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ProPetro Holding Corp (PUMP): Friends & Family First at this Permian Cesspool

There's an accountant in this town ... I take my taxes in. He hands me an envelope. I go to the elevator, open it up. It's \$5,000. When you see a man named Alan Douglas [ProPetro Audit Committee member and signatory on multiple undisclosed entities], don't make a big deal out of it. Alan Douglas was my answer to prayer ... Don't make a spectacle of that please, he's a very private guy. I was forever changed because of that check.

– ProPetro CEO Dale Redman, [March 21, 2017](#)

ProPetro Holding Corp (“ProPetro”, “PUMP”, “the Company”) is a Midland, Texas-based provider of hydraulic fracturing (“fracking”) and other services to upstream oil and gas producers. In August 2019, the Company announced that it would be unable to file its Q2 form 10-Q due to an internal probe of “expense reimbursements and certain transactions involving related parties or potential conflicts of interest.” On October 9, the Company announced, “substantial completion of fact finding for previously disclosed internal review,” including an “improved organizational structure.” ProPetro shares rallied +19.5% on the day, as investors mistakenly viewed this announcement as a sign that governance issues are contained and squarely in the Company’s past. **We believe otherwise: ProPetro’s internal review was a farce, and shares are ultimately worthless.**

ProPetro’s release touted an “improved organizational structure,” yet not a single member of the management team was terminated, and changes made appear to be largely in name only. Dale (Jackie) Redman remained CEO, Jeffrey Smith merely moved to a newly-created CAO role from his CFO role, father and son duo David and Sam Sledge kept their roles as COO and Director of Investor Relations, respectively, and finally Morgan Stovall, daughter of Jeffrey Smith, remained in her position as Corporate Controller. In an October 2018 [interview](#), Redman claimed ProPetro succeeds via two key principles: “First, taking care of your people. Second, taking care of your customers and their needs and exceeding expectations. As you do that, you’ll be successful.” We’ve found that at ProPetro, “taking care of your people” applies primarily to friends and family, as in October 2019, Reuters reported that the Company would be laying off 150 employees, even as a group of pals and relatives earned \$31.7 million in the past two years alone. In our view, these actions are consistent of a management team that prefers to maintain their standing at Midland’s Green Tree Country Club rather than maintain any regard for shareholders.

We find it farcical that the Company’s October 9 press release named management as co-investigators alongside the Audit Committee in the probe, given that management themselves ought to be the very subject of the probe. Even so, ProPetro investors ought to recognize the name Alan Douglas, ProPetro board member and member of the Audit Committee. What investors may not know is that **Dale Redman himself stated that Douglas is his personal accountant, while Douglas is listed as signatory on multiple undisclosed, purportedly outside entities that name ProPetro executives, employees, and board members.**

Our own investigation of the Company revealed at least 9 additional entities that were created by and/or repeatedly name CEO Jackie “Dale” Redman, Jeffrey Smith, and at least 8 other current or former ProPetro employees, managers, and board members as affiliated individuals. Some of these entities share or shared common addresses and phone numbers with those of ProPetro’s corporate headquarters, despite no public affiliation with the Company. As these entities are undisclosed and appear directly involved in the oil and gas business, their existence raises related party concerns, underscores the Company’s abysmal disclosures and self-enriching practices, and suggests a Company engaged in far more long-standing and widespread malfeasance than investors believe.

FloCap Injection Services, LLC is “a leading provider of specialty chemicals and capillary tubing services to oil and gas production companies.” FloCap was headquartered at the same address as ProPetro’s corporate headquarters, while its formation documents list both CEO Jackie Dale Redman and Smith as managing members.

Energy Entrepreneur Fund 1, LLC was formed in January 2015 and remains active. Formation documents name former CAO Ian Denholm, former board chair Spencer Armour, CEO Dale Redman, and Jeff Smith as members. Alan Douglas – who is a current board and Audit Committee member (and Redman’s personal accountant) – signs off on EEF1’s documents. To be clear, management has been involved with two board members – one of whom is on the Audit Committee supposedly responsible for the Company’s internal probe – in an outside entity.

Ener-Coil, LLC was a provider of capillary tubing services (a component of well servicing), whose Facebook page shows it also shared an address with ProPetro’s headquarters. Its listed directors include Redman and Thomas E Kelly, who was an original founder of ProPetro. Kelly was also listed alongside Redman as co-member “Kellyredman, LLC.” Kelly is the father of Emily Kelly (now Emily Lester), who has been an Executive Assistant at ProPetro since May 2007.

South of the Border Materials, LLC was created by Redman, Smith, and four additional ProPetro employees.

Clarabby Development, LLC, Dahlia Development, LLC and Conquistador Capital, LLC were created by former Chief Accounting Officer Ian Denholm. In December 2018, Clarabby sold two properties to ProPetro in what we view as – still to this day – undisclosed related party transactions. Moreover, we find it highly puzzling that in October 2019, the Company claimed both that its internal probe was substantially complete, while an investigation of these entities and transactions remained ongoing.

