019, by and between Darin G. Holderness and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.3 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 9, 2019).
10.38#	Letter Agreement, dated October 4, 2019, by and between Jeffrey Smith and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.5 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 9, 2019).
10.39#	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).
10.40#	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).
10.41#	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).
10.42#	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).
10.43#	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).
10.44#	Employment Agreement, dated September 25, 2019, by and between ProPetro Holding Corp. and Newton W. Wilson III (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019).
10.45#	Amendment No. 1 to Credit Agreement, dated as of February 22, 2018 by and among ProPetro Holding Corp., ProPetro Services, Inc., the Incremental Lenders therein, the Required Lenders and Barclays Bank PLC, as Administrative Agent for the Lenders (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated February 27, 2018).
10.46#	Amendment No. 2 to Credit Agreement, dated as of December 19, 2018, by and among ProPetro Holding Corp., ProPetro Services, Inc., the Incremental Lenders therein, the Required Lenders and Barclays Bank PLC, as Administrative Agent for the Lenders (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated December 21, 2018).
10.47#	Pressure Pumping Services Agreement dated December 31, 2018, between Pioneer Natural Resources USA, Inc. and ProPetro Services, Inc. (incorporated by reference herein to Exhibit 10.31 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2018).
10.48#	Form of Indemnification Agreement for Pioneer Designated Directors (incorporated by reference herein to Exhibit 10.32 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2018).
10.49#	Form of Indemnification Agreement for Officers and Directors of ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.33 to ProPetro Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2018).
10.50#	ProPetro Services, Inc. Amended and Restated Executive Severance Plan (incorporated by reference herein to Exhibit 10.1 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated April 10, 2020).
10.51#	ProPetro Services, Inc. Second Amended and Restated Executive Severance Plan (incorporated by reference herein to Exhibit 10.4 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 26, 2020).

10.52#	Form of Participation Agreement pursuant to the ProPetro Services, Inc. Second Amended and Restated Executive Severance Plan (incorporated by reference herein to Exhibit 10.5 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated October 26, 2020).
10.53	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 the 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).
10.54	Waiver to Credit Agreement, dated as of June 22, 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 the 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 June 23, 2020).
10.55#	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).
10.56#	Letter Agreement, dated April 9, 2020, by and between David Sledge and ProPetro Holding Corp. (incorporated by reference herein to Exhibit 10.3 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated April 10, 2020).
10.57#	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).
10.58#	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).
10.59#	2020 Form of ProPetro Holding Corp. 2017 Incentive Award Plan Performance Restricted Stock Unit Grant Notice and Performance Restricted Stock Unit Agreement (Employees) (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).
10.60#	Participation Agreement pursuant to the ProPetro Services, Inc. Amended and Restated Executive Severance Plan, dated April 10, 2020, by and between Darin G. Holderness and ProPetro Services, Inc. (incorporated by reference herein to Exhibit 10.2 to ProPetro Holding Corp.'s Current Report on Form 8-K, dated April 10, 2020).
21.1(a)	List of Subsidiaries of ProPetro Holding Corp.
23.1(a)	Consent of Independent Registered Public Accounting Firm.
31.1(a)	Certification of Chief 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(a)	Certification of Chief 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(b)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(b)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(a)	XBRL Instance Document
101.SCH(a)	XBRL Taxonomy Extension Schema Document
101.CAL(a)	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB(a)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(a)	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF(a)	XBRL Taxonomy Extension Definition Linkbase Document
104(a)	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

(a) Filed herewith.

(b) Furnished herewith.

Compensatory plan, contract or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on March 5, 2021.

ProPetro Holding Corp.

/s/ Phillip A. Gobe

Phillip A. Gobe
Chief Executive Officer and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed by the following persons in the capacities indicated on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Phillip A. Gobe</u> Phillip A. Gobe	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 5, 2021
<u>/s/ David S. Schorlemer</u> David S. Schorlemer	Chief Financial Officer (Principal Financial Officer)	March 5, 2021
<u>/s/ Elo Omavuezi</u> Elo Omavuezi	Chief Accounting Officer (Principal Accounting Officer)	March 5, 2021
<u>/s/ Spencer D. Armour</u> Spencer D. Armour, III	Director	March 5, 2021
<u>/s/ Mark Berg</u> Mark Berg	Director	March 5, 2021
<u>/s/ Anthony Best</u> Anthony Best	Director	March 5, 2021
<u>/s/ G. Larry. Lawrence</u> G. Larry Lawrence	Director	March 5, 2021
<u>/s/ Michele V. Choka</u> Michele V. Choka	Director	March 5, 2021
<u>/s/ Alan E. Douglas</u> Alan E. Douglas	Director	March 5, 2021
<u>/s/ Jack Moore</u> Jack Moore	Director	March 5, 2021

