

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, 2020

or

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

For the transition period from to

Commission File Number: 001-38441

**ChampionX Corporation**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

82-3066826

(I.R.S. Employer Identification No.)

2445 Technology Forest Blvd, Building 4, 12th Floor

The Woodlands, Texas

(Address of principal executive offices)

77381

(Zip Code)

(281) 403-5772

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.01 par value	CHX	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, a 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 registrant had 199,833,331 shares of common stock, \$0.01 par value, outstanding as of October 26, 2020.

CHAMPIONX CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
<b><u>PART I — FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Statements of Income (Loss)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Executive Overview and Business Outlook</u>	<u>31</u>
<u>Consolidated Results of Operations</u>	<u>34</u>
<u>Segment Results of Operations</u>	<u>36</u>
<u>Capital Resources and Liquidity</u>	<u>38</u>
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 4.</u>	
<u>Controls and Procedures</u>	<u>43</u>
<b><u>PART II — OTHER INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	<u>45</u>
<u>Item 1A.</u>	
<u>Risk Factors</u>	<u>45</u>
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5.</u>	
<u>Other Information</u>	<u>45</u>
<u>Item 6.</u>	
<u>Exhibits</u>	<u>46</u>
<b><u>SIGNATURES</u></b>	<b><u>47</u></b>

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements usually relate to future events and anticipated revenues, earnings, cash flows or other aspects of our operations or operating results. Forward-looking statements are often identified by the words “believe,” “anticipate,” “expect,” “may,” “intend,” “foresee,” “guidance,” “estimate,” “potential,” “outlook,” “plan,” “should,” “would,” “could,” “target,” “forecast” and similar expressions, including the negative thereof. The absence of these words, however, does not mean that the statements are not forward-looking statements. Forward-looking statements are based on our current expectations, beliefs and assumptions concerning future developments and business conditions and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate.

All of our forward-looking statements involve risks, uncertainties (some of which are significant or beyond our control) and assumptions that could cause actual results to materially differ from our historical experience and our present expectations or projections. Known material factors that could cause actual results to materially differ from those contemplated in the forward-looking statements are those set forth in Part II, Item 1A, “Risk Factors” of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020.

We wish to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update, revise or correct any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise, except to the extent required under the federal securities laws.

## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CHAMPIONX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Product revenue	\$ 540,825	\$ 239,867	\$ 1,014,140	\$ 775,489
Service revenue	76,665	23,979	138,436	71,853
Lease and other revenue	16,036	12,993	41,298	36,161
<b>Total revenue</b>	<b>633,526</b>	<b>276,839</b>	<b>1,193,874</b>	<b>883,503</b>
Cost of goods and services	505,066	184,140	950,845	579,033
<b>Gross profit</b>	<b>128,460</b>	<b>92,699</b>	<b>243,029</b>	<b>304,470</b>
Selling, general and administrative expense	122,156	68,405	330,956	199,221
Goodwill impairment	—	—	616,271	—
Long-lived asset impairment	—	—	40,980	1,746
Interest expense, net	15,935	9,590	36,236	30,226
Other (income) expense, net	1,663	(309)	342	3,469
<b>Income (loss) before income taxes</b>	<b>(11,294)</b>	<b>15,013</b>	<b>(781,756)</b>	<b>69,808</b>
Provision for (benefit from) income taxes	(3,962)	3,425	(31,922)	15,274
<b>Net income (loss)</b>	<b>(7,332)</b>	<b>11,588</b>	<b>(749,834)</b>	<b>54,534</b>
Less: Net income attributable to noncontrolling interest	582	194	1,453	547
<b>Net income (loss) attributable to ChampionX</b>	<b>\$ (7,914)</b>	<b>\$ 11,394</b>	<b>\$ (751,287)</b>	<b>\$ 53,987</b>
<b>Earnings (loss) per share attributable to ChampionX:</b>				
Basic	\$ (0.04)	\$ 0.15	\$ (5.73)	\$ 0.70
Diluted	\$ (0.04)	\$ 0.15	\$ (5.73)	\$ 0.70
<b>Weighted-average shares outstanding:</b>				
Basic	199,809	77,460	131,064	77,416
Diluted	199,809	77,573	131,064	77,615