HR Double S, LLC is headquartered at the apparent home of Jeffrey Smith, and lists CEO Dale Jackie Redman and James Shrauner – who is also a founder of FloCap – as members. **Lore Venture Group LLC** was formed in April 2013 and names ProPetro’s former Chief Accounting Officer Ian Denholm and CAO Jeff Smith as the two sole co-members. **D&J Realty, LLC** lists a mailing address at the aforementioned home of Jeffrey Smith, but Jackie Dale Redman remains the registered agent, listing what appears to be his residential address as the registered address. Note that despite the presence of “Realty” in the name, this does not refer to the previously disclosed real estate entities, PD Properties and South Midkiff Partners LLC. Finally, **Red Hogg LLC** names Dale Redman as managing member, while Audit Committee member Alan Douglas again signs Red Hogg’s filings.

Notwithstanding the numerous governance questions that remain, fundamentals are rapidly deteriorating. In Q2 2018, Redman stated that “This is not a downturn” and “we’ve got a lot more demand than that 20th fleet going into ‘19.” To that end, in December 2018, ProPetro purchased an additional 8 fleets for \$333 million. However, the Company is now guiding Q4 to utilization of just 18 to 20 fleets from 28 on hand. We find this to be emblematic of a highly promotional management team with little regard for shareholder capital. On Friday, October 18, Reuters reported that the Company was under SEC investigation relating to disclosures, internal financial controls and public reporting. **Given an SEC investigation, non-current financials, and numerous governance and fundamental concerns, we believe investors have not considered the potential that ProPetro has difficulty raising capital on attractive terms, if at all.** In our view, given the Company’s self-enriching and inexplicably opaque practices, over \$100 million in Q2 net debt, prolific cash burn, and worsening fundamentals, shares are ultimately worthless. As such, we are short ProPetro.

Sham Internal Review Provides Investors with False Reassurances

ProPetro is a Midland, Texas-based provider of fracking and other oilfield services to upstream oil and gas companies. 99% of the Company's revenues originate in the Permian Basin, where the Company claims to hold longstanding customer relationships. The Company was formed in April 2007 as a holding company for ProPetro Services, Inc. and was privately owned until its acquisition by PE firm Energy Capital Partners (ECP) in March 2013. ProPetro then IPO'd in March 2017. In January 2019, the Company completed the purchase of Pioneer Energy's pressure pumping assets for \$110 million and 16.6 million shares of stock, providing Pioneer with 17% ownership of ProPetro. The purchased assets included 8 fleets with 510,000 HHP, four coiled tubing units, and an equipment maintenance facility.

On August 8, 2019, the Company announced preliminary Q2 2019 results. With this announcement, the Company noted that it would be unable to file its Form 10-Q on time, due to (author emphasis):

an ongoing review by the audit committee of the Company's board of directors which initially focused on the disclosure of agreements previously entered into by the Company with AFGlobal for the purchase of DuraStim® hydraulic fracturing fleets and effective communications related thereto.

62 days later, on October 9, the Company announced the substantive completion of its eternal review, touting an improved organizational structure. Shares were up 19.5% on the day, as investors took the view that the announcement was a signal that ProPetro's governance issues were in the rearview mirror. We believe otherwise. **In our view, both (1) management involvement and (2) audit committee entanglements collectively dispense with any notion that the internal probe was a true investigation.**

On the former management involvement, note that the Company's October press release includes management as a fact supplier to the probe, whereas the August release did not:

The Audit Committee and management have not identified to date any items that would require restatement of the Company's previously reported balance sheets, statements of operations, statements of shareholders' equity or statements of cash flows.

We have three concerns: First, the probe described is akin to a human centipede, given that management themselves are the subject of the probe, as Redman and Smith were wrongfully on the beneficial end of \$370,000 in Company funds. Second, the statement stipulated that the \$370,000 was "since the Company's initial public offering in 2017." Should a more extensive review be found necessary, it would require substantial time and effort. Finally, the inclusion of the weasel words "to date" is concerning, especially as the Company still has not filed its Q2 Form 10-Q.

Lest there be any doubt that the fox is in the henhouse, not only is the "internal probe" compromised by management presence, the Company's audit committee itself fails the laugh test. In March 2017, Dale Jackie Redman gave a half-hour talk to a group at Market Place Midland. Around the 29 minute mark of talk, which was uploaded to [YouTube](#), Redman mentions [Alan Douglas](#) as someone who, while he was "in the depths," gave Redman an envelope with \$5,000 in it. See page 1 of this report or the video linked directly above for the full quote.

