

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2022**

or

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

For the transition period from _____ to _____

Commission File Number: **001-38035**

ProPetro Holding Corp.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-3685382
(I.R.S. Employer
Identification No.)

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

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

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

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

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

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

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

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

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

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

The number of the registrant's common shares, par value \$0.001 per share, outstanding at November 1, 2022, was 114,554,085.

PROPETRO HOLDING CORP.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Form 10-Q") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Form 10-Q are forward-looking statements. Forward-looking statements are all statements other than statements of historical facts, and give our expectations or forecasts of future events as of the effective date of this Form 10-Q. Words such as "may," "could," "plan," "project," "budget," "predict," "pursue," "target," "seek," "objective," "believe," "expect," "anticipate," "intend," "estimate," "will," "should" and similar expressions are generally to identify forward-looking statements. These statements include, but are not limited to statements about our business strategy, industry, future profitability and future capital expenditures. Such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results to differ materially from those implied or projected by the forward-looking statements. Factors that could cause our actual results to differ materially from those contemplated by such forward-looking statements include:

- the severity and duration of any world health events and armed conflict, including the coronavirus ("COVID-19") pandemic and the Russian-Ukraine war and associated repercussions to supply and demand for oil and gas and the economy generally;
- the actions taken by the members of the Organization of the Petroleum Exporting Countries ("OPEC") and Russia (together with OPEC and other allied producing countries, "OPEC+") with respect to oil production levels and announcements of potential changes in such levels, including the ability of the OPEC+ countries to agree on and comply with supply limitations;
- actions taken by the Biden Administration, such as executive orders or new regulations, that may negatively impact the future production of oil and natural gas in the United States and may adversely affect our future operations;
- the level of production and resulting market prices for crude oil, natural gas and other hydrocarbons;
- changes in general economic and geopolitical conditions, including increasing interest rates, the rate of inflation and potential economic recession;
- the effects of existing and future laws and governmental regulations (or the interpretation thereof) on us and our customers;
- cost increases and supply chain constraints related to our services;
- competitive conditions in our industry;
- our ability to attract and retain employees;
- 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 and the possible loss of customers or work to our competitors;
- 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, including potential mergers and acquisitions;
- 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 increasing interest rates) for the Company and our customers;
- our ability to complete growth projects on time and on budget;
- operational challenges from the COVID-19 pandemic and efforts to mitigate the spread of the virus, including logistical challenges, protecting the health and well-being of our employees, remote work arrangements, performance of contracts and supply chain disruptions;
- changes in our tax status;
- regulatory and related policy actions intended by federal, state and/or local governments to reduce fossil fuel use and associated carbon emissions, or to drive the substitution of renewable forms of energy for oil and gas, may over time reduce demand for oil and gas and therefore the demand for our services;

- new or expanded regulations that materially limit our customers' access to federal and state lands for oil and gas development, thereby reducing demand for our services in the affected areas;
- growing demand for electric vehicles that result in reduced demand for gasoline and therefore the demand for our services;
- our ability to successfully implement technological developments and enhancements, including our new Tier IV DGB and electric hydraulic fracturing equipment, and other lower-emissions equipment we may acquire or that may be sought by our customers;
- operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond our control, which risks may be self-insured, or may not be fully covered under our insurance programs;
- acts of terrorism, war or political or civil unrest in the United States or elsewhere; and
- the effects of current and future litigation.

Whether actual results and developments will conform with our expectations and predictions contained in forward-looking statements is subject to a number of risks and uncertainties which could cause actual results to differ materially from such expectations and predictions, including, without limitation, in addition to those specified in the text surrounding such statements, the risks described under Part II, Item 1A, "Risk Factors" in this Form 10-Q and elsewhere throughout this report, the risks described under Part I, Item 1A, "Risk Factors" in our Form 10-K for the year ended December 31, 2021, filed with the SEC (the "Form 10-K") and elsewhere throughout that report, and other risks, many of which are beyond our control.

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 43,208	\$ 111,918
Accounts receivable - net of allowance for credit losses of \$217 and \$217, respectively	210,522	128,148
Inventories	3,944	3,949
Prepaid expenses	4,026	6,752
Short-term investment, net	8,503	—
Other current assets	30,038	297
Total current assets	<u>300,241</u>	<u>251,064</u>
PROPERTY AND EQUIPMENT - net of accumulated depreciation	841,513	808,494
OPERATING LEASE RIGHT-OF-USE ASSETS	600	409
OTHER NONCURRENT ASSETS:		
Other noncurrent assets	1,252	1,269
Total other noncurrent assets	<u>1,252</u>	<u>1,269</u>
TOTAL ASSETS	<u>\$ 1,143,606</u>	<u>\$ 1,061,236</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 187,381	\$ 152,649
Operating lease liabilities	490	369
Accrued and other current liabilities	65,946	20,767
Total current liabilities	<u>253,817</u>	<u>173,785</u>
DEFERRED INCOME TAXES	59,127	61,052
NONCURRENT OPERATING LEASE LIABILITIES	124	97
Total liabilities	<u>313,068</u>	<u>234,934</u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$0.001 par value, 30,000,000 shares authorized, none issued, respectively	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized, 104,426,520 and 103,437,177 shares issued, respectively	104	103
Additional paid-in capital	860,075	844,829
Accumulated deficit	<u>(29,641)</u>	<u>(18,630)</u>
Total shareholders' equity	<u>830,538</u>	<u>826,302</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,143,606</u>	<u>\$ 1,061,236</u>

See notes to condensed consolidated financial statements.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
REVENUE - Service revenue	\$ 333,014	\$ 250,099	\$ 930,776	\$ 628,444
COSTS AND EXPENSES				
Cost of services (exclusive of depreciation and amortization)	224,118	188,690	640,202	474,905
General and administrative (inclusive of stock-based compensation)	28,190	21,348	85,031	59,079
Depreciation and amortization	30,417	33,531	93,734	100,253
Impairment expense	—	—	57,454	—
Loss on disposal of assets	36,636	12,424	75,240	40,500
Total costs and expenses	<u>319,361</u>	<u>255,993</u>	<u>951,661</u>	<u>674,737</u>
OPERATING INCOME (LOSS)	<u>13,653</u>	<u>(5,894)</u>	<u>(20,885)</u>	<u>(46,293)</u>
OTHER INCOME (EXPENSE):				
Interest expense	(237)	(143)	(1,040)	(477)
Other income (expense)	(616)	(309)	9,749	1,178
Total other income (expense)	<u>(853)</u>	<u>(452)</u>	<u>8,709</u>	<u>701</u>
INCOME (LOSS) BEFORE INCOME TAXES	12,800	(6,346)	(12,176)	(45,592)
INCOME TAX (EXPENSE) BENEFIT	(2,768)	1,279	1,164	11,639
NET INCOME (LOSS)	<u>\$ 10,032</u>	<u>\$ (5,067)</u>	<u>\$ (11,012)</u>	<u>\$ (33,953)</u>
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	<u>\$ 0.10</u>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>	<u>\$ (0.33)</u>
Diluted	<u>\$ 0.10</u>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>	<u>\$ (0.33)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	<u>104,372</u>	<u>103,257</u>	<u>104,100</u>	<u>102,408</u>
Diluted	<u>105,070</u>	<u>103,257</u>	<u>104,100</u>	<u>102,408</u>

See notes to condensed consolidated financial statements.

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

Nine Months Ended September 30, 2022					
Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
BALANCE - January 1, 2022	103,437	\$ 103	\$ 844,829	\$ (18,630)	\$ 826,302
Stock-based compensation cost	—	—	11,364	—	11,364
Issuance of equity awards, net	562	1	419	—	420
Tax withholdings paid for net settlement of equity awards	—	—	(2,691)	—	(2,691)
Net income (loss)	—	—	—	11,817	11,817
BALANCE - March 31, 2022	103,999	\$ 104	\$ 853,921	\$ (6,813)	\$ 847,212
Stock-based compensation cost	—	—	3,458	—	3,458
Issuance of equity awards, net	309	—	321	—	321
Tax withholdings paid for net settlement of equity awards	—	—	(1,095)	—	(1,095)
Net income (loss)	—	—	—	(32,860)	(32,860)
BALANCE - June 30, 2022	104,308	\$ 104	\$ 856,605	\$ (39,673)	\$ 817,036
Stock-based compensation cost	—	—	3,306	—	3,306
Issuance of equity awards, net	118	—	222	—	222
Tax withholdings paid for net settlement of equity awards	—	—	(58)	—	(58)
Net income (loss)	—	—	—	10,032	10,032
BALANCE - September 30, 2022	104,426	\$ 104	\$ 860,075	\$ (29,641)	\$ 830,538

Nine Months Ended September 30, 2021					
Common Stock					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
BALANCE - January 1, 2021	100,913	\$ 101	\$ 835,115	\$ 35,555	\$ 870,771
Stock-based compensation cost	—	—	2,487	—	2,487
Issuance of equity awards, net	1,145	1	(1)	—	—
Tax withholdings paid for net settlement of equity awards	—	—	(5,614)	—	(5,614)
Net income (loss)	—	—	—	(20,375)	(20,375)
BALANCE - March 31, 2021	102,058	\$ 102	\$ 831,987	\$ 15,180	\$ 847,269
Stock-based compensation cost	—	—	2,909	—	2,909
Issuance of equity awards, net	1,169	1	(1)	—	—
Tax withholdings paid for net settlement of equity awards	—	—	(159)	—	(159)
Proceeds from exercise of stock awards	—	—	3,235	—	3,235
Net income (loss)	—	—	—	(8,511)	(8,511)
BALANCE - June 30, 2021	103,227	\$ 103	\$ 837,971	\$ 6,669	\$ 844,743
Stock-based compensation cost	—	—	3,009	—	3,009
Issuance of equity awards, net	33	—	—	—	—
Proceeds from exercise of stock awards	—	—	130	—	130
Net income (loss)	—	—	—	(5,067)	(5,067)
BALANCE - September 30, 2021	103,260	\$ 103	\$ 841,110	\$ 1,602	\$ 842,815

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (11,012)	\$ (33,953)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	93,734	100,253
Impairment expense	57,454	—
Deferred income tax expense (benefit)	(1,926)	(11,639)
Amortization of deferred debt issuance costs	720	405
Stock-based compensation	18,128	8,405
Provision for credit losses	—	282
Loss on disposal of assets	75,240	40,500
Unrealized loss on short-term investment	3,349	—
Non cash income from settlement with equipment manufacturer	(2,668)	—
Changes in operating assets and liabilities:		
Accounts receivable	(82,374)	(65,244)
Other current assets	(29,647)	325
Inventories	6	(747)
Prepaid expenses	2,847	6,027
Accounts payable	7,117	64,237
Accrued and other current liabilities	43,983	408
Net cash provided by operating activities	<u>174,951</u>	<u>109,259</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(247,164)	(87,700)
Proceeds from sale of assets	7,207	2,151
Net cash used in investing activities	<u>(239,957)</u>	<u>(85,549)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of insurance financing	—	(5,473)
Payment of debt issuance costs	(824)	—
Proceeds from exercise of equity awards	963	3,365
Tax withholdings paid for net settlement of equity awards	(3,843)	(5,773)
Net cash used in financing activities	<u>(3,704)</u>	<u>(7,881)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,710)	15,829
CASH AND CASH EQUIVALENTS - Beginning of period	111,918	68,772
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 43,208</u>	<u>\$ 84,601</u>

See notes to condensed consolidated financial statements.