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CHAMPIONX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Net income (loss)</b>	\$ (7,332)	\$ 11,588	\$ (749,834)	\$ 54,534
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments <sup>(1)</sup>	3,782	(2,900)	(1,567)	(836)
Cash flow hedges	(862)	—	(209)	—
Defined pension and other post-retirement benefits adjustments, net <sup>(2)</sup>	99	68	297	235
<b>Other comprehensive income (loss)</b>	<b>3,019</b>	<b>(2,832)</b>	<b>(1,479)</b>	<b>(601)</b>
<b>Comprehensive income (loss)</b>	<b>(4,313)</b>	<b>8,756</b>	<b>(751,313)</b>	<b>53,933</b>
Comprehensive income attributable to noncontrolling interest	582	194	1,453	547
<b>Comprehensive income (loss) attributable to ChampionX</b>	<b>\$ (4,895)</b>	<b>\$ 8,562</b>	<b>\$ (752,766)</b>	<b>\$ 53,386</b>

(1) Net of income tax (expense) benefit of \$0 for the three and nine months ended September 30, 2020 and 2019.

(2) Net of income tax (expense) benefit of \$33 and \$23 for the three months ended September 30, 2020 and 2019, respectively, and \$99 and \$202 for the nine months ended September 30, 2020 and 2019, respectively.

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CHAMPIONX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

(in thousands)	September 30, 2020	December 31, 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 171,462	\$ 35,290
Receivables, net	516,245	219,874
Inventories, net	471,331	211,342
Prepaid expenses and other current assets	73,713	26,934
Total current assets	1,232,751	493,440
Property, plant and equipment, net of accumulated depreciation of \$495,380 in 2020 and \$426,722 in 2019	868,111	248,181
Operating lease right-of-use assets	118,993	24,289
Goodwill	660,329	911,113
Intangible assets, net	509,789	238,707
Other non-current assets	63,759	7,095
<b>Total assets</b>	<b>\$ 3,453,732</b>	<b>\$ 1,922,825</b>
<b>Liabilities and Equity</b>		
Current portion of long-term debt	\$ 31,470	\$ 4,845
Accounts payable	262,092	120,291
Accrued compensation and employee benefits	60,566	38,470
Current portion of operating lease liabilities	33,888	7,620
Accrued distributor fees	36,386	—
Accrued expenses and other current liabilities	150,005	28,455
Total current liabilities	574,407	199,681
Long-term debt	989,690	559,821
Deferred income taxes	141,047	84,060
Operating lease liabilities	80,261	19,419
Other long-term liabilities	82,295	23,630
Total liabilities	1,867,700	886,611
Stockholders' equity:		
Common stock (2.5 billion shares authorized, \$0.01 par value) 199.8 million shares and 77.5 million shares issued and outstanding in 2020 and 2019, respectively	1,998	775
Capital in excess of par value of common stock	2,288,930	969,174
Retained earnings (accumulated deficit)	(645,863)	107,048
Accumulated other comprehensive loss	(45,516)	(44,037)
Total stockholders' equity	1,599,549	1,032,960
Noncontrolling interest	(13,517)	3,254
Total equity	1,586,032	1,036,214
<b>Total liabilities and equity</b>	<b>\$ 3,453,732</b>	<b>\$ 1,922,825</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CHAMPIONX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Unaudited)**

(in thousands)	Common stock			Retained Earnings (Accum. Deficit)	Accum. Other Comp. Loss	Non-controlling Interest	Total
	Shares	Par Value	Capital in Excess of Par Value				
<b>December 31, 2019</b>	77,460	\$ 775	\$ 969,174	\$ 107,048	\$ (44,037)	\$ 3,254	\$ 1,036,214
Cumulative effect of accounting changes, net of tax (Note 3)	—	—	—	(1,573)	—	—	(1,573)
Net income (loss)	—	—	—	(633,728)	—	273	(633,455)
Other comprehensive loss	—	—	—	—	(10,953)	—	(10,953)
Stock-based compensation	44	—	2,429	—	—	—	2,429
Taxes withheld on issuance of stock-based awards	—	—	(368)	—	—	—	(368)
<b>March 31, 2020</b>	77,504	\$ 775	\$ 971,235	\$ (528,253)	\$ (54,990)	\$ 3,527	\$ 392,294
Issuance of common stock related to the Merger	122,237	1,223	1,262,708	—	—	—	1,263,931
Issuance of replacement awards related to the Merger	—	—	43,964	—	—	—	43,964
Non-controlling interest acquired in the Merger	—	—	—	—	—	(16,015)	(16,015)
Net income (loss)	—	—	—	(109,645)	—	598	(109,047)
Other comprehensive income	—	—	—	—	6,455	—	6,455
Stock-based compensation	67	—	5,433	—	—	—	5,433
Taxes withheld on issuance of stock-based awards	—	—	(244)	—	—	—	(244)
Distributions to noncontrolling interest	—	—	—	—	—	(2,200)	(2,200)
Other	—	—	—	37	—	(12)	25
<b>June 30, 2020</b>	199,808	\$ 1,998	\$ 2,283,096	\$ (637,861)	\$ (48,535)	\$ (14,102)	\$ 1,584,596
Net income (loss)	—	—	—	(7,914)	—	582	(7,332)
Other comprehensive income	—	—	—	—	3,019	—	3,019
Stock-based compensation	12	—	5,856	—	—	—	5,856
Taxes withheld on issuance of stock-based awards	—	—	(28)	—	—	—	(28)
Other	—	—	6	(88)	—	3	(79)
<b>September 30, 2020</b>	199,820	\$ 1,998	\$ 2,288,930	\$ (645,863)	\$ (45,516)	\$ (13,517)	\$ 1,586,032