Not only is Redman's touting of this gift followed by a request to "not make a spectacle of it" illustrative of his highly promotional nature, but Douglas has been a member of ProPetro's board of directors since March 2017. Moreover, Douglas is listed as the accountant on many of the undisclosed entities we list above and describe in

further detail later in this report. See the following examples from Energy Entrepreneur Fund 1, LLC and Red Hogg, LLC, respectively, each of which remain active entities:

Energy Entrepreneur Fund 1, LLC:

I declare that the information in this document and any attachments is true and correct to the best of my knowledge and belief, as of the date below, and that a copy of this report has been mailed to each person named in this report who is an officer, director, member, general partner or manager and who is not currently employed by this or a related corporation, LLC, LP, PA or financial institution.			
sign here	ALAN DOUGLAS ALAN DOUGLAS	Title CPA	Date Area code and phone number (432) 683 - 1835

Red Hogg, LLC:

SECTION C Enter information for each corporation, LLC, LP, PA or financial institution, if any, that owns an interest of 10 percent or more in this entity.

Name of owned (parent) corporation, LLC, LP, PA or financial institution NONE	State of formation	Texas SOS file number, if any	Percentage of ownership
Registered agent and registered office currently on file (see instructions if you need to make changes) Agent: DALE REDMAN		You must make a filing with the Secretary of State to change registered agent, registered office or general partner information.	
Office: 5800 N COUNTY RD 1244	City MIDLAND	State TX	ZIP Code 79707
The information on this form is required by Section 171.203 of the Tax Code for each corporation, LLC, LP, PA or financial institution that files a Texas Franchise Tax Report. Use additional sheets for Sections A, B and C, if necessary. The information will be available for public inspection.			
I declare that the information in this document and any attachments is true and correct to the best of my knowledge and belief, as of the date below, and that a copy of this report has been mailed to each person named in this report who is an officer, director, member, general partner or manager and who is not currently employed by this or a related corporation, LLC, LP, PA or financial institution.			
sign here	ALAN DOUGLAS ALAN DOUGLAS	Title CPA	Date Area code and phone number (432) 683 - 1835

To be clear: Alan Douglas is a member of ProPetro's Audit Committee responsible for the Company's internal probe, while he is also Redman's personal accountant, and signs off on undisclosed outside entities which list ProPetro executives, employees, and board members as members.

It's thus telling that the Company, in our view, made no changes of substance despite claiming an "improved organizational structure." See previous and current positions:

Insider	Previous	Current
Phillip A. Gobe	Board Chairman	Executive Chairman
Dale Redman	Chief Executive Officer	Chief Executive Officer
Jeffrey Smith	Chief Financial Officer	Chief Administrative Officer
Darin G. Holderness	N/A	Interim Chief Financial Officer
Newton "Trey" Wilson III	N/A	General Counsel
Elo Omavuezi	Director of Financial Reporting	Chief Accounting Officer
David Sledge	Chief Operating Officer	Chief Operating Officer
Sam Sledge	Director of Investor Relations	Director of Investor Relations
Morgan Stovall	Corporate Controller	Corporate Controller

On August 30, 2019, ProPetro's general counsel, Mark Howell, agreed to resign from the Company, effective September 29. It is notable that this resignation was filed after market close on Labor Day weekend, while the letter was accepted not by CEO Redman, but the Chairman, Phillip Gobe. We are of the view Howell's resignation is indicative of far more extensive issues than what investors recognize at this time. Finally, the Company's internal

review stemmed from the Company's agreement with AFGlobal and Diamondback Energy, Inc. for DuraStim fracking fleets. On September 30, 2019, Diamondback's COO Michael Hollis resigned, which appears suspect in consideration of ProPetro's internal probe. We have heard, but are unable to confirm, rumors that this resignation is in connection with undisclosed considerations that Hollis received directly from ProPetro.

In the afternoon of October 14, 2019, Reuters reported that the Company would be cutting 150 jobs, or ~9.5% of staff, yet "No senior executives were affected by the job cuts, which were unrelated to the accounting probe." **This came as the below group of 7 "friends and family" collected \$31.7 million over just the past 2 years:**

Position	Name	2018 Total Compensation	2017 Total Compensation
CEO	Dale Redman	\$5,464,397	\$8,237,815
CFO	Jeffrey Smith	\$2,611,119	\$4,948,097
COO	David Sledge	\$2,501,705	\$4,516,159
CAO	Ian Denholm	\$835,348	\$596,296
Sales Manager	Jordan Frosch	\$530,511	\$438,212
IR Director	Sam Sledge	\$717,481	???
Corporate Controller	Morgan Stovall	\$338,873	???
Total		\$12,999,434	\$18,736,579

Nevertheless, the sham probe and "reorganization" seemed to be enough of a fig leaf to pacify investors and the sell side. Per note we reviewed:

We believe this news will be seen as a relative positive versus market concerns. We see this as a positive given Dale Redman has strong relationships with the E&Ps. Additionally, we believe it will be viewed positively that incremental internal deficiencies were not discovered, at this time.

Per an additional sell-side analyst:

This announcement should remove a large overhang ... These remaining transactions under review involve real estate transactions, but not any of the company's customers or vendors ... The company's real estate transactions were already well known and previously disclosed and thus we see these as less of an issue. Given that more issues were not discovered and restatements are unlikely, we view the internal review as better than most investors feared.