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

Note 1 - Basis of Presentation

The accompanying condensed consolidated financial statements of ProPetro Holding Corp. and its subsidiary (the "Company," "we," "us" or "our") have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim financial information and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements. Those adjustments (which consisted of normal recurring accruals) that are, in the opinion of management, necessary for a fair presentation of the results of the interim periods have been made. Results of operations for such interim periods are not necessarily indicative of the results of operations for a full year due to changes in market conditions and other factors. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2021, included in our Form 10-K filed with the SEC (our "Form 10-K").

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, aggregated into our one reportable segment—"Pressure Pumping," and "all other" category, from which the Company generates its revenue.

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

Hydraulic fracturing is a well-stimulation technique intended to optimize hydrocarbon flow paths during the completion phase of shale wellbores. The process involves the injection of water, sand and chemicals under high pressure into shale formations. Our hydraulic fracturing contracts with our customers 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. In addition, certain of our hydraulic fracturing equipment is entitled to reservation or idle fee charges if a customer were to reserve or idle committed hydraulic fracturing equipment. The Company recognizes revenue related to idle or reservation fee charges on a daily basis or monthly as the performance obligations are met.

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

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

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

All Other— All other consists of coiled tubing operations, which are downhole well completion/remedial services. The performance obligation for these 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. Effective September 1, 2022, we shut down our coiled tubing operations, and disposed of all our coiled tubing assets.

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

Note 1 - Basis of Presentation (Continued)

Accounts Receivable

Accounts receivables are stated at the amount billed and billable to customers. At September 30, 2022, and December 31, 2021, accrued revenue (unbilled receivable) included as part of our accounts receivable was \$37.1 million and \$19.4 million, respectively. At September 30, 2022, the transaction price allocated to the remaining performance obligation for our partially completed hydraulic fracturing operations was \$42.3 million, which is expected to be completed and recognized within one month following the current period balance sheet date, in our pressure pumping reportable segment.

Allowance for Credit Losses

As of September 30, 2022, the Company had \$0.2 million allowance for credit losses. Our allowance for credit losses is based on the evaluation of both our historic loss experience and the expected impact of any potential deteriorating economic conditions in the oil and gas industry. We evaluated the historic loss experience on our accounts receivable and also separately considered customers with receivable balances that could 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 adverse 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 or potential economic downturn, 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.

The table below shows a summary of allowance for credit losses during the nine months ended September 30, 2022:

(in thousands)

Balance - January 1, 2022	\$	217
Provision for credit losses during the period		—
Write-off during the period		—
Balance - September 30, 2022	\$	<u>217</u>

Note 2 - Recently Issued Accounting Standards

Recently Issued Accounting Standards Adopted in 2022

In March 2020, the Financial Accounting Standards Board ("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. Effective January 1, 2022, we adopted this guidance, and the adoption did not materially affect the Company's condensed consolidated financial statements.

Note 3 - Fair Value Measurement

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:

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

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

Note 3 - Fair Value Measurement (Continued)

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

Assets measured at fair value on a recurring basis as of September 30, 2022 are set forth below:

(In thousands)	Estimated fair value measurements				Total gains (losses)
	Balance	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	
September 30, 2022:					
Short-term investment	\$ 8,503	\$ 8,503	\$ —	\$ —	\$ (3,349)

Short-term investment— On September 1, 2022, the Company received 2,616,460 common shares of Step Energy Services, Inc. ("STEP") with an estimated fair value of \$11.9 million as part of the consideration for the sale of our coiled tubing assets to STEP. The shares were treated as an investment in equity securities measured at fair value using Level 1 inputs based on observable prices on the Toronto Stock Exchange and are shown under current assets in our condensed consolidated balance sheets. As of September 30, 2022, the fair value of the short-term investment was estimated at \$8.5 million, and the unrealized loss resulting from the fluctuation in stock price was \$3.3 million. Included in the unrealized loss was a loss of \$ 0.4 million resulting from non-cash foreign currency translation. The unrealized losses resulting from stock price fluctuation and foreign currency translation are included in other income (expense) in our condensed consolidated statements of operations.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued and other current liabilities, and long-term debt (if any). The estimated fair value of our financial instruments at September 30, 2022 and December 31, 2021, approximated or equaled their carrying values as reflected in our condensed consolidated balance sheets.

Assets Measured at Fair Value on a Nonrecurring Basis

On September 21, 2022, the Company received equipment inventory from the manufacturer of *DuraStim*® hydraulic fracturing equipment in connection with its settlement of warranty claims for the *DuraStim*® hydraulic fracturing equipment acquired from the manufacturer. The fair value of this equipment inventory received from the manufacturer was estimated to be \$2.7 million. The estimated fair value was determined using the cost approach, which represents a Level 3 in the fair value measurement hierarchy. Our fair value estimate required us to use significant unobservable inputs, including a third party valuation and assumptions related to replacement cost, among others. Accordingly, we recorded non cash income of \$2.7 million, which is presented within other income (expense) in our condensed consolidated statements of operations, and the equipment inventory received included as part of our property and equipment in our condensed consolidated balance sheets. As of September 30, 2022, the remaining carrying value for the equipment inventory was \$ 2.7 million.

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Note 3 - Fair Value Measurement (Continued)

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 expense is recorded in the period. No impairment of property and equipment was recorded during the three months ended September 30, 2022 and 2021. For the nine months ended September 30, 2022, we recorded impairment expense of approximately \$ 57.5 million in connection with our electric pressure pumping technology driven *DuraStim*® hydraulic fracturing pumps that did not meet the manufacturer's specifications or our expectations.

Note 4 - Long-Term Debt

Asset-Based Loan ("ABL") Credit Facility

Our revolving credit facility, as amended in 2018, had a total borrowing capacity of \$ 300.0 million (subject to the borrowing base limit), with a maturity date of December 19, 2023. The revolving credit facility had a borrowing base of 85% of monthly eligible accounts receivable less customary reserves, as redetermined monthly. The revolving credit facility, included a springing fixed charge coverage ratio to apply when excess availability was less than the greater of (i) 10% of the lesser of the facility size or the borrowing base or (ii) \$22.5 million. Borrowings under this revolving credit facility accrued interest based on a three-tier pricing grid tied to availability, and we had the option to elect for loans to be based on either LIBOR or base rate, plus the applicable margin, which ranged 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.

Effective April 13, 2022, the Company entered into an amendment and restatement of its revolving credit facility (as amended and restated, "ABL Credit Facility"). The ABL Credit Facility decreased the borrowing capacity to \$150.0 million (subject to the Borrowing Base (as defined below) limit), with the maturity date extended to April 13, 2027. The ABL Credit Facility has a borrowing base of 85% to 90%, depending on the credit ratings of our accounts receivable counterparties, of monthly eligible accounts receivable less customary reserves (the "Borrowing Base"), as redetermined monthly. The Borrowing Base as of September 30, 2022, was approximately \$116.4 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) \$ 10.0 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 the Secured Overnight Financing Rate ("SOFR") or the base rate, plus the applicable margin, which ranges from 1.50% to 2.00% for SOFR loans and 0.50% to 1.00% for base rate loans.

The loan origination costs relating to the ABL Credit Facility are classified as an asset in our balance sheet. There were no borrowings under the ABL credit facility or our previous revolving credit facility as of September 30, 2022 and December 31, 2021.

Note 5 - Reportable Segment Information

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

On September 1, 2022, the Company disposed of its coiled tubing assets (included in the "all other" category) to a subsidiary of STEP as part of a strategic repositioning. The divestiture of our coiled tubing assets did not qualify for presentation and disclosure as discontinued operations, and accordingly, we have recorded the resulting loss of approximately \$13.8 million as part of our loss on disposal of assets in our consolidated statement of operations. We received approximately \$2.8 million in cash and 2,616,460 common shares of STEP valued at \$ 11.9 million as consideration for the coiled tubing assets, for total consideration of \$14.6 million. The divestiture of our coiled tubing assets resulted in a reduction in the number of our current operating segments to two. The change in the number of our operating segments did not impact our reportable segment information reported for the three and nine months ended September 30, 2022 and 2021.

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Note 5 - Reportable Segment Information (Continued)

In accordance with the FASB Accounting Standards Codification ("ASC") 280—*Segment Reporting*, the Company has one reportable segment (pressure pumping) comprised of the hydraulic fracturing and cementing operating segments. Our coiled tubing results of operations prior to the divestiture and corporate administrative expense (inclusive of our total income tax expense (benefit), other (income) and expense and interest expense) are included in the "all other" category in the table below. Total corporate administrative expense for the three and nine months ended September 30, 2022 was \$20.4 million and \$45.4 million, respectively. Total corporate administrative expense for the three and nine months ended September 30, 2021 was \$13.5 million and \$25.1 million, respectively.

Our hydraulic fracturing operating segment revenue approximated 91.7% and 92.7% of our pressure pumping revenue during the three and nine months ended September 30, 2022, respectively. During the three and nine months ended September 30, 2021, our hydraulic fracturing operating segment revenue approximated 93.4% and 93.5% of our pressure pumping revenue, respectively.

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

The Company manages and assesses the performance of the reportable segment by its adjusted EBITDA (earnings before other income (expense), interest expense, income taxes, depreciation and amortization, stock-based compensation expense, severance and related expense, impairment expense, (gain)/loss on disposal of assets and other unusual or nonrecurring expenses or (income)).