**Common Stock**

(in thousands)	Shares	Par Value	Capital in Excess of Par Value	Retained Earnings	Accum. Other Comp. Loss	Non-controlling Interest	Total
<b>December 31, 2018</b>	77,353	\$ 774	\$ 960,773	\$ 54,884	\$ (42,906)	\$ 2,458	\$ 975,983
Net income	—	—	—	19,656	—	282	19,938
Other comprehensive income	—	—	—	—	1,189	—	1,189
Stock-based compensation	39	—	2,285	—	—	—	2,285
Taxes withheld on issuance of stock-based awards	—	—	(719)	—	—	—	(719)
Other	—	—	—	—	—	14	14
<b>March 31, 2019</b>	77,392	\$ 774	\$ 962,339	\$ 74,540	\$ (41,717)	\$ 2,754	\$ 998,690
Net income	—	—	—	22,937	—	71	23,008
Other comprehensive income	—	—	—	—	1,042	—	1,042
Stock-based compensation	67	1	2,735	—	—	—	2,736
Taxes withheld on issuance of stock-based awards	—	—	(1,080)	—	—	—	(1,080)
Other	—	—	—	—	—	(14)	(14)
<b>June 30, 2019</b>	77,459	\$ 775	\$ 963,994	\$ 97,477	\$ (40,675)	\$ 2,811	\$ 1,024,382
Net income	—	—	—	11,394	—	194	11,588
Other comprehensive loss	—	—	—	—	(2,832)	—	(2,832)
Stock-based compensation	—	—	2,524	—	—	—	2,524
Other	—	—	(42)	—	—	—	(42)
<b>September 30, 2019</b>	77,459	\$ 775	\$ 966,476	\$ 108,871	\$ (43,507)	\$ 3,005	\$ 1,035,620

The accompanying notes are an integral part of the condensed consolidated financial statements.



**CHAMPIONX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

(in thousands)	Nine Months Ended September 30,	
	2020	2019
<b>Cash provided by (used for) operating activities:</b>		
Net income (loss)	\$ (749,834)	\$ 54,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	101,434	51,126
Amortization	47,827	38,504
Stock-based compensation	13,718	7,545
Loss (gain) on disposal of fixed assets	3,685	(846)
Loss on goodwill and long-lived asset impairment	657,251	1,746
Loss on sale of business	—	2,475
Provision for losses on accounts receivable	2,945	122
Provision for inventory obsolescence and write-downs	15,626	(997)
Amortization of deferred loan costs and accretion of discount	2,480	1,943
Deferred income taxes	(34,318)	(4,439)
Employee benefit plan expense	1,606	1,506
Other	(1,696)	386
Changes in operating assets and liabilities (net of effects of foreign exchange):		
Receivables	91,204	14,133
Inventories	62,225	13,232
Prepaid expenses and other current assets	17,737	(16,270)
Accounts payable	(48,519)	(16,861)
Accrued compensation and employee benefits	1,518	(3,651)
Accrued expenses and other liabilities	12,846	14,121
Leased assets	(7,799)	(34,305)
Other	(504)	(614)
<b>Net cash provided by operating activities</b>	<b>189,432</b>	<b>123,390</b>
<b>Cash provided by (used for) investing activities:</b>		
Capital expenditures	(32,169)	(31,589)
Acquisitions, net of cash acquired	57,588	(12,500)
Proceeds from sale of fixed assets	9,295	2,954
Payment on sale of business	—	(2,194)
<b>Net cash provided by (used for) investing activities</b>	<b>34,714</b>	<b>(43,329)</b>
<b>Cash provided by (used for) financing activities:</b>		
Proceeds from long-term debt	125,000	36,500
Payment of debt issue costs	(4,356)	—
Repayment of long-term debt	(206,713)	(111,500)
Distribution to noncontrolling interest	(2,200)	—
Payment of finance lease obligations	(4,536)	(4,108)
Payments related to taxes withheld on stock-based compensation	(640)	(1,841)
<b>Net cash used for financing activities</b>	<b>(93,445)</b>	<b>(80,949)</b>
Effect of exchange rate changes on cash and cash equivalents	5,471	(317)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>136,172</b>	<b>(1,205)</b>
Cash and cash equivalents at beginning of period	35,290	41,832
<b>Cash and cash equivalents at end of period</b>	<b>\$ 171,462</b>	<b>\$ 40,627</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CHAMPIONX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1—BASIS OF PRESENTATION**