The analyst's claims of real estate transactions being "already well known and previously disclosed" we believe to reference the Company's related party transactions involving PD Properties and South Midkiff Partners LLC, from whom ProPetro leases its corporate offices. This relationship has been disclosed in the Company's proxy statement. However, we found a concerning number of entities apparently involved in the oil & gas or related businesses created or directly tied to ProPetro co-founders Jackie Dale Redman (CEO) and Jeffrey D. Smith (former CFO, now CAO), in addition to numerous other ProPetro employees and ProPetro board members. It is extremely telling that the Company has not disclosed any of these entities, which we profile below.

Executives, Employees, and Board Members Involved in Several Undisclosed Entities

FloCap Injection Services LLC

FloCap Injection Services was formed in June 2014 and remains an active entity with the right to transact business in Texas. The company claims to be founded “by an executive management team with a combined 75 years of experience ... Through its capillary division, FloCap precisely applies production chemicals in a formation and supports gas lift applications, a growing production optimization methodology.” The company is [registered](#) with the US Department of Transportation as a carrier of hazardous materials, and in October 2018, FloCap [merged](#) with two other chemical companies to form Imperative Chemical Partners, LLC. The [public information report](#) names Dusty Floyd, Jackie D Redman, James W Shrauner, and Jeffrey D Smith as managing members:

Title	Name and Address
MANAGING M	DUSTY FLOYD 16195 N WESTERN AVE GARDENDALE, TX 79758
MANAGING M	JACKIE D REDMAN 5800 N COUNTY ROAD 1244 MIDLAND, TX 79707
MANAGING M	JAMES W SHRAUNER 4216 FERNCLIFF MIDLAND, TX 79710
MANAGING M	JEFFREY D SMITH 6804 EXECUTIVE CT MIDLAND, TX 79707

FloCap’s [website](#) displays James Shrauner as President and Dusty Floyd as Vice President, but nowhere are ProPetro’s Jackie Redman or Jeffrey Smith mentioned:

Contact Us

At FloCap, it’s all about having the best people servicing our customers to meet YOUR needs. Contact us today and one of our FloCap representatives will return your inquiry as soon as possible.

James Shrauner, President

Dusty Floyd, Vice President

Shrauner’s LinkedIn confirms both his FloCap employment and services offered:

James Shrauner   Texas A&M University
 FloCap Injection Services
 Midland, Texas · 200 connections · [Contact info](#)

About

Complete sales, installation, service and refurbish of capillary tubing, including all sizes and grades of stainless and upgraded alloys. 1/8" to 1", custom lengths to master coils. 1" stainless Coil tubing unit for clean-out, acid and nitrogen work.
 Production oilfield chemical division focuses on premier products, service and reporting.

We've also confirmed that James is directly related to Bryan Shrauner, who is a Flowback Manager at ProPetro:

Bryan Shrauner
 Flowback Manager at ProPetro Services, Inc
 Midland, Texas · 99 connections · [Contact info](#)

Experience

 **Flowback Manager**
 ProPetro Services, Inc
 May 2016 – Present · 3 yrs 6 mos

We were unable to find a listed address on the Company's website, perhaps for good reason, yet Bloomberg lists FloCap's address at 1706 South Midkiff, Building C:

Flocap Injection Services LLC manufactures specialty chemicals. The Company produces oilfield chemicals, as well as offers capillary tubing services for oil and gas production companies.

SECTOR	INDUSTRY	SUB-INDUSTRY	FOUNDED
Materials	Chemicals	Specialty Chemicals	06/06/2014
ADDRESS	PHONE	WEBSITE	NO. OF EMPLOYEES
1706 South Midkiff Building C Midland, TX 79701 United States	--	--	--

ProPetro is located at building B at the same address:



We searched the SEC database and found zero historical mentions of “FloCap” in ProPetro or any other company’s filings. Given FloCap (1) is an active business entity which holds itself out as a service provider to companies such as ProPetro, (2) shares or at one point shared an address with ProPetro, and (3) names both ProPetro’s CEO and former CFO as Managing Members, though neither ProPetro nor FloCap discloses these relationships publicly, we believe investors deserve greater disclosure regarding ProPetro’s relationship with FloCap. We share the same sentiment with the entities that follow below.

Energy Entrepreneur Fund 1, LLC

Energy Entrepreneur Fund 1, LLC (EEF) was formed in January 2015 and remains in existence today:

Filing Number:	802140254	Entity Type:	Domestic Limited Liability Company (LLC)
Original Date of Filing:	January 21, 2015	Entity Status:	In existence
Formation Date:	N/A	FEIN:	
Tax ID:	32056173670		
Duration:	Perpetual		
Name:	Energy Entrepreneur Fund 1, LLC		
Address:	PO BOX 50910 MIDLAND, TX 79710-0910 USA		

REGISTERED AGENT	FILING HISTORY
Name	Address
Ian Denholm	3706 Casady Court Midland, TX 79707 USA

As shown, ProPetro’s former General Counsel Ian Denholm is listed as registered agent, yet the entity also lists Spencer Armour, Dale Redman, and Jeff Smith as members. This is the first instance in which we see a board member – former Chairman of the Board, Spencer Armour – listed:

SECTION A Name, title and mailing address of each officer, director, member, general partner or manager.