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

	Three Months Ended September 30, 2022		
	Pressure Pumping	All Other	Total
Service revenue	\$ 330,780	\$ 2,234	\$ 333,014
Adjusted EBITDA	\$ 102,550	\$ (12,550)	\$ 90,000
Depreciation and amortization	\$ 29,736	\$ 681	\$ 30,417
Capital expenditures	\$ 112,865	\$ 2,258	\$ 115,123
Total assets at September 30, 2022	\$ 1,091,796	\$ 51,810	\$ 1,143,606

	Three Months Ended September 30, 2021		
	Pressure Pumping	All Other	Total
Service revenue	\$ 245,641	\$ 4,458	\$ 250,099
Adjusted EBITDA	\$ 53,975	\$ (11,877)	\$ 42,098
Depreciation and amortization	\$ 32,536	\$ 995	\$ 33,531
Capital expenditures	\$ 52,904	\$ 300	\$ 53,204
Total assets December 31, 2021	\$ 1,023,037	\$ 38,199	\$ 1,061,236

	Nine Months Ended September 30, 2022		
	Pressure Pumping	All Other	Total
Service revenue	\$ 917,336	\$ 13,440	\$ 930,776
Adjusted EBITDA	\$ 265,835	\$ (33,355)	\$ 232,480
Depreciation and amortization	\$ 91,194	\$ 2,540	\$ 93,734
Capital expenditures	\$ 267,638	\$ 8,294	\$ 275,932
Total assets at September 30, 2022	\$ 1,091,796	\$ 51,810	\$ 1,143,606

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Note 5 - Reportable Segment Information (Continued)

	Nine Months Ended September 30, 2021		
	Pressure Pumping	All Other	Total
Service revenue	\$ 617,293	\$ 11,151	\$ 628,444
Adjusted EBITDA	\$ 132,673	\$ (34,866)	\$ 97,807
Depreciation and amortization	\$ 97,307	\$ 2,946	\$ 100,253
Capital expenditures	\$ 113,670	\$ 2,634	\$ 116,304
Total assets December 31, 2021	\$ 1,023,037	\$ 38,199	\$ 1,061,236

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

	Three Months Ended September 30, 2022		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 46,805	\$ (36,773)	\$ 10,032
Depreciation and amortization	29,736	681	30,417
Interest expense	—	237	237
Income tax expense	—	2,768	2,768
Loss (gain) on disposal of assets	22,850	13,786	36,636
Stock-based compensation	—	3,306	3,306
Other (income) expense ⁽³⁾	(2,668)	3,284	616
Other general and administrative expense ⁽¹⁾	4,775	145	4,920
Severance expense	1,052	16	1,068
Adjusted EBITDA	\$ 102,550	\$ (12,550)	\$ 90,000

	Three Months Ended September 30, 2021		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 9,058	\$ (14,125)	\$ (5,067)
Depreciation and amortization	32,536	995	33,531
Interest expense	—	143	143
Income tax benefit	—	(1,279)	(1,279)
Loss on disposal of assets	12,381	43	12,424
Stock-based compensation	—	3,009	3,009
Other expense	—	309	309
Other general and administrative expense, (net) ⁽¹⁾	—	(972)	(972)
Adjusted EBITDA	\$ 53,975	\$ (11,877)	\$ 42,098

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Note 5 - Reportable Segment Information (Continued)

	Nine Months Ended September 30, 2022		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 51,782	\$ (62,794)	\$ (11,012)
Depreciation and amortization	91,194	2,540	93,734
Impairment expense	57,454	—	57,454
Interest expense	—	1,040	1,040
Income tax benefit	—	(1,164)	(1,164)
Loss (gain) on disposal of assets	61,952	13,288	75,240
Stock-based compensation	—	18,128	18,128
Other income ^{(2) (3)}	(2,668)	(7,081)	(9,749)
Other general and administrative expense ⁽¹⁾	5,060	2,651	7,711
Severance expense	1,061	37	1,098
Adjusted EBITDA	<u>\$ 265,835</u>	<u>\$ (33,355)</u>	<u>\$ 232,480</u>

	Nine Months Ended September 30, 2021		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ (5,426)	\$ (28,527)	\$ (33,953)
Depreciation and amortization	97,307	2,946	100,253
Interest expense	—	477	477
Income tax benefit	—	(11,639)	(11,639)
Loss (gain) on disposal of assets	40,792	(292)	40,500
Stock-based compensation	—	8,405	8,405
Other income	—	(1,178)	(1,178)
Other general and administrative expense, (net) ⁽¹⁾	—	(5,670)	(5,670)
Severance expense	—	612	612
Adjusted EBITDA	<u>\$ 132,673</u>	<u>\$ (34,866)</u>	<u>\$ 97,807</u>

- (1) Other general and administrative expense, (net of reimbursement from insurance carriers) primarily relates to nonrecurring professional fees paid to external consultants in connection with our audit committee review, SEC investigation, shareholder litigation, legal settlement to a vendor and other legal matters, net of insurance recoveries. During the three and nine months ended September 30, 2022, we received reimbursement of approximately \$3.4 million and \$6.9 million, respectively, from our insurance carriers in connection with the SEC investigation and shareholder litigation. During the three and nine months ended September 30, 2021, we received reimbursement of approximately \$1.4 million and \$8.1 million, respectively.
- (2) Includes \$10.7 million of net tax refund (net of advisory fees) received in March 2022 from the Texas Comptroller of Public Accounts in connection with limited sales, excise and use tax beginning July 1, 2015 through December 31, 2018.
- (3) Includes \$2.7 million non cash income from fixed asset inventory received as part of a settlement of warranty claims with an equipment manufacturer and a \$3.3 million unrealized loss on short-term investment.

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Note 6 - Net Income (Loss) Per Share

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

The table below shows the calculations for the three and nine months ended September 30, 2022 and 2021, (in thousands, except for per share data):

	Three Months Ended September 30,	
	2022	2021
<i>Numerator (both basic and diluted)</i>		
Net income (loss) relevant to common stockholders	\$ 10,032	\$ (5,067)
<i>Denominator</i>		
Denominator for basic income (loss) per share	104,372	103,257
Dilutive effect of stock options	28	—
Dilutive effect of performance share units	498	—
Dilutive effect of restricted stock units	172	—
Denominator for diluted income (loss) per share	<u>105,070</u>	<u>103,257</u>
Basic income (loss) per common share	\$ 0.10	\$ (0.05)
Diluted income (loss) per common share	\$ 0.10	\$ (0.05)

	Nine Months Ended September 30,	
	2022	2021
<i>Numerator (both basic and diluted)</i>		
Net income (loss) relevant to common stockholders	\$ (11,012)	\$ (33,953)
<i>Denominator</i>		
Denominator for basic income (loss) per share	104,100	102,408
Dilutive effect of stock options	—	—
Dilutive effect of performance share units	—	—
Dilutive effect of restricted stock units	—	—
Denominator for diluted income (loss) per share	<u>104,100</u>	<u>102,408</u>
Basic income (loss) per share	\$ (0.11)	\$ (0.33)
Diluted income (loss) per share	\$ (0.11)	\$ (0.33)

PROPETRO HOLDING CORP.
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Note 6 - Net Income (Loss) Per Share (Continued)

As shown in the table below, the following stock options, restricted stock units and performance stock units outstanding as of September 30, 2022, have not been included in the calculation of diluted income (loss) per common share for the three and nine months ended September 30, 2022 and 2021 because they will be anti-dilutive to the calculation of diluted net income (loss) per common share:

(In thousands)	Three Months Ended September 30,	
	2022	2021
Stock options	488	962
Restricted stock units	615	1,435
Performance stock units	—	1,586
Total	1,103	3,983

(In thousands)	Nine Months Ended September 30,	
	2022	2021
Stock options	488	962
Restricted stock units	1,189	1,435
Performance stock units	1,758	1,586
Total	3,435	3,983

Note 7 - Stock-Based Compensation

Stock Options

There were no new stock option grants during the nine months ended September 30, 2022. As of September 30, 2022, there was no aggregate intrinsic value for our outstanding or exercisable stock options because the closing stock price as of September 30, 2022 was below the cost to exercise these options. The aggregate intrinsic value for the exercised stock options during the nine months ended September 30, 2022 was approximately \$2.6 million. The remaining exercise period for both the outstanding and exercisable stock options as of September 30, 2022 was approximately 2.2 years.

A summary of the stock option activity for the nine months ended September 30, 2022 is presented below (in thousands, except for weighted average price):

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2022	798	\$ 9.77
Granted	—	\$ —
Exercised	(310)	\$ 3.11
Forfeited	—	\$ —
Expired	—	\$ —
Outstanding at September 30, 2022	488	\$ 14.00
Exercisable at September 30, 2022	488	\$ 14.00

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Note 7 - Stock-Based Compensation (Continued)

Restricted Stock Units

During the nine months ended September 30, 2022, we granted 680,946 restricted stock units ("RSUs") to employees, officers and directors pursuant to the ProPetro Holding Corp. 2020 Long Term Incentive Plan (the "2020 Incentive Plan"), which generally vest ratably over a three-year vesting period, in the case of awards to employees and officers, and generally vest in full after one year, in the case of awards to directors. RSUs are subject to restrictions on transfer and are generally subject to a risk of forfeiture if the award recipient ceases to be an employee or director of the Company prior to vesting of the award. Each RSU represents the right to receive one share of common stock. The grant date fair value of the RSUs is based on the closing share price of our common stock on the date of grant. As of September 30, 2022, the total unrecognized compensation expense for all RSUs was approximately \$9.1 million, and is expected to be recognized over a weighted average period of approximately 1.8 years.

On March 31, 2022, the Company modified the RSUs previously granted to a former officer in 2019, 2020 and 2021 to accelerate the vesting of such RSUs in connection with his separation agreement. As a result of this modification, we recorded an incremental stock expense of \$1.3 million during the nine months ended September 30, 2022.

The following table summarizes RSUs activity during the nine months ended September 30, 2022 (in thousands, except for weighted average fair value):

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2022	1,413	\$ 9.19
Granted	681	\$ 12.31
Vested	(845)	\$ 9.20
Forfeited	(60)	\$ 11.04
Canceled	—	\$ —
Outstanding at September 30, 2022	<u>1,189</u>	<u>\$ 10.88</u>

Performance Share Units

During the nine months ended September 30, 2022, we granted 327,939 performance share units ("PSUs") to certain key employees and officers as new awards under the 2020 Incentive Plan. Each PSU earned represents the right to receive either one share of common stock or, as determined by the administrator in its sole discretion, a cash amount equal to fair market value of one share of common stock or amount of cash on the day immediately preceding the settlement date. The actual number of shares of common stock that may be issued under the PSUs ranges from 0% up to a maximum of 200% of the target number of PSUs granted to the participant, based on our total shareholder return ("TSR") relative to a designated peer group, generally at the end of a three year period. In addition to the TSR conditions, vesting of the PSUs is generally subject to the recipient's continued employment through the end of the applicable performance period. Compensation expense is recorded ratably over the corresponding requisite service period. The grant date fair value of PSUs is determined using a Monte Carlo probability model. Grant recipients do not have any shareholder rights until performance relative to the peer group has been determined following the completion of the performance period and shares have been issued.