ChampionX Corporation is a global leader in chemistry solutions and highly engineered equipment and technologies that help companies drill for and produce oil and gas safely and efficiently around the world.

Unless the context requires otherwise, references in this report to “we,” “us,” “our,” “the Company,” or “ChampionX” mean ChampionX Corporation, together with our subsidiaries where the context requires.

On June 3, 2020, the Company and Ecolab Inc. (“Ecolab”) completed a Reverse Morris Trust transaction in which Ecolab transferred their upstream energy business to Champion X Holding, Inc. (“legacy ChampionX”) and, thereafter, distributed all of the shares of legacy ChampionX common stock to certain Ecolab stockholders (“the Distribution”). Immediately following the Distribution, a wholly owned subsidiary of the Company merged with and into legacy ChampionX, with legacy ChampionX continuing as the surviving company in the Merger and as a wholly owned subsidiary of the Company (“the Merger”). In association with the completion of the Merger, the Company has changed its name from Apergy Corporation (“Apergy”) to ChampionX Corporation, and common shares began trading on the New York Stock Exchange under the symbol “CHX”.

As a result of the Merger, the results of operations of legacy ChampionX have been reflected in our accompanying condensed consolidated financial statements from the closing date of the Merger through September 30, 2020. Results for the periods prior to June 3, 2020 reflect the financial and operating results of Apergy and do not include the financial and operating results of legacy ChampionX. See Note 2—Merger Transaction for additional information on the Merger.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of ChampionX have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission pertaining to interim financial information. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the audited consolidated financial statements, and notes thereto, which are included in our Annual Report on Form 10-K for the year ended December 31, 2019.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions that we may undertake in the future, actual results may differ from our estimates. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments unless otherwise specified) necessary for a fair statement of our financial condition and results of operations as of and for the periods presented. Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these financial statements may not be representative of the results that may be expected for the year ending December 31, 2020.

*Change in Accounting Estimate*

During the second quarter, we entered into new commercial agreements, which changed the economics of the leased asset program of our Electrical Submersible Pump (“ESP”) subsidiary in our Production & Automation Technologies segment. As such, we re-evaluated the estimated useful life and salvage value of our assets based on the combination of new commercial contracts and historical operating trends related to the aging of our lease fleet, including functioning assets beyond original expected life. Based on our analysis, effective April 1, 2020, we changed our estimate of useful life and salvage values for certain equipment to better reflect the useful life and estimated values of these assets at the end of their useful life. The estimated useful life, previously estimated at 12 months, was increased to 18 months. The estimated salvage value of the equipment, previously estimated at 50%, was decreased to 0%. The effect of the changes in estimate for the three and nine months ended September 30, 2020, was an increase in depreciation expense of \$8.6 million and \$26.2 million, respectively, a decrease in net income of \$5.7 million and \$17.6 million, and a decrease in basic and diluted earnings per share of \$0.03 per share and \$0.13 per share, respectively.

## Reclassifications

Certain prior period amounts have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net loss.