**PROPETRO HOLDING CORP.
2020 LONG TERM INCENTIVE PLAN**

RESTRICTED STOCK UNIT GRANT NOTICE

Pursuant to the terms and conditions of the ProPetro Holding Corp. 2020 Long Term Incentive Plan, as amended from time to time (the “Plan”), ProPetro Holding Corp. (the “Company”) hereby grants to the individual listed below (“you” or “Director”) the number of Restricted Stock Units (the “RSUs”) set forth below. This award of RSUs (this “Award”) is subject to the terms and conditions set forth herein and in the Restricted Stock Unit Agreement attached hereto as Exhibit A (the “Agreement”) and the Plan, each of which is incorporated herein by reference. Capitalized terms used but not defined herein shall have the meanings set forth in the Plan.

Director: []

Date of Grant: []

Total Number of Restricted Stock []

Units:

Vesting Schedule: Subject to the terms of the Agreement, the Restricted Stock Units shall vest [].

Electronic Signature:

The Grant Notice may be executed by Director and the Company by means of electronic or digital signatures, which shall have the same force and effect as manual signatures. By Director’s electronic or digital signature, Director: (i) agrees to be bound by the terms of this Grant Notice, the Plan and the Agreement; (ii) acknowledges that he or she has reviewed the Plan, this Grant Notice and the Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of the Plan, this Grant Notice and the Agreement; (iii) hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, this Grant Notice or the Agreement; and (iv) represents that his or her spouse, civil union partner or registered domestic partner (to the extent applicable) has reviewed and consented to the terms and conditions of this Grant Notice, the Plan and the Agreement. The Director will indemnify and hold harmless the Company and its affiliates, successors and assigns, from and against any and all claims, liabilities, obligations, damages, losses, costs and expenses whatsoever (including reasonable attorney’s fees and disbursements) arising out of or resulting from any and all claims, liabilities, obligations, damages, losses, costs and expenses, claimed or demanded by any current or former spouse, civil union partner or registered domestic partner of the Director and arising of or resulting from this Grant Notice, the Plan, the Agreement or any grants awarded thereunder.

EXHIBIT A

RESTRICTED STOCK UNIT AGREEMENT

This Restricted Stock Unit Agreement (this "Agreement") is made as of the Date of Grant set forth in the Grant Notice to which this Agreement is attached by and between ProPetro Holding Corp., a Delaware corporation (the "Company"), and [] ("Director"). Capitalized terms used but not specifically defined herein shall have the meanings specified in the Plan or the Grant Notice.

1. **Award.** In consideration of Director's past and/or continued service to the Company or an Affiliate and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, effective as of the Date of Grant set forth in the Grant Notice (the "Date of Grant"), the Company hereby grants to Director the number of RSUs set forth in the Grant Notice on the terms and conditions set forth in the Grant Notice, this Agreement and the Plan, which is incorporated herein by reference as a part of this Agreement. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control. To the extent vested, each RSU represents the right to receive one share of Stock or, at the option of the Company, an amount of cash as set forth in Section 3, in either case, at the times and subject to the terms and conditions set forth in the Grant Notice, this Agreement and the Plan. Unless and until the RSUs have become vested in the manner set forth in the Grant Notice, Director will have no right to receive any Stock or other payments in respect of the RSUs. Prior to settlement of this Award, the RSUs and this Award represent an unsecured obligation of the Company, payable only from the general assets of the Company.

2. **Vesting of RSUs.**

(a) Except as otherwise set forth in this Section 2, the RSUs shall vest in accordance with the vesting schedule set forth in the Grant Notice. Unless and until the RSUs have vested in accordance with such vesting schedule, Director will have no right to receive any dividends or other distribution with respect to the RSUs. In the event of the termination of Director's service relationship with the Company or an Affiliate prior to the vesting of all of the RSUs (but after giving effect to any accelerated vesting pursuant to this Section 2), any unvested RSUs (and all rights arising from such RSUs and from being a holder thereof) will terminate automatically without any further action by the Company and will be forfeited without further notice and at no cost to the Company.