In connection with a former officer's separation agreement, on March 31, 2022, the Company modified the PSUs previously granted to such former officer in 2020 and 2021 to provide for deemed satisfaction of the service requirement applicable to such PSUs as of March 31, 2022, 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 \$3.7 million during the nine months ended September 30, 2022.

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Note 7 - Stock-Based Compensation (Continued)

The following table summarizes information about PSUs activity during the nine months ended September 30, 2022 (in thousands, except for weighted average fair value):

Period Granted	Target Shares Outstanding at January 1, 2022	Target Shares Granted	Target Shares Vested	Target Shares Forfeited	Target Shares Outstanding at September 30, 2022
2019	126	—	(126)	—	—
2020	809	—	—	—	809
2021	651	—	—	(18)	632
2022	—	328	—	(12)	316
Total	1,586	328	(126)	(30)	1,757
Weighted Average FV Per Share	\$ 12.48	\$ 19.99	\$ 27.49	\$ 17.19	\$ 12.72

The total stock-based compensation expense for the nine months ended September 30, 2022 and 2021 for all stock awards was \$ 18.1 million and \$8.4 million, respectively. The total unrecognized stock-based compensation expense as of September 30, 2022 was approximately \$18.7 million, and is expected to be recognized over a weighted average period of approximately 1.8 years.

Note 8 - Related-Party Transactions

Operations and Maintenance Yards

The Company rents five yards from an entity, in which a director of the Company has an equity interest and the total annual rent expense for each of the five yards was approximately \$0.03 million, \$0.03 million, \$0.1 million, \$0.1 million, and \$0.2 million, respectively.

Pioneer

On December 31, 2018, we consummated the purchase of certain pressure pumping assets and real property from Pioneer Natural Resources USA, Inc. ("Pioneer") and Pioneer Pumping Services (the "Pioneer Pressure Pumping Acquisition"). 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. On March 31, 2022, we entered into an amended and restated pressure pumping services agreement (the "A&R Pressure Pumping Services Agreement"), which was initially entered into in connection with the Pioneer Pressure Pumping Acquisition. The A&R Pressure Pumping Services Agreement was effective January 1, 2022 and continues through December 31, 2022. The A&R Pressure Pumping Services Agreement reduced the number of contracted fleets to six fleets from eight fleets, modified the pressure pumping scope of work and pricing mechanism for contracted fleets, and replaced the idle fees arrangement with equipment reservation fees (the "Reservation fees"). As part of the Reservation fees arrangement, the Company will be entitled to receive compensation for all eligible contracted fleets that are made available to Pioneer at the beginning of every quarter in 2022 through the term of the A&R Pressure Pumping Services Agreement. On October 31, 2022, we entered into two pressure pumping services agreements (the "Fleet One Agreement" and "Fleet Two Agreement") with Pioneer, where we will provide hydraulic fracturing services with two committed fleets, subject to certain termination and release rights. The Fleet One Agreement will be effective as of January 1, 2023 and will terminate on August 31, 2023. The Fleet Two Agreement will be effective as of January 1, 2023 and will terminate on the one year anniversary of the date on which the fleet dedicated thereunder is able to provide the required services, which is currently expected to be on or before May 1, 2023. Pioneer may elect to extend the term of the Fleet Two Agreement for an additional one year term.

Revenue from services provided to Pioneer (including idle fees and Reservation fees) accounted for approximately \$100.2 million and \$147.3 million of our total revenue during the three months ended September 30, 2022 and 2021, respectively. Revenue from services provided to Pioneer (including idle fees and Reservation fees) accounted for approximately \$338.9 million and \$364.3 million of our total revenue during the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022, the total accounts receivable due from Pioneer, including estimated unbilled receivable for services we provided, amounted to approximately \$53.5 million and the amount due to Pioneer was \$ 0. As of December 31, 2021, the balance due from Pioneer for services we provided amounted to approximately \$62.1 million and the amount due to Pioneer was \$0.

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Note 9 - Leases

Operating Leases

Description of Lease

In March 2013, we entered into a ten year real estate lease contract (the "Real Estate Lease") with a commencement date of April 1, 2013, as part of the expansion of our equipment yard. During the nine months ended September 30, 2022 and 2021, the Company made lease payments of approximately \$0.3 million and \$0.3 million, respectively. The assets and liabilities under this contract are allocated between our operating segments. In addition to the contractual lease period, the contract includes an optional renewal of up to ten years, and in management's judgment the exercise of the renewal option is not reasonably assured. The contract does not include a residual value guarantee, covenants or financial restrictions. Further, the Real Estate Lease does not contain variability in payments resulting from either an index change or rate change.

We accounted for our Real Estate Lease as an operating lease. This conclusion resulted from the existence of the right to control the use of the assets throughout the lease term. We did not account for the land separately from the building of the Real Estate Lease because we concluded that the accounting effect was insignificant. As of September 30, 2022, the weighted average discount rate and remaining lease term was approximately 6.7% and 0.5 years, respectively.

As part of our expansion of our hydraulic fracturing equipment maintenance program, we entered into a two year maintenance facility real estate lease contract (the "Maintenance Facility Lease") with a commencement date of March 14, 2022. During the nine months ended September 30, 2022, the Company made lease payments of approximately \$0.2 million. In addition to the contractual lease period, the contract includes an optional renewal for three additional periods of one year each, 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 Maintenance Facility Lease does not contain variability in payments resulting from either an index change or rate change.

We accounted for our Maintenance Facility Lease as 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 Maintenance Facility Lease because we concluded that the accounting effect was insignificant. As of September 30, 2022, the weighted average discount rate and remaining lease term was approximately 3.4% and 1.4 years, respectively.

In August 2022, we entered into a three year equipment lease (the "Electric Fleet Lease") for two fleets with 60,000 hydraulic horsepower ("HHP") per fleet. The lease has not yet commenced. We currently do not control the assets under the Electric Fleet Lease because they are currently being manufactured by the vendor and we have not taken possession of the assets. The manufacturing and delivery of the electric fleets is estimated to take up to ten months from the lease execution date. Given that the Company has not yet taken possession of the assets under the Electric Fleet Lease, the Company has not accounted for the right of use and lease obligation in its balance sheet as of September 30, 2022.

As of September 30, 2022, the total operating lease right-of-use asset cost was approximately \$1.9 million, and accumulated amortization was approximately \$1.3 million. As of December 31, 2021, our total operating lease right-of-use asset cost was approximately \$1.2 million, and accumulated amortization was approximately \$0.8 million. For the nine months ended September 30, 2022 and 2021, we recorded operating lease cost of approximately \$0.4 million and \$0.3 million, respectively, in our statement of operations.

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Note 9 - Leases (Continued)

Maturity Analysis of Lease Liabilities

The maturity analysis of liabilities and reconciliation to undiscounted and discounted remaining future lease payments for our operating lease as of September 30, 2022 are as follows:

(\$ in thousands)	Totals
2022	\$ 181
2023	398
2024	50
Total undiscounted future lease payments	629
Less: amount representing interest	(15)
Present value of future lease payments (lease obligation)	<u>\$ 614</u>

The total cash paid for amounts included in the measurement of our operating lease liability during the nine months ended September 30, 2022 was approximately \$0.5 million. The non-cash lease obligation we recorded upon execution of the Maintenance Facility Lease was approximately \$ 0.6 million. During the nine months ended September 30, 2021, total cash paid for amounts included in the measurement of our operating lease liability was approximately \$0.3 million.

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 lease") from our balance sheet and continue to record short-term leases as a period expense. For the nine months ended September 30, 2022 and 2021 our short-term lease expense was approximately \$0.6 million and \$0.4 million, respectively.

Note 10 - Commitments and Contingencies

Commitments

We entered into certain commitments for fixed assets, consumables and services incidental to the ordinary conduct of our business, generally for quantities required for our operations and at competitive market prices. These commitments are designed to assure sources of supply and are not expected to be in excess of normal requirements. At September 30, 2022, the total remaining lease commitments for all of our short-term leases and lodging commitments was approximately \$1.9 million. In August 2022, we entered into a contractual arrangement with our equipment manufacturer to purchase and convert additional Tier IV DGB equipment, with total cost of approximately \$43.0 million. The Company also entered into the Electric Fleet Leases to lease electric hydraulic fracturing pumps with capacity of 60,000 HHP per fleet, which contains options to extend the lease or purchase the equipment at the end of the lease. The lease payments are expected to commence when the Company takes possession of the electric hydraulic fracturing pumps during the second half of 2023. The total estimated contractual commitment in connection with the Electric Fleet Lease arrangement is approximately \$49.3 million, which includes the cost associated with the option to purchase the equipment at the end of the lease.

The Company enters into purchase agreements with its sand suppliers (the "Sand Suppliers") to secure supply of sand as part of its normal course of business. The agreements with the Sand Suppliers require that the Company purchase a minimum volume of sand, based primarily on a certain percentage of our sand requirements from our customers or in certain situations based on predetermined fixed minimum volumes, otherwise certain penalties ("shortfall fees") may be charged. 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 agreements with the Sand Suppliers expire at different times prior to December 31, 2025. Our sand agreement with one of our Sand Suppliers has a one year take or pay commitment of \$23.0 million that will expire on June 12, 2023. During the nine months ended September 30, 2022 and 2021, no shortfall fee was recorded. However, one of our Sand Suppliers previously filed a suit against us that includes claims related to alleged shortfall fees. On September 21, 2022, the Company agreed to a settlement of the claims in the suit with this Sand Supplier and paid the settlement amount on September 30, 2022. The suit was dismissed in connection with the settlement.

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

Note 10 - Commitments and Contingencies (Continued)

As of September 30, 2022, the Company had issued letters of credit of approximately \$ 5.0 million under the revolving credit facility in connection with the Company's casualty insurance policy.

Contingent Liabilities

Legal Matters

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, a third amended class action complaint was filed in the Logan Lawsuit by Lead Plaintiffs Nykredit Portefølje Administration A/S, Oklahoma Firefighters Pension and Retirement System, Oklahoma Law Enforcement Retirement System, Oklahoma Police Pension and Retirement System, and Oklahoma City Employee Retirement System, and additional named plaintiff Police and Fire Retirement System of the City of Detroit. Plaintiffs sued 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 or purchased the Company's common stock pursuant to the Company's initial public offering in March 2017. Plaintiffs alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act of 1933 against the Company, certain former officers and current and former directors, alleging that the defendants made allegedly inaccurate or misleading statements or omissions about the Company's business, operations and prospects. On September 13, 2021, the Court partially granted and partially denied motions to dismiss filed by the Company and the individual defendants.