Name	Title	Director	Term expiration
IAN DENHOLM	MEMBER	<input type="radio"/> YES	m m d d y y 1 2 3 1 1 8
Mailing address 3905 CARDINAL LANE	City MIDLAND	State TX	ZIP Code 79707
SPENCER ARMOUR	MEMBER	<input type="radio"/> YES	m m d d y y 1 2 3 1 1 8
Mailing address 2741 RACQUET CLUB DRIVE	City MIDLAND	State TX	ZIP Code 79705
DALE REDMAN	MEMBER	<input type="radio"/> YES	m m d d y y 1 2 3 1 1 8
Mailing address 5800 N COUNTY RD 1244	City MIDLAND	State TX	ZIP Code 79707

SECTION A Name, title and mailing address of each officer, director, member, general partner or manager.

Name JEFF SMITH	Title MEMBER	Director <input type="radio"/> YES	Term expiration	m	m	d	d	y	y
Mailing address 2908 SAN SABA COURT	City ODESSA	State TX		1	2	3	1	1	8
				ZIP Code 79765					

We believe this indicates not only board member knowledge, but direct involvement in the same side enterprises that ProPetro's CEO and CFO have been engaged in under the surface.

Ener-Coil, LLC

Ener-Coil's Facebook [page](#) holds itself out as "Ener-Coil LLC Capillary Tubing Services." Broadly, capillary tubing services are provided to O&G companies such as ProPetro and intend to maximize production and reduce costs by delivering chemicals in a more effective manner. The page also lists its address at 1706 S Midkiff Rd, Midland, Texas 79701, which is the same address as ProPetro's corporate headquarters, as we noted above. Directors listed include Redman and an individual named Thomas E Kelly, who shares a PO Box with Redman:

Title	Name and Address
DIRECTOR	DUSTY D MCKANDLES 10801 WCR 145 MIDLAND, TX 79706
DIRECTOR	JACKIE D REDMAN PO BOX 11026 MIDLAND, TX 79702
DIRECTOR	JAMES C MILLER 516 N LOOP 250 WEST MIDLAND, TX 79703
DIRECTOR	THOMAS E KELLY PO BOX 11026 MIDLAND, TX 79702

Tom Kelly is listed as a board member in the Company's original 2005 articles of incorporation, while a May 2017 [presentation](#) for an apparent new venture, "Alpha Seven Energy" also claims that "In 2013, Mr. Kelly co-founded ProPetro Service with headquarters in Midland Texas."

Tom Kelly	4411 Cardinal Lane Midland, TX 79707
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We are unclear as to why these dates conflict. However, we also see Thomas E Kelly appear as registered agent for Kellyredman, LLC, which was formed in 2008 and lists Dale Redman as a member:

The limited liability company will not have managers. The Company will be governed by its members, as detailed in its Company Agreement. The name and address of each initial member is set forth below:

Thomas E. Kelly
405 N. Marienfeld, Suite 200
Midland, Texas 79701

Dale Redman
405 N. Marienfeld, Suite 200
Midland, Texas 79701

Finally, Kelly's daughter Emily, now [married](#) as Emily Lester, has been employed as an Executive Assistant at ProPetro since May 2007, just one month after ProPetro was formed:

<p>Emily Lester Executive Assistant at ProPetro Services, Inc Midland, Texas · 243 connections · Contact info</p>	<p> Executive Assistant ProPetro Services, Inc May 2007 – Present · 12 yrs 6 mos</p>
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We again find the Company's lack of historical mentions of Thomas Kelly or his daughter to be concerning given his original ties to the Company, Redman, and Smith.

South of the Border Materials, LLC

South of the Border Materials, LLC was formed in September 2011, and lists its address at 5305 Green Tree Blvd:

<p>Filing Number: 801483601 Original Date of Filing: September 21, 2011 Formation Date: N/A Tax ID: 32045127324 Duration: Perpetual</p>	<table border="1"> <thead> <tr> <th data-bbox="820 798 933 850">Title</th> <th data-bbox="941 798 1464 850">Name and Address</th> </tr> </thead> <tbody> <tr> <td data-bbox="820 861 933 934">MEMBER</td> <td data-bbox="941 861 1464 934">JACKIE DALE REDMAN 6826 ISLAND CIR. MIDLAND, TX 79707</td> </tr> <tr> <td data-bbox="820 945 933 1022">MEMBER</td> <td data-bbox="941 945 1464 1022">JEFFREY D SMITH 5305 GREEN TREE BLVD. MIDLAND, TX 79701</td> </tr> </tbody> </table>	Title	Name and Address	MEMBER	JACKIE DALE REDMAN 6826 ISLAND CIR. MIDLAND, TX 79707	MEMBER	JEFFREY D SMITH 5305 GREEN TREE BLVD. MIDLAND, TX 79701
Title	Name and Address						
MEMBER	JACKIE DALE REDMAN 6826 ISLAND CIR. MIDLAND, TX 79707						
MEMBER	JEFFREY D SMITH 5305 GREEN TREE BLVD. MIDLAND, TX 79701						
<p>Name: South of the Border Materials, LLC Address: 5305 GREEN TREE BLVD. MIDLAND, TX 79707 USA</p>							