[]

3. **Settlement of RSUs.** As soon as administratively practicable following the vesting of RSUs pursuant to Section 2, but in no event later than 60 days after such vesting date, the Company shall deliver to Director (or Director's permitted transferee, if applicable) a number of shares of Stock equal to the number of RSUs subject to this Award that become vested on the applicable vesting date, including any RSUs received pursuant to Section 4, or, at the discretion of the Committee, an amount of cash equal to the product of (i) the Fair Market Value of one share of Stock on the day immediately preceding the applicable distribution or payment date and

(ii) the number of shares of Stock subject to Director's RSUs, including any RSUs received pursuant to Section 4. Any fractional RSU that becomes vested hereunder shall be rounded down at the time shares of Stock are issued in settlement of such RSU. No fractional shares of Stock, nor the cash value of any fractional shares of Stock, will be issuable or payable to Director pursuant to this Agreement. All shares of Stock issued hereunder shall be delivered either by delivering one or more certificates for such shares to Director or by entering such shares in book-entry form, as determined by the Committee in its sole discretion. The value of shares of Stock shall not bear any interest owing to the passage of time. Neither this Section 3 nor any action taken pursuant to or in accordance with this Agreement shall be construed to create a trust or a funded or secured obligation of any kind.

4. **Dividend Equivalent Rights.** Each RSU subject to this Award is hereby granted in tandem with a corresponding Dividend Equivalent, which Dividend Equivalent shall remain outstanding from the Date of Grant until the earlier of the settlement or forfeiture of the RSU to which it corresponds. Each Dividend Equivalent shall entitle Director to receive payments, subject to and in accordance with this Agreement, in an amount equal to any ordinary cash dividends paid by the Company in respect of the shares of Stock underlying the RSU to which such Dividend Equivalent relates. All such payments shall be credited to Director and be deemed to be reinvested in additional RSUs as of the date of payment of any such ordinary cash dividend based on the Fair Market Value of one share of Stock on such date. Each additional RSU which results from such deemed reinvestment of Dividend Equivalents granted hereunder shall be subject to the same vesting, distribution or payment, adjustment and other provisions which apply to the underlying RSU to which such additional RSU relates.

5. **Rights as Stockholder.** Neither Director nor any person claiming under or through Director shall have any of the rights or privileges of a holder of shares of Stock in respect of any shares that may become deliverable hereunder unless and until certificates representing such shares have been issued or recorded in book entry form on the records of the Company or its transfer agents or registrars, and delivered in certificate or book entry form to Director or any person claiming under or through Director.

6. **Non-Transferability.** During the lifetime of Director, the RSUs may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until the shares of Stock underlying the RSUs have been issued, and all restrictions applicable to such shares have lapsed. Neither the RSUs nor any interest or right therein shall be liable for the debts, contracts or engagements of Director or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

7. **Compliance with Securities Law.** Notwithstanding any provision of this Agreement to the contrary, the issuance of shares of Stock hereunder will be subject to

compliance with all applicable requirements of applicable law with respect to such securities and with the requirements of any stock exchange or market system upon which the Stock may then be listed. No shares of Stock will be issued hereunder if such issuance would constitute a violation of any applicable law or regulation or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, shares of Stock will not be issued hereunder unless (a) a registration statement under the Securities Act is in effect at the time of such issuance with respect to the shares to be issued or (b) in the opinion of legal counsel to the Company, the shares to be issued are permitted to be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary for the lawful issuance and sale of any shares of Stock hereunder will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance of Stock hereunder, the Company may require Director to satisfy any requirements that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company.

8. **Legends.** If a stock certificate is issued with respect to shares of Stock delivered hereunder, such certificate shall bear such legend or legends as the Committee deems appropriate in order to reflect the restrictions set forth in this Agreement and to ensure compliance with the terms and provisions of this Agreement, the rules, regulations and other requirements of the SEC, any applicable laws or the requirements of any stock exchange on which the Stock is then listed. If the shares of Stock issued hereunder are held in book-entry form, then such entry will reflect that the shares are subject to the restrictions set forth in this Agreement.

9. **Execution of Receipts and Releases.** Any payment of cash or any issuance or transfer of shares of Stock or other property to Director or Director's legal representative, heir, legatee or distributee, in accordance with this Agreement shall be in full satisfaction of all claims of such person hereunder. As a condition precedent to such payment or issuance, the Company may require Director or Director's legal representative, heir, legatee or distributee to execute a release and receipt therefor in such form as it shall determine appropriate; provided, however, that any review period under such release will not modify the date of settlement with respect to vested RSUs.

10. **No Right to Continued Service or Awards.**

(a) For purposes of this Agreement, Director shall be considered to be providing services to the Company as long as Director remains a Director of the Company or any Affiliate, or a Director of a corporation or other entity (or a parent or subsidiary of such corporation or other entity) assuming or substituting a new award for this Award. Without limiting the scope of the preceding sentence, it is specifically provided that Director shall be considered to have terminated his or her service relationship with the Company at the time of the termination of the "Affiliate" status of the entity or other organization to which Director provides services. Nothing in the adoption of the Plan, nor the award of the RSUs thereunder pursuant to

the Grant Notice and this Agreement, shall confer upon Director the right to a continued service relationship with the Company or any such Affiliate, or any other entity, or affect in any way the right of the Company or any such Affiliate, or any other entity to terminate such service relationship at any time.