On August 11, 2022, the Company agreed to a proposed settlement of the claims in the Logan Lawsuit, which the court has preliminarily approved. Under the proposed settlement agreement, the Company's insurers have paid a cash sum into a settlement fund to be distributed to members of the putative class.

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 their complaint but, in addition to attorneys' fees and costs, they sought 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. On September 15, 2021, the Court granted the Company's motion to dismiss the complaint in its entirety, without prejudice.

On November 19, 2021, the Company received a demand letter from a law firm representing one of the purported shareholders that previously filed the dismissed Shareholder Derivative Lawsuit. The demand letter alleged facts and claims substantially similar to the Shareholder Derivative Lawsuit. The Company's board of directors (the "Board") constituted a committee to evaluate the demand letter and recommend a course of action to the Board, and the committee retained counsel to assist with its review. The committee concluded its investigation and recommended that the Board reject the demand letter. In October 2022, the Board accepted the committee's recommendation and rejected the demand letter.

The Company incurred legal settlements totaling \$34.1 million during the three months ended September 30, 2022, consisting of the Logan Lawsuit and other settlements. The Logan Lawsuit settlement of \$30.0 million was fully covered by insurance and was subsequently paid by the insurance company in October 2022. As of September 30, 2022 we recorded a receivable for the insurance recovery in connection with the Logan Lawsuit within other current assets and a liability due to plaintiffs in accrued and other current liabilities in our condensed consolidated balance sheet.

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

Note 10 - Commitments and Contingencies (Continued)

Environmental and Equipment Insurance

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.

The Company is self-insured up to \$ 10 million per occurrence for certain losses arising from or attributable to fire and/or explosion at the wellsites. No accrual was recorded in our financial statements in connection with this self-insurance strategy.

Regulatory Audits

In 2020, the Texas Comptroller of Public Accounts (the "Comptroller") 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 September 30, 2022, the audit is still ongoing and the final outcome cannot be reasonably estimated.

In January 2022, we entered into a settlement agreement with the Comptroller for a \$ 10.7 million tax refund, net of consulting fees, in connection with certain limited sales, excise and use tax for the audit period July 1, 2015 through December 31, 2018. The net refund to the Company of \$10.7 million was recorded as part of other income in our statement of operations during the nine months ended September 30, 2022. During the nine months ended September 30, 2021, we recorded a net refund of approximately \$2.1 million.

In May 2022, the Company received a notification from the Comptroller that it will commence a routine audit of the Company's gross receipt taxes, which will routinely cover up to a four-year period. As of September 30, 2022, the audit is yet to commence, and as such, the final outcome cannot be reasonably estimated.

Note 11 - Subsequent Event

On November 1, 2022, we entered into a purchase and sale agreement with New Silvertip Holdco, LLC, to purchase 100% of equity interest of Silvertip Completion Services Operating, LLC (the "Silvertip Acquisition"). Under the terms of the purchase agreement, we acquired, subject to exceptions in the Silvertip Acquisition, 100% of Silvertip Completion Services Operating, LLC equity interest for a consideration of both cash and shares of our Company. The total consideration paid consisted of 10.1 million shares of our Company, cash of \$ 30.0 million, and certain other closing and transaction costs.

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

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

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

Overview

We are a 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 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 largest providers of hydraulic fracturing services in the region by hydraulic horsepower ("HHP").

Our total available HHP as of September 30, 2022, was 1,315,000 HHP, which was comprised of 215,000 HHP of our Tier IV Dynamic Gas Blending ("DGB") equipment and 1,100,000 HHP of conventional Tier II equipment. Our fleet could range from approximately 50,000 to 80,000 HHP depending on the job design and customer demand at the wellsite. With the industry transition to lower emissions equipment and simultaneous hydraulic fracturing ("Simul-Frac"), in addition to several other changes to our customers' job designs, we believe that our available capacity could decline if we decide to reconfigure our fleets to increase active HHP and backup HHP at the wellsites. In addition, in September 2021 and August 2022, we committed to additional conversions of our Tier II equipment to Tier IV DGB, and purchase of new Tier IV DGB equipment. As such, we entered into a conversion and purchase arrangements with our equipment manufacturers for a total of 187,500 HHP of Tier IV DGB equipment and as of September 30, 2022, we have received 125,000 HHP of the converted Tier IV DGB equipment and expect to receive the remaining 62,500 HHP at different times through the second half of 2022. In August 2022, we entered into a three year Electric Fleet Lease for two fleets with 60,000 HHP per fleet. This lease has not yet commenced.

In 2019, we entered into a purchase commitment for *DuraStim*® electric powered hydraulic fracturing equipment. During the second quarter 2022, we determined that certain *DuraStim*® equipment was impaired and recorded approximately \$57.5 million of impairment expense in our pressure pumping reportable segment.

On December 31, 2018, we consummated the purchase of certain pressure pumping assets and real property from Pioneer Natural Resources USA, Inc. ("Pioneer") and Pioneer Pumping Services (the "Pioneer Pressure Pumping Acquisition"). 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. On March 31, 2022, we entered into an amended and restated pressure pumping services agreement (the "A&R Pressure Pumping Services Agreement"), which was initially entered into in connection with the Pioneer Pressure Pumping Acquisition. The A&R Pressure Pumping Services Agreement was effective January 1, 2022 and continues through December 31, 2022. The A&R Pressure Pumping Services Agreement reduced the number of contracted fleets to six fleets from eight fleets, modified the pressure pumping scope of work and pricing mechanism for contracted fleets, and replaced the idle fees arrangement with equipment reservation fees (the "Reservation fees"). As part of the Reservation fees arrangement, the Company will be entitled to receive compensation for all eligible contracted fleets that are made available to Pioneer at the beginning of every quarter in 2022 through the term of the A&R Pressure Pumping Services Agreement.

Our competitors include many large and small oilfield services companies, including Halliburton Company, Liberty Energy Inc., ProFrac Holding Corp., Nextier Oilfield Solutions Inc., Patterson-UTL Energy Inc., RPC, Inc., and a number of private and locally-oriented businesses. 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 an E&P company's 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. The transition to lower emissions equipment has been challenging for companies in the service industry because of the significant capital investment required for next generation equipment and the current pricing environment with the service industry, which remains in recovery phase. 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, reliability, ability to manage multifaceted logistics challenges, commitment to safety and the ability of our people to handle the most complex Permian Basin well completions.

Our substantial market presence in the Permian Basin positions us well to capitalize on drilling and completion activity in the region. Primarily, our operational focus has been in the Permian Basin's Midland sub-basin, where our customers have

operated. However, we have recently increased our operations in the Delaware sub-basin and are well-positioned to support further increases to our activity in this area in response to demand from our customers. Over time, we expect the Permian Basin's Midland and Delaware sub-basins to continue to command a disproportionate share of future North American E&P spending.

Through our pressure pumping segment (which also includes our cementing operations), we primarily provide hydraulic fracturing services to E&P companies in the Permian Basin. Our hydraulic fracturing fleet has been designed to handle the operating conditions commonly experienced in the Permian Basin and the region's increasingly high-intensity well completions (including Simul-Frac, which involves fracturing multiple wellbores at the same time), which are characterized by longer horizontal wellbores, more stages per lateral and increasing amounts of proppant per well.

Effective September 1, 2022, we disposed of our coiled tubing assets to a subsidiary of STEP and shut down our coiled tubing operations. We received cash of approximately \$2.8 million and 2,616,460 common shares of STEP valued at \$11.9 million as consideration. Upon the sale of our coiled tubing assets, we recorded a loss on sale of \$13.8 million.

Commodity Price and Other Economic Conditions

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

In February 2022, Russia launched a large-scale invasion of Ukraine that has led to significant armed hostilities. As a result, the United States, the United Kingdom, the member states of the European Union and other public and private actors have levied severe sanctions on Russian financial institutions, businesses and individuals. This conflict, and the resulting sanctions, has contributed to significant increases and volatility in the prices for oil and natural gas. The geopolitical and macroeconomic consequences of this invasion and associated sanctions remain uncertain, and such events, or any further hostilities in Ukraine or elsewhere, could severely impact the world economy and the oil and gas industry and may adversely affect our financial condition.

The global public health crisis associated with the COVID-19 pandemic also has had an adverse effect on global economic activity and the oil and gas industry. Some of the challenges resulting from the COVID-19 pandemic that have impacted our business include restrictions on movement of personnel and associated gatherings, shortage of skilled labor, cost inflation and supply chain disruptions. In light of the COVID-19 pandemic, most companies, including our customers in the Permian Basin, reacted by closely managing their operating budget and exercising capital discipline. In addition, OPEC+ has indicated that they will continue with their plans to manage production levels, including a recent announcement to reduce production levels by 2 million barrels per day.

The Russia-Ukraine war, and the adverse impacts of the COVID-19 pandemic in recent years, including inflation, have resulted in volatility in supply and demand dynamics for crude oil and associated volatility in crude oil pricing. In 2022, global average crude oil prices have exceeded \$98 per barrel, which is the highest prices have been in the last ten years. We believe that the recent surge in global crude oil prices is partly due to the lack of reinvestment in the oil and gas industry in the last two years, and increased demand for oil and gas products, coupled with adverse impact of the Russia-Ukraine war, which has led to various sanctions in Russian crude oil supply and businesses. With the significant increase in global crude oil prices, including WTI crude oil prices, there has been an increase in the Permian Basin rig count from approximately 179 at the beginning of 2021 to approximately 344 at the end of September 2022, according to Baker Hughes. Following the increase in rig count and WTI crude oil price, the oilfield service industry has experienced increased demand for its pressure pumping services, and improved pricing. As a result of the growing demand for pressure pumping services and significant cost inflation across the industry, we negotiated pricing increases with certain of our customers for our pressure pumping services, depending on job design. Although we are currently operating in an improved pricing environment, the rapid increase in cost inflation and supply chain tightness could adversely impact our future profitability, if we are unable to timely pass-through the cost increases to our customers.