5305 Green Tree Boulevard is a 4,300 square foot single family [home](#), while Redman's listed address, 6826 Island Circle [is a residential](#), 4,500 square foot home. We also see this Green Tree address appear in connection with HR Double S, LLC, as we will detail later in this report. South of the Border's original articles of incorporation [list](#) the following members (screenshots cropped for brevity, available per [Texas Secretary of State](#)):

Article 3 Governing Authority	
The limited liability company will not have managers. The Company will be governed by its members, as detailed in its Company Agreement. The name and address of each initial member is set forth below:	
<p>Jackie Dale Redman 6826 Island Circle Midland, TX 79707</p>	<p>Jeffrey D. Smith 5305 Green Tree Blvd Midland, TX 79707</p>
<p>Jesus O. Dominguez 3505 W. Illinois Midland, TX 79703</p>	<p>Oscar M. Dominguez 1610 W. Dengar Midland, TX 79705</p>
<p>Roger L. Dominguez 3234 W. Dengar Midland, TX 79705</p>	<p>Adam Munoz 1109 W. County Rd 130 Midland, TX 79706</p>

As it pertains to the four other names listed in the articles of incorporation, Adam Munoz's LinkedIn claims he has been employed as ProPetro's Director of Business Development and Technical Services since October 2010:

Adam Munoz
 Director of Business Development and Technical Services at ProPetro Services
 Odessa/Midland, Texas Area · 500+ connections · [Contact info](#)

ProPetro Services
 University of Texas at Permian Basin

Experience

Director of Business Development and Technical Services
 ProPetro Services
 Oct 2010 – Present · 9 yrs 1 mo

Additionally, Oscar Dominguez's LinkedIn claims that he has also been at ProPetro since 2010:

Oscar Dominguez
 Director of Operations Hydraulic Fracturing
 Midland, Texas · 303 connections · [Contact info](#)

Experience

Director of Operations Hydraulic Fracturing
 ProPetro Services, Inc
 Oct 2010 – Present · 9 yrs 1 mo

We were unable to find a LinkedIn profile for Roger Dominguez, but Zoominfo [claims](#) he also, at least at one point in time, was employed as a Manager at ProPetro:

Roger Dominguez Business Profile
 Manager, Acid Logistics at Propetro Holding Corp.

Location: 1706 S. MIDKIFF Rd., Bldg. B, Midland, Texas, United States
Company: [Propetro Holding Corp.](#)
HQ Phone: (432) 688-0012

Jeffrey Smith signed the company's annual information form, providing again what appears to be his own home address, as well as the phone number (432) 688-0012:

Registered agent and registered office currently on file. (see instructions if you need to make changes)

Agent: **Jeffrey D Smith**

Office: **5305 Green Tree Blvd.**

City: **Midland** State: **TX** ZIP Code: **79707**

The above information is required by Section 171.203 of the Tax Code for each corporation or limited liability company that files a Texas Franchise Tax Report. Use additional sheets for Sections A, B, and C, if necessary. The information will be available for public inspection.

I declare that the information in this document and any attachments is true and correct to the best of my knowledge and belief, as of the date below, and that a copy of this report has been mailed to each person named in this report who is an officer, director or member and who is not currently employed by this, or a related, corporation or limited liability company.

sign here  Title: **Member** Date: **5/7/12** Area code and phone number: **(432) 688-0012**

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Curiously enough, this is ProPetro's own corporate contact number:

PROPETRO®

Corporate Headquarters

1706 S. Midkiff Road
Midland, TX 79701

Tel: **432-688-0012**
Fax: 432-688-3976

To summarize: in 2011, ProPetro's CEO and CFO formed an entity, along with other existing ProPetro employees, which lists its office address at the apparent home, at that time, of CFO Jeffrey Smith, while its contact number is ProPetro's corporate contact number. We again found zero mentions of "South of the Border Materials" in any of the Company's SEC filings.

Clarabby Development, LLC / Conquistador Capital, LLC / Dahlia Development, LLC

On October 3, Chief Accounting Officer Ian Denholm resigned. The [separation agreement](#) reads much like any other, with the exception of one particular section, which states:

The Company agrees that this Agreement includes a release of any and all known negligence claims, breach of fiduciary or other duty claims, contractual claims (express and implied), fraud and misrepresentation claims. However, the Company does not release, on behalf of itself or the Company Parties, any claims for which the basis for which is unknown to the Company due to any fraud, misrepresentation, concealment, or failure to disclose by Denholm. The Company acknowledges that Denholm has notified the Company of transactions involving Clarabby Development, LLC, Clarabby Holdings, LLC, Conquistador Capital, LLC and Dahlia Development, LLC, Denholm and Adam Cunyus (the "Clarabby Transactions") ... Denholm specifically represents that he will assist the Company with respect to its investigation of the Clarabby Transactions.