## Revisions

We revised our previously issued financial statements for the three and nine months ended September 30, 2019, for the correction of immaterial errors related to: (i) the assessing and recording of liabilities for state sales tax and associated penalties and interest, primarily resulting in an understatement of our selling, general, and administrative expense and interest expense for the three and nine months ended September 30, 2019; and (ii) previously recorded amounts including, but not limited to, the write-off of inventory and leased assets, timing of revenue recognition, and revenue classification, that the Company concluded were immaterial to our previously filed condensed consolidated financial statements. See the following table for the impact of the corrections on our condensed consolidated financial statements:

### Condensed Consolidated Statement of Income

(in thousands, except per share data)	Three Months Ended September 30, 2019		
	As Reported	Adjustments	As Revised
Product revenue <sup>(1)</sup>	\$ 244,651	\$ (4,784)	\$ 239,867
Service revenue <sup>(1)</sup>	20,708	3,271	23,979
Lease and other revenue <sup>(1)</sup>	13,022	(29)	12,993
<b>Total revenue</b>	<b>278,381</b>	<b>(1,542)</b>	<b>276,839</b>
Cost of goods and services	186,862	(2,722)	184,140
<b>Gross profit</b>	<b>91,519</b>	<b>1,180</b>	<b>92,699</b>
Selling, general and administrative expense	68,813	(408)	68,405
Interest expense, net	9,537	53	9,590
<b>Income before income taxes</b>	<b>13,478</b>	<b>1,535</b>	<b>15,013</b>
Provision for income taxes	3,059	366	3,425
<b>Net income</b>	<b>10,419</b>	<b>1,169</b>	<b>11,588</b>
<b>Net income attributable to ChampionX</b>	<b>\$ 10,225</b>	<b>\$ 1,169</b>	<b>\$ 11,394</b>
<b>Earnings per share attributable to ChampionX:</b>			
Basic	\$ 0.13	\$ 0.02	\$ 0.15
Diluted	\$ 0.13	\$ 0.02	\$ 0.15
<b>Comprehensive income</b>	<b>\$ 7,587</b>	<b>\$ 1,169</b>	<b>\$ 8,756</b>
<b>Comprehensive income attributable to ChampionX</b>	<b>\$ 7,393</b>	<b>\$ 1,169</b>	<b>\$ 8,562</b>

(1) Certain as reported amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported net income (loss).

(in thousands, except per share data)	Nine Months Ended September 30, 2019		
	As Reported	Adjustments	As Revised
Product revenue <sup>(1)</sup>	\$ 787,698	\$ (12,209)	\$ 775,489
Service revenue <sup>(1)</sup>	62,056	9,797	71,853
Lease and other revenue <sup>(1)</sup>	36,372	(211)	36,161
<b>Total revenue</b>	<b>886,126</b>	<b>(2,623)</b>	<b>883,503</b>
Cost of goods and services	579,289	(256)	579,033
<b>Gross profit</b>	<b>306,837</b>	<b>(2,367)</b>	<b>304,470</b>
Selling, general and administrative expense	199,044	177	199,221
Long-lived asset impairment <sup>(1)</sup>	1,746	—	1,746
Interest expense, net	30,068	158	30,226
<b>Income before income taxes</b>	<b>72,510</b>	<b>(2,702)</b>	<b>69,808</b>
Provision for income taxes	15,672	(398)	15,274
<b>Net income</b>	<b>56,838</b>	<b>(2,304)</b>	<b>54,534</b>
<b>Net income attributable to ChampionX</b>	<b>\$ 56,291</b>	<b>\$ (2,304)</b>	<b>\$ 53,987</b>

**Earnings per share attributable to ChampionX:**

Basic	\$ 0.73	\$ (0.03)	\$ 0.70
Diluted	\$ 0.73	\$ (0.03)	\$ 0.70

<b>Comprehensive income</b>	<b>\$ 56,237</b>	<b>(2,304)</b>	<b>\$ 53,933</b>
<b>Comprehensive income attributable to ChampionX</b>	<b>\$ 55,690</b>	<b>(2,304)</b>	<b>\$ 53,386</b>

(1) Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported net income (loss).

**Condensed Consolidated Statement of Changes in Stockholders' Equity**

(in thousands)	September 30, 2019		
	As Reported	Adjustments	As Revised
Stockholders' Equity:			
Capital in excess of par value of common stock	\$ 971,075	\$ (4,599)	\$ 966,476
Retained earnings	110,458	(1,587)	108,871
Total equity	1,041,806	(6,186)	1,035,620