Government regulations and investors are demanding the oil and gas industry transition to a lower emissions operating environment, including the upstream and oilfield service companies. As a result, we are working with our customers and equipment manufacturers to transition to a lower emissions profile. Currently, a number of lower emission solutions for pumping equipment, including Tier IV DGB, electric, direct drive gas turbine and other technologies have been developed, and we expect additional lower emission solutions will be developed in the future. We are continually evaluating these technologies

and other investment and acquisition opportunities that would support our existing and new customer relationships. The transition to lower emissions equipment is quickly evolving and will be capital intensive. Over time, we may be required to convert substantially all of our conventional Tier II equipment to lower emissions equipment. If we are unable to quickly transition to lower emissions equipment and meet our and our customers' emissions goals, the demand for our services could be adversely impacted.

The Permian Basin rig count increase, demand for oil and gas products, WTI crude oil price increase and costs inflation could be indicative of an energy market recovery. If the rig count and market conditions continue to improve, including improved customers' pricing and labor availability, and we are able to meet our customers' lower emissions equipment demands, we believe our operational and financial results will also continue to improve. However, if market conditions do not improve or decline in the future, and we are unable to increase our pricing or pass-through future cost increases to our customers, there could be a material adverse impact on our business, results of operations and cash flows.

Our results of operations have historically reflected seasonal tendencies, typically in the fourth quarter, relating to the holiday season, inclement winter weather and exhaustion of our customers' annual budgets. As a result, we typically experience declines in our operating and financial results in November and December, even in a stable commodity price and operations environment.

How We Evaluate Our Operations

Our management uses 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, insurance recoveries, one-time professional fees and legal settlements. Adjusted EBITDA margin reflects our Adjusted EBITDA as a percentage of our revenues.

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

Note Regarding Non-GAAP Financial Measures

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

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

	Three Months Ended September 30, 2022		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 46,805	\$ (36,773)	\$ 10,032
Depreciation and amortization	29,736	681	30,417
Interest expense	—	237	237
Income tax expense	—	2,768	2,768
Loss (gain) on disposal of assets	22,850	13,786	36,636
Stock-based compensation	—	3,306	3,306
Other (income) expense ⁽³⁾	(2,668)	3,284	616
Other general and administrative expense ⁽¹⁾	4,775	145	4,920
Severance expense	1,052	16	1,068
Adjusted EBITDA	\$ 102,550	\$ (12,550)	\$ 90,000

	Three Months Ended September 30, 2021		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 9,058	\$ (14,125)	\$ (5,067)
Depreciation and amortization	32,536	995	33,531
Interest expense	—	143	143
Income tax benefit	—	(1,279)	(1,279)
Loss on disposal of assets	12,381	43	12,424
Stock-based compensation	—	3,009	3,009
Other expense	—	309	309
Other general and administrative expense, (net) ⁽¹⁾	—	(972)	(972)
Adjusted EBITDA	\$ 53,975	\$ (11,877)	\$ 42,098

	Nine Months Ended September 30, 2022		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ 51,782	\$ (62,794)	\$ (11,012)
Depreciation and amortization	91,194	2,540	93,734
Impairment expense	57,454	—	57,454
Interest expense	—	1,040	1,040
Income tax benefit	—	(1,164)	(1,164)
Loss (gain) on disposal of assets	61,952	13,288	75,240
Stock-based compensation	—	18,128	18,128
Other income ⁽²⁾⁽³⁾	(2,668)	(7,081)	(9,749)
Other general and administrative expense ⁽¹⁾	5,060	2,651	7,711
Severance expense	1,061	37	1,098
Adjusted EBITDA	\$ 265,835	\$ (33,355)	\$ 232,480

	Nine Months Ended September 30, 2021		
	Pressure Pumping	All Other	Total
Net income (loss)	\$ (5,426)	\$ (28,527)	\$ (33,953)
Depreciation and amortization	97,307	2,946	100,253
Interest expense	—	477	477
Income tax benefit	—	(11,639)	(11,639)
Loss (gain) on disposal of assets	40,792	(292)	40,500
Stock-based compensation	—	8,405	8,405
Other income	—	(1,178)	(1,178)
Other general and administrative expense, (net) ⁽¹⁾	—	(5,670)	(5,670)
Severance expense	—	612	612
Adjusted EBITDA	\$ 132,673	\$ (34,866)	\$ 97,807

(1) Other general and administrative expense, (net of reimbursement from insurance carriers) primarily relates to nonrecurring professional fees paid to external consultants in connection with our audit committee review, SEC investigation, shareholder litigation, legal settlement to a vendor and other legal matters, net of insurance recoveries. During the three and nine months ended September 30, 2022, we received reimbursement of approximately \$3.4 million and \$6.9 million, respectively, from our insurance carriers in connection with the SEC investigation and shareholder litigation. During the three and nine months ended September 30, 2021, we received reimbursement of approximately \$1.4 million and \$8.1 million, respectively.

(2) Includes \$10.7 million of net tax refund (net of advisory fees) received from the Texas Comptroller of Public Accounts in connection with limited sales, excise and use tax beginning July 1, 2015 through December 31, 2018.

(3) Includes \$2.7 million non cash income from fixed asset inventory received as part of a settlement of warranty claims with an equipment manufacturer and a \$3.3 million unrealized loss on short-term investment.

Results of Operations

We conducted our business through three operating segments: hydraulic fracturing, cementing and coiled tubing. For reporting purposes, the hydraulic fracturing and cementing operating segments are aggregated into our one reportable segment—pressure pumping. However, we disposed of our coiled tubing assets and shut down our coiled tubing operating segment effective September 1, 2022. The coiled tubing operating segment and corporate administrative expenses (inclusive of our total income tax expense (benefit), other (income) and expense and interest expense) are included in the "all other" category. Total corporate administrative expense for the three and nine months ended September 30, 2022 was \$20.4 million and \$45.4 million, respectively. Total corporate administrative expense for the three and nine months ended September 30, 2021 was \$13.5 million and \$25.1 million, respectively.

Our hydraulic fracturing operating segment revenue approximated 91.7% and 92.7% of our pressure pumping revenue during the three and nine months ended September 30, 2022, respectively. During the three and nine months ended September 30, 2021, our hydraulic fracturing operating segment revenue approximated 93.4% and 93.5% of our pressure pumping revenue, respectively.

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

(in thousands, except for percentages)

	Three Months Ended September 30,		Change	
	2022	2021	Increase (Decrease)	
	\$	\$	\$	%
Revenue	\$ 333,014	\$ 250,099	\$ 82,915	33.2 %
Less (Add):				
Cost of services ⁽¹⁾	224,118	188,690	35,428	18.8 %
General and administrative expense ⁽²⁾	28,190	21,348	6,842	32.0 %
Depreciation and amortization	30,417	33,531	(3,114)	(9.3)%
Loss on disposal of assets	36,636	12,424	24,212	194.9 %
Interest expense	237	143	94	65.7 %
Other expense	616	309	307	99.4 %
Income tax expense (benefit)	2,768	(1,279)	4,047	316.4 %
Net income (loss)	\$ 10,032	\$ (5,067)	\$ 15,099	298.0 %
Adjusted EBITDA ⁽³⁾	\$ 90,000	\$ 42,098	\$ 47,902	113.8 %
Adjusted EBITDA Margin ⁽³⁾	27.0 %	16.8 %	10.2 %	60.7 %

Pressure pumping segment results of operations:

Revenue	\$ 330,780	\$ 245,641	\$ 85,139	34.7 %
Cost of services	\$ 220,299	\$ 184,972	\$ 35,327	19.1 %
Adjusted EBITDA ⁽³⁾	\$ 102,550	\$ 53,975	\$ 48,575	90.0 %
Adjusted EBITDA Margin ⁽⁴⁾	31.0 %	22.0 %	9.0 %	40.9 %

(1) Exclusive of depreciation and amortization.

(2) Inclusive of stock-based compensation.

(3) For definitions of the non-GAAP financial measures of Adjusted EBITDA and Adjusted EBITDA margin and reconciliation of Adjusted EBITDA to our most directly comparable financial measures calculated in accordance with GAAP, please read "How We Evaluate Our Operations". Included in our Adjusted EBITDA is reservation and idle fees of \$6.8 million and \$0 for the three months ended September 30, 2022 and 2021, 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 revenue for the pressure pumping segment.

Three Months Ended September 30, 2022 Compared to the Three Months Ended September 30, 2021

Revenues. Revenues increased 33.2%, or \$82.9 million, to \$333.0 million during the three months ended September 30, 2022, as compared to \$250.1 million during the three months ended September 30, 2021. Our pressure pumping segment revenues increased 34.7%, or \$85.1 million, for the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. The increases were primarily attributable to the significant increase in our existing and new customers' activity levels, resulting in higher demand for pressure pumping services and improved pricing. As a result of our customers' increased activity levels, our effectively utilized fleet count rose to approximately 14.8 active fleets during the three months ended September 30, 2022, from approximately 13.8 active fleets for the three months ended September 30, 2021. Included in our revenue for the three months ended September 30, 2022 and 2021 was revenue generated from reservation and idle fees charged to our customer of approximately \$6.8 million and \$0, respectively.

Revenues from services other than pressure pumping decreased 49.9%, or \$2.2 million, to \$2.2 million for the three months ended September 30, 2022, as compared to \$4.5 million for the three months ended September 30, 2021. The decrease in revenue from services other than pressure pumping was primarily attributable to the closure of our coiled tubing operations effective September 1, 2022.

Cost of Services. Cost of services increased 18.8%, or \$35.4 million, to \$224.1 million for the three months ended September 30, 2022, as compared to \$188.7 million during the three months ended September 30, 2021. Cost of services in our pressure pumping segment increased \$35.3 million for the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. These increases were primarily attributable to the significantly increased activity levels resulting from the increased demand for our services and the impact of general cost inflation. As a percentage of pressure pumping segment revenues (including reservation and idle fees), pressure pumping cost of services was 66.6% for the three months ended September 30, 2022, as compared to 75.3% for the three months ended September 30, 2021. Excluding reservation and idle fees revenue of \$6.8 million and \$0 recorded during the three months ended September 30, 2022 and 2021, respectively, our pressure pumping cost of services as a percentage of pressure pumping revenues decreased to 68.0% during the three months ended September 30, 2022, as compared to 75.3% for the three months ended September 30, 2021. The decrease in the percentages was a result of increased operational efficiencies and improved pricing across our customer base.

General and Administrative Expenses. General and administrative expenses increased 32.0%, or \$6.8 million, to \$28.2 million for the three months ended September 30, 2022, as compared to \$21.3 million for the three months ended September 30, 2021. The net increase was primarily attributable to an increase during 2022 in (i) non-recurring legal fees and settlement expenses, incurred in connection with a settlement with a vendor, of approximately \$5.3 million, (ii) consulting and professional fees of approximately \$2.2 million, (iii) non-recurring severance expense incurred in connection with the terms of the separation agreement of a former employee of approximately \$1.1 million and (iv) property taxes of approximately \$0.8 million, which was partially offset by (v) a decrease in payroll expenses of \$2.5 million and (vi) a net decrease of approximately \$0.1 million in other general administrative expenses.