With respect to the above entities, Clarabby, Dahlia, and Conquistador Capital all remain active entities which list Ian Denholm as member. Midland County property records indicate that in December 2018, Clarabby Holdings LLC sold ProPetro two different properties, first at [Stokes Av 3502 W](#), and second at [Midkiff Road 0 S](#). The two properties in question list market values of \$25,050 and \$97,650, respectively:

View Property	R000004586	00003920.005.1401	PROPETRO SERVICES INC	MIDKIFF RD 0 S	Acres: 0.835, NE/4, SEC: 5, BLK: 39-T2S	\$25,050
View Property	R000004587	00003920.005.1402	PROPETRO SERVICES INC	STOKES AV 3502 W	Acres: 3.255, NE/4, SEC: 5, BLK: 39-T2S	\$97,650

These transactions were never disclosed by the Company in its 2018 Form 10-K or proxy statement. That said, we find it all the more troubling that **at the time of Denholm’s resignation, the Company claimed its internal probe was substantially complete, while at the same time, Denholm’s separation agreement states he will assist in an ongoing investigation of these transactions. The Company again failed to disclose these transactions when given the opportunity in October 2019.**

HR Double S, LLC

HR Double S, LLC was formed in June 2010 and dissolved in September 2017. The entity names Jackie D Redman and Jeffrey D Smith as Members, as well as James W Shrauner, who we noted previously held himself out publicly as President of FloCap Injection Services. HR Double S’s listed address, 6804 Executive Ct, is the home of Jeffrey Smith, per Midland County property [records](#):

Title	Name and Address
MEMBER	JACKIE D REDMAN 5800 N COUNTRY RD 1244 MIDLAND, TX 79707
MEMBER	JAMES W SHRAUNER 4216 FERNCLIFF MIDLAND, TX 79710
MEMBER	JEFFREY D SMITH 6804 EXECUTIVE CT MIDLAND, TX 79707
MEMBER	MICHAEL C HUGHES PO BOX 52388 MIDLAND, TX 79710

We again found zero mentions of “HR Double S” in any SEC filings, especially concerning given the now recurring relationships we see between Redman, Smith, and Shrauner, all of which reside outside of ProPetro’s disclosures.

Lore Venture Group LLC

Lore Venture Group LLC was formed in April 2013 and remains in existence. The entity names Ian Denholm (former Chief Accounting Officer who resigned in August 2019) and Jeff Smith as members:

Filing Number:	801768738	Entity Type:	Domestic Limited Liability Company (LLC)
Original Date of Filing:	April 16, 2013	Entity Status:	In existence
Formation Date:	N/A		
Tax ID:	32050730509	FEIN:	
Duration:	Perpetual		
Name:	Lore Venture Group LLC		
Address:	PO BOX 50910 MIDLAND, TX 79710-0910 USA		

REGISTERED AGENT		FILING HISTORY		NAMES	
Last Update	Name			Title	
April 25, 2017	IAN DENHOLM			MEMBER	
April 25, 2017	JEFF SMITH			MEMBER	

We again question why this entity's purpose and why it has not been disclosed.

D&J Realty, LLC

D&J Realty, LLC is another Redman and Smith entity which lists its mailing address as 6804 Executive Court, the apparent home of Jeffrey Smith. Jackie D Redman remains the registered agent, with his apparent home address listed as well. The vagueness here is concerning, and we believe ProPetro's management and board ought to disclose the exact nature of these entities to the investing public.

Red Hogg, LLC

Red Hogg, LLC was registered in October 2006 and remains in existence today. Dale Redman is the registered agent and lists a residential single-family home as the entity's registered address. As explained above, board and Audit Committee member Alan Douglas signed Red Hogg's annual information form in 2018.

Promotional Management Amid Deteriorating Fundamentals

Much like Dale Jackie Redman's numerous undisclosed entities, we find that his public management history is oft-neglected by investors. The Company's proxy statement states that:

He was a co-founder and Chief Executive Officer of Downhole Injection Systems, LLC, which was sold in 2004. Prior to that, Mr. Redman was President and Chief Executive Officer of Reef Chemical Company from 1993 to 1998.

We found sparse information about Redman's involvement in these two entities, apart from the [speech](#) that Redman gave in March 2017. While Redman is considered by investors to be a high-quality operator, in Redman's own words, his experience leaves much to be desired:

I had a business... Then there was a little downturn in 1999. You can put yourself in a position where you're not calling the shots, and that's what I had done. I owned 35% of the company at that time, and oil went from \$30 to \$8 pretty quick. My stock in that company went from about \$10 million to March 3 of 1999 ... not that I save dates ... my board comes to me and says, "you're going to go to your banker, he's going to write down his note. And you are going to fire every customer that is over 60 day pay." I had already gone to my banker and said "this is gonna get tough. We're gonna bust the leverage ratio coverage. Don't go anywhere, we're gonna get through it. But we need to go to interest only and weather this storm" ... Well my board said, that's not what we're gonna do. You're fired. So everything I thought I knew was over.