(in thousands)	September 30, 2019		
	As Reported	Adjustments	As Revised
<b>Total equity at December 31, 2018</b>	<b>\$ 981,527</b>	<b>\$ (5,544)</b>	<b>\$ 975,983</b>
Cumulative effect of accounting changes	(1,662)	1,662	—
Net income	22,569	(2,631)	19,938
<b>Total equity at March 31, 2019</b>	<b>1,005,203</b>	<b>(6,513)</b>	<b>998,690</b>
Net income	23,850	(842)	23,008
<b>Total equity at June 30, 2019</b>	<b>1,031,737</b>	<b>(7,355)</b>	<b>1,024,382</b>
Net income	10,419	1,169	11,588
<b>September 30, 2019</b>	<b>1,041,806</b>	<b>(6,186)</b>	<b>1,035,620</b>

**Condensed Consolidated Statements of Cash Flows**

(in thousands)	Nine Months Ended September 30, 2019		
	As Reported	Adjustments	As Revised
<b>Cash provided by (used for) operating activities:</b>			
Net income	\$ 56,838	\$ (2,304)	\$ 54,534
Adjustments to reconcile net income to net cash provided (required) by operating activities:			
Deferred income taxes	(3,717)	(722)	(4,439)
Gain on sale of fixed assets <sup>(1)</sup>	(846)	—	(846)
Provision for losses on accounts receivable <sup>(1)</sup>	122	—	122
Amortization of deferred loan costs and accretion of discount <sup>(1)</sup>	1,943	—	1,943
Other	386	—	386
Changes in operating assets and liabilities (net of effects of foreign exchange):			
Receivables	12,218	1,915	14,133
Inventories	11,455	1,777	13,232
Prepaid expenses and other current assets	(16,742)	472	(16,270)
Accounts payable	(15,532)	(1,329)	(16,861)
Accrued compensation and employee benefits	(3,651)	—	(3,651)
Accrued expenses and other liabilities	14,288	(167)	14,121
Leased assets	(34,645)	340	(34,305)
Other	(634)	20	(614)

(1) Each of these amounts were included within other on the condensed consolidated statements of cash flows reported for the nine months ended September 30, 2019. These amounts have been reclassified consistent with the presentation in the current reporting period.

**NOTE 2—MERGER TRANSACTION**

On June 3, 2020 we completed the acquisition of the legacy ChampionX business through the merger of one of our wholly owned subsidiaries with legacy ChampionX. Immediately prior to the Merger, Ecolab transferred their upstream energy business to legacy ChampionX. Pursuant to the Merger, shares of Ecolab common stock that were tendered through an exchange offer were converted into common shares of legacy ChampionX on a 1-for-24.6667 basis, with each share of legacy ChampionX automatically converting into one share of the Company. To complete the acquisition, we issued 122.2 million shares of common stock, at a share price of \$10.34 per share, in exchange for 100% equity ownership of legacy ChampionX. The transaction resulted in legacy ChampionX equityholders owning approximately 62% of the Company on a fully diluted basis, with equityholders of the Company prior to the Merger owning approximately 38% on a fully diluted basis.

Acquisition-related costs associated with the Merger were expensed as incurred and total \$3.1 million and \$60.9 million for the three and nine months ended September 30, 2020, respectively, and are included in selling, general and administrative expense in our condensed consolidated statements of income (loss). The acquisition-related transaction costs consisted primarily of investment banker fees and legal and accounting costs.

The Merger constitutes a business combination, with the Company (formerly known as Apergy) treated as the accounting acquirer and legacy ChampionX treated as the acquired company for accounting purposes.

Legacy ChampionX provides on-site, technology-driven chemistry programs and value-enabling solutions and services to the global upstream oil and natural gas industry.

## Preliminary Purchase Price Allocation

The acquisition-date fair value of the consideration transferred consisted of the following:

<b>(in thousands)</b>	
Equity consideration	\$ 1,263,931
Replacement awards attributable to pre-combination services <sup>(1)</sup>	43,964
Unfavorable supply agreement <sup>(2)</sup>	44,000
Favorable supply agreement <sup>(2)</sup>	(55,000)
<b>Fair value of consideration transferred</b>	<b>\$ 1,296,895</b>

(1) Represents the fair value of the replacement equity awards to the extent services were provided by employees of legacy ChampionX prior to closing. See Note 12—Equity And Cash Incentive Programs for additional information about the replacement equity awards.

(2) As part of the Merger, the Company entered into a Cross Supply and Product Transfer Agreement with Ecolab in which over a period of approximately three years from the merger date, certain products will be manufactured by one party for the other. The cross selling prices in which each party will transfer their products, and include a take-or-pay element, have been set forth within this agreement and are not reflective of market terms. As a result, we recognized an intangible asset recorded at fair value for the favorable terms and a liability recorded at fair value for the unfavorable terms. The intangible asset will be amortized on a straight-line basis over a three-year period into cost of goods and services and the liability will be amortized as a component of product revenue.