Depreciation and Amortization. Depreciation and amortization decreased 9.3%, or \$3.1 million, to \$30.4 million for the three months ended September 30, 2022, as compared to \$33.5 million for the three months ended September 30, 2021. The decrease was primarily attributable to the decrease in our fixed asset base, partly attributable to the disposal of certain fixed assets during the period.

Loss on Disposal of Assets. Loss on the disposal of assets increased 194.9%, or \$24.2 million, to \$36.6 million for the three months ended September 30, 2022, as compared to \$12.4 million for the three months ended September 30, 2021. The increase was primarily attributable to the divestiture of our coiled tubing operations and the significant increase in our utilization levels, resulting in an increase in the operational intensity on our pressure pumping equipment. Upon sale or retirement of property and equipment, including replaced fluid and power ends, the cost and related accumulated depreciation of such assets or components are removed from the balance sheet and the net amount is recognized as loss on disposal of assets.

Interest Expense. There was no significant change in interest expense. Interest expense slightly increased to approximately \$0.2 million for the three months ended September 30, 2022, as compared to \$0.1 million for the three months ended September 30, 2021.

Other Expense (Income). There was no significant change in other expense (income). Other expense was approximately \$0.6 million for the three months ended September 30, 2022, as compared to other expense of \$0.3 million for the three months ended September 30, 2021. However, included in our other expense (income) during the three months ended September 30, 2022 are \$2.7 million of non-cash income from equipment parts inventory received from our equipment manufacturer as settlement of our warranty claims, partially offset by a \$3.3 million unrealized loss on short-term investment and other expense relating to our lender's commitment fees.

Income Taxes. For the three months ended September 30, 2022, the Company has utilized the discrete effective tax rate method as allowed by Accounting Standards Codification ("ASC") 740-270-30-18, *Income Taxes - Interim Reporting* to calculate its interim tax provision. The discrete method treats the year-to-date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the annual effective tax rate is not reliable because small changes in estimated "ordinary" income would result in significant changes in the estimated annual effective tax rate. Total income tax benefit was \$2.8 million resulting in an effective tax rate of 21.6% for the three months ended September 30, 2022, as compared to income tax benefit of \$1.3 million or an effective tax rate of 20.1% for the three months ended September 30, 2021. The change in income tax benefit recorded during the three months ended September 30, 2022, compared to the three months ended September 30, 2021, is primarily attributable to the difference in the estimated pre-tax loss in 2022, as compared to 2021.

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

(in thousands, except for percentages)

	Nine Months Ended September 30,		Change Increase (Decrease)	
	2022	2021	\$	%
Revenue	\$ 930,776	\$ 628,444	\$ 302,332	48.1 %
Less (Add):				
Cost of services ⁽¹⁾	640,202	474,905	165,297	34.8 %
General and administrative expense ⁽²⁾	85,031	59,079	25,952	43.9 %
Depreciation and amortization	93,734	100,253	(6,519)	(6.5)%
Impairment expense	57,454	—	57,454	100.0 %
Loss on disposal of assets	75,240	40,500	34,740	85.8 %
Interest expense	1,040	477	563	118.0 %
Other income	(9,749)	(1,178)	8,571	727.6 %
Income tax benefit	(1,164)	(11,639)	(10,475)	(90.0)%
Net loss	\$ (11,012)	\$ (33,953)	\$ (22,941)	(67.6)%
Adjusted EBITDA ⁽³⁾	\$ 232,480	\$ 97,807	\$ 134,673	137.7 %
Adjusted EBITDA Margin ⁽³⁾	25.0 %	15.6 %	9.4 %	60.3 %
Pressure pumping segment results of operations:				
Revenue	\$ 917,336	\$ 617,293	\$ 300,043	48.6 %
Cost of services	\$ 626,554	\$ 464,230	\$ 162,324	35.0 %
Adjusted EBITDA ⁽³⁾	\$ 265,835	\$ 132,673	\$ 133,162	100.4 %
Adjusted EBITDA Margin ⁽⁴⁾	29.0 %	21.5 %	7.5 %	34.9 %

(1) Exclusive of depreciation and amortization.

(2) Inclusive of stock-based compensation.

(3) For definitions of the non-GAAP financial measures of Adjusted EBITDA and Adjusted EBITDA margin and reconciliation of Adjusted EBITDA to our most directly comparable financial measures calculated in accordance with GAAP, please read "How We Evaluate Our Operations". Included in our Adjusted EBITDA is reservation and idle fees of \$20.3 million and \$5.3 million for the nine months ended September 30, 2022 and 2021, 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 revenue for the pressure pumping segment.

Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021

Revenues. Revenues increased 48.1%, or \$302.3 million, to \$930.8 million during the nine months ended September 30, 2022, as compared to \$628.4 million during the nine months ended September 30, 2021. Our pressure pumping segment revenues increased 48.6%, or \$300.0 million, for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. The increases were primarily attributable to the significant increase in our existing and new customers' activity levels, resulting in higher demand for pressure pumping services and improved pricing. As a result of our customers' increased activity levels, our effectively utilized fleet count rose to approximately 14.4 active fleets during the nine months ended September 30, 2022, from approximately 12.4 active fleets for the nine months ended September 30, 2021. Included in our revenue for the nine months ended September 30, 2022 and 2021 was revenue generated from reservation and idle fees charged to our customer of approximately \$20.3 million and \$5.3 million, respectively.

Revenues from services other than pressure pumping increased 20.5%, or \$2.3 million, to \$13.4 million for the nine months ended September 30, 2022, as compared to \$11.2 million for the nine months ended September 30, 2021. The increase in revenue from services other than pressure pumping was primarily attributable to improved pricing and the increase in utilization experienced by our coiled tubing operations, which was driven by increased E&P completions activity.

Cost of Services. Cost of services increased 34.8%, or \$165.3 million, to \$640.2 million for the nine months ended September 30, 2022, as compared to \$474.9 million during the nine months ended September 30, 2021. Cost of services in our pressure pumping segment increased \$162.3 million for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. These increases were primarily attributable to the significantly increased activity levels and general cost inflation. As a percentage of pressure pumping segment revenues (including reservation and idle fees), pressure pumping cost of services was 68.3% for the nine months ended September 30, 2022, as compared to 75.2% for the nine months ended September 30, 2021. Excluding reservation and idle fees revenue of \$20.3 million and \$5.3 million recorded during the nine months ended September 30, 2022 and 2021, respectively, our pressure pumping cost of services as a percentage of pressure pumping revenues decreased to 69.8% during the nine months ended September 30, 2022, as compared to 75.9% for the nine months ended September 30, 2021. The decrease in the percentages was a result of increased operational efficiencies, reduction in operational downtime and improved pricing across our customer base.

General and Administrative Expenses. General and administrative expenses increased 43.9%, or \$26.0 million, to \$85.0 million for the nine months ended September 30, 2022, as compared to \$59.1 million for the nine months ended September 30, 2021. The net increase was primarily attributable to an increase during 2022 in (i) non-recurring legal expenses (net of insurance recoveries) increased by \$12.8 million, which were primarily in connection with shareholder litigation and settlement with a vendor, (ii) stock-based compensation expense of \$9.7 million, which was primarily attributable to the non-recurring incremental stock-based compensation associated with the acceleration of stock awards upon resignation of a former executive, and (iii) consulting and professional fees of approximately \$4.5 million, which was partially offset by a net decrease of approximately \$1.0 million in other general administrative expenses.

Depreciation and Amortization. Depreciation and amortization decreased 6.5%, or \$6.5 million, to \$93.7 million for the nine months ended September 30, 2022, as compared to \$100.3 million for the nine months ended September 30, 2021. The decrease was primarily attributable to the decrease in our fixed asset base, partly attributable to the disposal of certain fixed assets during the period.

Impairment Expense. During the nine months ended September 30, 2022, we recorded \$57.5 million in connection with the impairment of our *DuraStim*® assets. There was no impairment expense during the nine months ended September 30, 2021.

Loss on Disposal of Assets. Loss on the disposal of assets increased 85.8%, or \$34.7 million, to \$75.2 million for the nine months ended September 30, 2022, as compared to \$40.5 million for the nine months ended September 30, 2021. The increase was primarily attributable to the divestiture of our coiled tubing operations and the significant increase in our utilization levels, resulting in an increase in the operational intensity on our pressure pumping equipment. Upon sale or retirement of property and equipment, including replaced fluid and power ends, the cost and related accumulated depreciation of such assets or components are removed from the balance sheet and the net amount is recognized as loss on disposal of assets.

Interest Expense. There was no significant change in interest expense. Interest expense slightly increased to \$1.0 million for the nine months ended September 30, 2022, as compared to \$0.5 million for the nine months ended September 30, 2021. The increase was primarily attributable to the partial write down of unamortized capitalized loan origination cost in connection with the modification to our credit facility.

Other Income. Other income increased 727.6%, or \$8.6 million, to \$9.7 million for the nine months ended September 30, 2022, as compared to \$1.2 million for the nine months ended September 30, 2021. The increase was primarily attributable to the net

refund to the Company of \$10.7 million from sales, excise and use taxes, \$2.7 million of non-cash income from equipment parts inventory received from our equipment manufacturer as settlement of our warranty claims, partially offset by a \$3.3 million unrealized loss on short-term investment and other expense relating to our lender's commitment fees.

Income Taxes. For the nine months ended September 30, 2022, the Company has utilized the discrete effective tax rate method as allowed by ASC 740-270-30-18, *Income Taxes - Interim Reporting* to calculate its interim tax provision. The discrete method treats the year-to-date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the annual effective tax rate is not reliable because small changes in estimated "ordinary" income would result in significant changes in the estimated annual effective tax rate. Total income tax benefit was approximately \$1.2 million resulting in an effective tax rate of 9.6% for the nine months ended September 30, 2022, as compared to income tax benefit of \$11.6 million or an effective tax rate of 25.5% for the nine months ended September 30, 2021. The change in income tax benefit recorded during the nine months ended September 30, 2022, compared to that during the nine months ended September 30, 2021, is primarily attributable to the difference in the estimated pre-tax loss in 2022, as compared to 2021. Furthermore, the change in the effective tax rate of 9.6% from 25.5% was due to nondeductible expenses and discrete items such as stock compensation expense recorded during the nine months ended September 30, 2021.