Fast forward to ProPetro and we view many of his statements to be particularly promotional in nature. See for example from the Company's Q2 2018 conference call, August 8, 2018:

Let me be clear, this is not a downturn. And this game is just getting started. We're in the infancy of this transition. And so we've got a lot more demand than that 20th fleet going into '19.

Again at the Barclays energy conference in September 2018, Redman stated that ProPetro was miraculously immune to industry-wide pressures and had "the best visibility than anybody [sic]" in this business:

All the panic that you're seeing around other peer groups as they're talking about price concessions, spot market prices coming down. And we're just not seeing that type of situation with our dedicated fleet model and the history we have with this customer base and our performance that's differentiating.

Calendar. Guys, we should have the best visibility than anybody in this business, and we do because of who we work for and because of the performance our people have on location. There shouldn't be a lot of guesswork in our business.

In December 2018, the Company placed \$400 million behind these statements with the purchase of Pioneer Energy's pressure pumping assets. \$333 million was associated with the pumping assets and \$67 with the real estate facilities and other assets. At the time of acquisition, management guided to an incremental 6.5 fleets in operation, with a "cash flow" (EBITDA less maintenance capex) contribution of ~\$12 million, at its full run-rate:

We do believe that these initial profitability levels will have opportunity for considerable upside as we ramp up run-rate activity and efficiency throughout 2019. As such, we expect 2019 exit rate annualized

per fleet metrics for the full 8 fleets of revenue of \$65 million to \$68 million, EBITDA of \$16 million to \$18 million and maintenance CapEx of \$4.5 million to \$5.5 million.

Investors ought to find this purchase highly concerning for three reasons. First, the Company paid \$333 million for net “cash flow” (which isn’t true cash flow) contribution of just \$12 million, or a 28x multiple for the assets. Second, the Company is again leveraging its balance sheet into an industry-wide downturn, while these problems could be magnified under the Company’s inability to file financials and reported ongoing SEC investigation. Finally, the Company is now guiding to just 18 to 20 fleet utilization for Q4 2019, even as ProPetro’s supposedly seasoned management, differentiated business model, and “best visibility than anybody in this business [sic]” was supposed to be immune from this very scenario. The sell-side attributes this lack of utilization to industry-wide issues:

The active fleet guidance for 4Q19 (18-20 vs prior 22.5) is worse than expected (-25% q/q). However this is likely indicative of the industry headwinds (E&P budget exhaustion; overall industry weakness) more than a ProPetro specific issue.

However, energy consultancy Primary Vision estimates that of the current 365 US fracking fleets, 60 could be idled by year-end, **implying a decrease of just 16%, while ProPetro’s guide implies a far greater decrease of 26%. In our view, this data confirms what we have heard from on-the-ground sources: ProPetro customers are putting business out for tender.** As governance issues persist and the Company’s balance sheet comes under greater scrutiny, we believe ProPetro is in the early innings of this pain. Simply put, even without consideration of the Company’s multitude of governance concerns and worsening fundamentals, we believe ProPetro is already a broken business. From 2015 through Q2 2019, the Company has burned \$587 million of cash flow (note 2018 is pro forma for acquired assets):

ProPetro Cash Flows	2015	2016	2017	2018	Q1 2019	Q2 2019
Cash from Operations	81	11	109	393	36	115
Capital Expenditures	63	46	305	593	179	146
Free Cash Flow	18	(35)	(196)	(200)	(143)	(32)
Cumulative Free Cash Flow		(17)	(213)	(413)	(555)	(587)

Amid further industry-wide and Company-specific issues, ProPetro’s liquidity and ultimate solvency ought to come into greater focus; **we believe ProPetro is not a recovery story, it’s a restructuring story.**

As of August 6, 2019 (latest disclosed), the Company held \$130 million of debt on its revolver with total capacity of \$300 million. A springing fixed charge coverage ratio applies when excess availability falls below either (i) 10% of the facility size or (ii) \$22.5 million. As shown above, the Company burned \$143 million of cash in Q1 2019 and \$32 million in Q2 2019, even as utilization was 27.0 fleets and 25.6 fleets, respectively. The Company is now guiding to utilization of just 18 to 20 fleets, so we estimate \$50 million of quarterly cash burn to be relatively conservative in the near term. Even at this rate, the Company would encounter covenant issues in 2020.

With numerous corporate governance failings, inability to file financials, and a reported ongoing SEC investigation, an additional capital raise would likely prove punitive. Coupled with ProPetro’s historical inability to produce cash flow and a utilization outlook that has reversed course from ebullient to dismal, we believe the Company’s equity is ultimately worthless.