The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their preliminary fair value estimates as of the acquisition date. The measurements of assets acquired and liabilities assumed, other than debt which was measured using Level 2 measurements, are based on inputs that are not observable in the market and thus represent Level 3 inputs. The excess of the purchase price over such fair values was recorded as goodwill. The purchase price allocation is based upon a preliminary valuation only and will be finalized upon completion of certain valuation procedures. Our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas in which the preliminary purchase price allocation is not yet finalized relate to the fair values of certain tangible assets acquired and liabilities assumed, the valuation of intangible assets acquired, certain working capital items, deferred income taxes and residual goodwill. We will complete the purchase price allocation and valuation during the 12-month period following the Merger date.

The following table provides the preliminary allocation of the purchase price as of the acquisition date.

<b>(in thousands)</b>	
Cash and cash equivalents	\$ 57,588
Receivables	392,409
Inventories	339,214
Prepaid expenses and other current assets	62,011
Property, plant, and equipment	690,047
Identifiable intangible assets <sup>(1)</sup>	305,000
Other non-current assets	156,002
<b>Total identifiable assets acquired</b>	<b>2,002,271</b>
Accounts payable	183,445
Other current liabilities <sup>(1)</sup>	170,433
Long-term debt <sup>(2)</sup>	537,000
Deferred tax liabilities	93,290
Other liabilities <sup>(1)</sup>	104,980
<b>Total liabilities assumed</b>	<b>1,089,148</b>
<b>Net identifiable assets acquired</b>	<b>913,123</b>
Add: Negative fair value of non-controlling interests	16,052
<b>Goodwill</b>	<b>367,720</b>
<b>Total net assets acquired</b>	<b>\$ 1,296,895</b>

(1) The fair value of the consideration transferred related to the Favorable and Unfavorable supply agreements has been excluded.

(2) In connection with the Merger, we assumed a term loan from legacy ChampionX, of which approximately \$26.9 million has been classified as short-term representing the mandatory amortization payments due within the next twelve months. See Note 6—Debt for further information.

## Summary of Significant Fair Value Methods

### Inventories

Acquired inventory is comprised of raw materials and finished goods. The preliminary fair value of finished goods was calculated as the estimated selling price, adjusted for costs of the selling effort and a reasonable profit allowance relating to the selling effort. The preliminary fair value of raw materials and supplies was determined based on replacement cost which approximates historical carrying value. The preliminary fair value step-up of \$13.6 million of inventories measured on a First In First Out (“FIFO”) basis is amortized to cost of goods and services in the condensed consolidated financial statements as the inventory is sold, which is expected to be a period of three months from the acquisition date. For inventories measured on a Last In First Out (“LIFO”) basis, the acquired inventory becomes the LIFO base layer inventory.

### Property, Plant, and Equipment

The preliminary fair value of identifiable fixed assets was calculated using a combination of valuation approaches, primarily including the cost approach which adjusts estimates of replacement cost for the age, condition and utility of the associated assets, as well as the market approach to value asset types where market comparable data is available, and is summarized below:

(in thousands)	Fair Value	Useful Life (years)
Land and land improvements	\$ 125,733	-
Buildings and leasehold improvements	207,427	5 to 40
Machinery, equipment and other	337,374	3 to 20
Capitalized software and computer hardware	19,513	3 to 7
Total property, plant, and equipment acquired	<u>\$ 690,047</u>	

### Identifiable Intangible Assets

The preliminary fair values of trademarks, trade names, and developed technology were determined using a relief from royalty methodology which estimates cost savings generated by a company related to the ownership of an asset for which otherwise have had to pay royalties or license fees on revenues earned through the use of the asset. Customer relationships were determined using the multi-period excess earnings method which involves isolating the net earnings attributable to the asset being measured based on the present value of the incremental after-tax cash flows attributable solely to the intangible assets over its remaining useful life. Preliminary fair values are summarized below:

(in thousands)	Fair Value	Useful Life (years)
Trademarks and trade names	\$ 25,000	15
Developed technology	115,000	7
Customer relationships	165,000	15
Total identifiable intangible assets acquired	305,000	
Favorable supply agreements	55,000	3
Total identifiable intangible assets recognized	<u>\$ 360,000</u>	

The weighted average amortization period for identifiable intangible assets recognized is 10.5 years.