Liquidity and Capital Resources

Our liquidity is currently provided by (i) existing cash balances, (ii) operating cash flows and (iii) borrowings under our ABL Credit Facility (as defined below). Our cash is primarily used to fund our operations, support growth opportunities and satisfy future debt payments, if any. Our Borrowing Base (as defined below), as redetermined monthly, is tied to 85.0% to 90% of eligible accounts receivable. Changes to our operational activity levels and our customers' credit ratings 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.

As of September 30, 2022, we had no borrowings under our ABL Credit Facility, and our total liquidity was approximately \$154.5 million, consisting of cash and cash equivalents of \$43.2 million and \$111.3 million of availability under our ABL Credit Facility.

As of October 31, 2022, our borrowing under our ABL Credit Facility was \$30.0 million and our total liquidity was approximately \$185.6 million, consisting of cash and cash equivalents of \$88.3 million and \$97.3 million of remaining availability under our ABL Credit Facility.

In 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, the Company experienced a significant decrease in its liquidity. However, with the gradual recovery in the energy industry and the reduced impact of the COVID-19 pandemic, we have seen improvements in the demand for our services and pricing, and our liquidity position gradually improved. However, we expect our overall liquidity to decline if we make additional or accelerate our capital investments. Moreover, the current market conditions may be impacted by increasing interest rates and potential economic slowdown or a new outbreak of a COVID-19 variant or other health crisis, which could negatively impact our future operations, revenue, profitability and cash flows.

The industry transition to lower emissions pressure pumping equipment could require us to make additional investment in DGB or electric solutions in order to continue to meet our current and future customers' equipment demand. If we are unable to timely reinvest in lower emissions equipment, the future demand for our pressure pumping services may be adversely impacted, which could negatively impact our future operations, revenue, profitability and cash flows.

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.

Our revolving credit facility, as amended in 2018, had a total borrowing capacity of \$300.0 million (subject to the borrowing base limit), with a maturity date of December 19, 2023. The revolving credit facility had a borrowing base of 85% of monthly eligible accounts receivable less customary reserves, as redetermined monthly. The revolving credit facility included a springing fixed charge coverage ratio to apply when excess availability was less than the greater of (i) 10% of the lesser of the facility size or the borrowing base or (ii) \$22.5 million. Borrowings under the revolving credit facility accrued interest based on a three-tier pricing grid tied to availability, and we had the option to elect for loans to be based on either LIBOR or base rate,

plus the applicable margin, which ranged 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.

Effective April 13, 2022, the Company entered into an amendment and restatement of its revolving credit facility (as amended and restated, "ABL Credit Facility"). The ABL Credit Facility decreased the borrowing capacity to \$150.0 million (subject to the Borrowing Base limit), with a maturity date extended to April 13, 2027. The ABL Credit Facility has a borrowing base of 85% to 90%, depending on the credit ratings of our accounts receivable counterparties, of monthly eligible accounts receivable less customary reserves (the "Borrowing Base"), as redetermined monthly. The Borrowing Base as of September 30, 2022, was approximately \$116.4 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) \$10.0 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 the Secured Overnight Financing Rate ("SOFR") or the base rate, plus the applicable margin, which ranges from 1.50% to 2.00% for SOFR loans and 0.50% to 1.00% for base rate loans.

The loan origination costs relating to the ABL Credit Facility are classified as an asset in our balance sheet. There were no borrowings under the revolving credit facility as of September 30, 2022, and December 31, 2021.

Future Sources and Use of Cash and Contractual Obligations

Capital expenditures incurred were \$115.1 million during the three months ended September 30, 2022, as compared to \$53.2 million during the three months ended September 30, 2021. The significant portion of our total capital expenditures incurred were comprised of primarily maintenance and DGB conversion capital expenditures.

Our future material use of cash will be to fund our capital expenditures. Capital expenditures for 2022 are projected to be primarily related to maintenance capital expenditures to support our existing pressure pumping assets, costs to convert some existing equipment to lower emissions pressure pumping equipment, strategic purchases and other ancillary equipment purchases, subject to market conditions and customer demand. Our future capital expenditures depend on our projected operational activity, emission requirements and planned conversions to lower emissions equipment, among other factors, which could vary significantly throughout the year. We could incur significant additional capital expenditures if our projected activity levels increase during the course of the year, inflation and supply chain tightness continue to adversely impact our operations or we invest in new or different lower emissions equipment. The Company will continue to evaluate the emissions profile of its fleet over the coming years and may, depending on market conditions, convert or retire additional 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 availability of equipment, including parts and major components, supply chain disruptions, 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.

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. In addition, our cash flows could be improved by prepayments received from certain customers in connection with our pressure pumping services contractual arrangements, as applicable.

In August 2022, we entered into a contractual arrangement with our equipment manufacturer to purchase and convert additional Tier IV DGB equipment, with total cost of approximately \$43.0 million. In August 2022, we entered into the Electric Fleet Lease to lease electric hydraulic fracturing pumps with capacity of 60,000 HHP per fleet, which contains options to extend the lease or purchase the equipment at the end of the lease. The lease payments are expected to commence when the Company takes possession of the electric hydraulic fracturing pumps during the second half of 2023. The total estimated contractual commitment in connection with the Electric Fleet Lease is approximately \$49.3 million, which includes the cost associated with the option to purchase the equipment at the end of the lease.

On November 1, 2022, we entered into a purchase and sale agreement with New Silvertip Holdco, LLC, to purchase 100% of equity interest of Silvertip Completion Services Operating, LLC (the "Silvertip Acquisition"). Under the terms of the purchase agreement, we acquired, subject to exceptions in the Silvertip Acquisition, 100% of Silvertip Completion Services Operating, LLC equity interest for a consideration of both cash and shares of our Company. The total consideration paid consisted of 10.1 million shares of our Company, cash of \$30.0 million, and certain other closing and transaction costs.

In the normal course of business, we enter into various contractual obligations and incur expenses in connection with routine growth, conversion and maintenance capital expenditures that impact our future liquidity. There were no other known future material contractual obligations as of September 30, 2022.

Cash and Cash Flows

The following table sets forth the historical cash flows for the nine months ended September 30, 2022, and 2021:

(in thousands)	Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities	\$ 174,951	\$ 109,259
Net cash used in investing activities	\$ (239,957)	\$ (85,549)
Net cash used in financing activities	\$ (3,704)	\$ (7,881)

Cash Flows From Operating Activities

Net cash provided by operating activities was \$175.0 million for the nine months ended September 30, 2022, compared to \$109.3 million for the nine months ended September 30, 2021. The net increase of approximately \$65.7 million was primarily due to the increase in our activity levels and improved pricing resulting from the increase in the demand for our services, driven by higher crude oil prices, net sales tax refund received, and partially offset with the timing of collections of our receivables from customers and payments to vendors.

Cash Flows From Investing Activities

Net cash used in investing activities increased to \$240.0 million for the nine months ended September 30, 2022, from \$85.5 million for the nine months ended September 30, 2021. The increase was primarily attributable to our investment in lower emissions Tier IV DGB equipment and increased cost to rebuild a portion of our Tier II equipment.

Cash Flows From Financing Activities

Net cash used in financing activities decreased to \$3.7 million for the nine months ended September 30, 2022, from \$7.9 million for the nine months ended September 30, 2021. The net decrease in cash used in financing activities during the nine months ended September 30, 2022, was primarily a result of the reduction in the amount of net settlement of equity awards and no repayments of insurance financing in 2022, compared to the nine months ended September 30, 2021.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2022.

Critical Accounting Policies and Estimates

There have been no material changes during the nine months ended September 30, 2022 to the methodology applied by our management for critical accounting policies previously disclosed in our Form 10-K. Please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Form 10-K for a discussion of our critical accounting policies and estimates.

Recently Issued Accounting Standards

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2022, there have been no material changes in market risk from the information provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" or "Quantitative and Qualitative Disclosures of Market Risk" in our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

See “Note 10 – Commitments and Contingencies” in the Notes to Condensed Consolidated Financial Statements for further information.

ITEM 1A. Risk Factors

Other than as set forth below, there have been no material changes to the risk factors disclosed in Part I, Item 1A. of our Form 10-K.

The Inflation Reduction Act of 2022 could accelerate the transition to a low carbon economy and could impose new costs on our customers’ operations.

In August 2022, President Biden signed the Inflation Reduction Act of 2021 (“IRA 2022”) into law. The IRA 2022 contains hundreds of billions in incentives for the development of renewable energy, clean hydrogen, clean fuels, electric vehicles and supporting infrastructure and carbon capture and sequestration, amongst other provisions. These incentives could further accelerate the transition of the economy away from the use of fossil fuels towards lower- or zero-carbon emissions alternatives, which could decrease demand for oil and gas and consequently adversely affect the business of our customers, thereby reducing demand for our services. In addition, the IRA 2022 imposes the first ever federal fee on the emission of greenhouse gases through a methane emissions charge. The IRA 2022 amends the federal Clean Air Act to impose a fee on the emission of methane from sources required to report their GHG emissions to the U.S. Environmental Protection Agency, including those sources in the onshore petroleum and natural gas production and gathering and boosting source categories. The methane emissions charge would start in calendar year 2024 at \$900 per ton of methane, increase to \$1,200 in 2025, and be set at \$1,500 for 2026 and each year after. Calculation of the fee is based on certain thresholds established in the IRA 2022. The methane emissions charge could increase our customers’ operating costs and adversely affect their businesses, thereby reducing demand for our services.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

3.1	Amended and Restated Certificate of Incorporation of ProPetro Holding Corp. dated as of June 19, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated June 19, 2019).
3.2	Amended and Restated Bylaws of ProPetro Holding Corp. (incorporated by reference to Exhibit 3.2 to the Company's 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 to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated April 14, 2020).
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act Rules, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
104*	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

SIGNATURES

Date: November 3, 2022

By: /s/ Samuel D. Sledge
Samuel D. Sledge
Chief Executive Officer and Director
(Principal Executive Officer)

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

By: /s/ Elo Omavuezi
Elo Omavuezi
Chief Accounting Officer
(Principal Accounting Officer)

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

I, Samuel D. Sledge, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2022

/s/ Samuel D. Sledge

Samuel D. Sledge
Chief Executive Officer
(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 Quarterly Report on Form 10-Q of ProPetro Holding Corp.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2022

/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 Quarterly Report on Form 10-Q of ProPetro Holding Corp. (the "Company"), for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Samuel D. Sledge, Chief Executive 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: November 3, 2022

/s/ Samuel D. Sledge
Samuel D. Sledge
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q of ProPetro Holding Corp. (the "Company"), for the period ended September 30, 2022, 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: November 3, 2022

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