(b) The grant of the RSUs is a one-time benefit and does not create any contractual or other right to receive a grant of Awards or benefits in lieu of Awards in the future. Future plans will be at the sole discretion of the Company.

11. **Notices.** Any notices or other communications provided for in this Agreement shall be sufficient if in writing. In the case of Director, such notices or communications shall be effectively delivered if hand delivered to Director at Director's principal residence or if sent by registered or certified mail to Director at the last address Director has filed with the Company. In the case of the Company, such notices or communications shall be effectively delivered if sent by registered or certified mail to the Company at its principal executive offices.

12. **Agreement to Furnish Information.** Director agrees to furnish to the Company all information requested by the Company to enable it to comply with any reporting or other requirement imposed upon the Company by or under any applicable statute or regulation.

13. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to the Director Shares granted hereby. Without limiting the scope of the preceding sentence, except as provided therein, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect. The Committee may, in its sole discretion, amend this Agreement from time to time in any manner that is not inconsistent with the Plan; provided, however, that except as otherwise provided in the Plan or this Agreement, any such amendment that materially reduces the rights of Director shall be effective only if it is in writing and signed by both Director and an authorized officer of the Company.

14. **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to conflicts of law principles thereof.

15. **Successors and Assigns.** The Company may assign any of its rights under this Agreement without Director's consent. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein and in the Plan, this Agreement will be binding upon Director and Director's beneficiaries, executors, administrators and the person(s) to whom the RSUs may be transferred by will or the laws of descent or distribution.

16. **Clawback.** Notwithstanding any provision in this Agreement, the Grant Notice or the Plan to the contrary, to the extent required by (a) applicable law, including, without limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act

of 2010, any SEC rule or any applicable securities exchange listing standards and/or (b) any policy that may be adopted or amended by the Board from time to time, all shares of Stock issued hereunder shall be subject to forfeiture, repurchase, recoument and/or cancellation to the extent necessary to comply with such law(s) and/or policy.

17. **Counterparts.** The Grant Notice may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

18. **Severability.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of such provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

19. **Nonqualified Deferred Compensation Rules.** None of the RSUs, Dividend Equivalents or any amounts payable pursuant to this Agreement are intended to constitute or provide for a deferral of compensation that is subject to the Nonqualified Deferred Compensation Rules. Nevertheless, to the extent that the Committee determines that the RSUs or Dividend Equivalents may not be exempt from the Nonqualified Deferred Compensation Rules, then, if Director is deemed to be a “specified employee” within the meaning of the Nonqualified Deferred Compensation Rules, as determined by the Committee, at a time when Director becomes eligible for settlement of the RSUs upon his “separation from service” within the meaning of the Nonqualified Deferred Compensation Rules, then to the extent necessary to prevent any accelerated or additional tax under the Nonqualified Deferred Compensation Rules, such settlement will be delayed until the earlier of: (a) the date that is six months following Director’s separation from service and (b) Director’s death. Notwithstanding the foregoing, the Company makes no representations that the payments provided under this Agreement are exempt from or compliant with the Nonqualified Deferred Compensation Rules and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Director on account of non-compliance with the Nonqualified Deferred Compensation Rules.

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Subsidiary of ProPetro Holding Corp.

Subsidiary

State of Organization

ProPetro Services, Inc.

Texas

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-249864 and 333-216946 on Form S-8 and Registration Statement No. 333-224824 on Form S-3ASR of our reports dated March 5, 2021, relating to the financial statements of ProPetro Holding Corp. and Subsidiary (the “Company”) and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2020.

/S/ DELOITTE & TOUCHE LLP

Houston, Texas

March 5, 2021

**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 Annual Report on Form 10-K 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: March 5, 2021

/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, David S. Schorlemer, certify that:

- 1 I have reviewed this Annual Report on Form 10-K 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: March 5, 2021

/s/ David S. Schorlemer

David S. Schorlemer
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 Annual Report on Form 10-K of ProPetro Holding Corp. (the "Company"), for the year ended December 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: March 5, 2021

/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 Annual Report on Form 10-K of ProPetro Holding Corp. (the "Company"), for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David S. Schorlemer, 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: March 5, 2021

/s/ David S. Schorlemer
David S. Schorlemer,
Chief Financial Officer
(Principal Financial Officer)