### Leases

Lease-related assets and liabilities acquired were remeasured at the present value of the future minimum lease payments over the remaining lease term utilizing an updated incremental borrowing rate of the Company as if the acquired leases were new leases as of the acquisition date. Right-of-use assets were further adjusted for any off-market terms of the lease. The remaining lease term is based on the remaining term at the acquisition date plus any renewal or extension options that the Company is reasonably certain will be exercised. Additionally, the Company has elected short-term lease treatment for those acquired lease contracts which, at the acquisition date, have a remaining lease term of 12 months or less. For the leases acquired through the

Merger, the Company will retain the previous lease classification. This resulted in legacy ChampionX assets and liabilities of \$100.6 million and \$93.2 million, respectively, as of the acquisition date.

### Goodwill

Goodwill of \$367.7 million arising from the acquisition consisted largely of the expected synergies and economies of scale from combining the operations of the Company and legacy ChampionX. Goodwill recognized as a result of the acquisition is not deductible for tax purposes. We have allocated goodwill of \$278.7 million and \$89.0 million to our Production Chemical Technologies and Reservoir Chemical Technologies operating segments, respectively. See Note 5—Goodwill And Intangible Assets for a rollforward of our goodwill balance by operating segment.

### *Pro forma financial information*

The results of operations for legacy ChampionX that have been included in our condensed consolidated financial statements from the June 3, 2020 acquisition date through September 30, 2020 include revenue of \$644.5 million and net income of \$23.1 million. The following unaudited pro forma results of operations have been prepared as though the Merger was completed on January 1, 2019. Pro forma amounts are based on the preliminary purchase price allocation of the acquisition and are not necessarily indicative of results that may be reported in the future. Non-recurring pro forma adjustments including acquisition-related costs directly attributable to the Merger are included within the reported pro forma revenue and net income (loss).

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 633,526	\$ 866,506	\$ 2,068,904	\$ 2,634,009
Net income (loss) attributable to ChampionX	4,667	53,251	(789,858)	163,130

### *Transactions with Ecolab*

Certain agreements have been entered into between the Company and Ecolab, including, among others, a Tax Matters Agreement, an Intellectual Property Matters Agreement, a Cross Supply and Product Transfer Agreement, and a Transition Services Agreement, each entered into on the Closing Date; as well as the Employee Matters Agreement entered into on December 18, 2019. Pursuant to the Transition Services Agreement, Ecolab and its subsidiaries as well as legacy ChampionX and its subsidiaries will provide each other with specified support services and other assistance for a limited time following the closing of the Merger. Charges for services under the agreement are representative of our best estimate of market price and will be determined on an allocated cost basis, subject to an overall annual aggregate cap. Revenue recognized under the Cross Supply and Product Transfer Agreement for the three and nine months ended September 30, 2020 was \$49.5 million and \$67.4 million, respectively. The Cross Supply and Product Transfer Agreement also includes a take-or-pay element which requires the Company to purchase a minimum of 13.7 million kilograms of product over a ten-year period, approximately \$23.3 million. The Company has the option to terminate early beginning in the fifth year upon a two-year's notice, subject to a termination fee which declines over the contract term.

### **NOTE 3—NEW ACCOUNTING STANDARDS**

#### **Recently Adopted Accounting Standards**

Effective January 1, 2020, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-13, “*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.” This update amends the impairment model to utilize an expected credit loss methodology in place of the incurred credit loss methodology for financial instruments. We applied the provisions of this ASU to our financial instruments, mostly consisting of trade receivables, as of January 1, 2020. We utilized the modified retrospective method of adoption; therefore, prior period amounts have not been adjusted and continue to be reflected in accordance with our historical accounting policies. As of January 1, 2020, we recorded a cumulative adjustment to retained earnings of \$1.6 million, net of \$0.4 million of income tax benefit.

Our exposure to credit losses is primarily the result of product sales to our customers, resulting in trade receivables with payment terms generally ranging from 30 days to 90 days. We manage credit risk on trade receivables by transacting only with what management believes are financially secure customers. Accounts receivable are carried at the invoiced amounts, less an



allowance for doubtful accounts, and generally do not bear interest. The Company estimates the allowance for doubtful accounts for expected credit losses by analyzing accounts receivable balances by applying historical write-off and collection trend rates as well as current economic and market conditions. Specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. Account balances are written off against the allowance when it is determined the receivable will not be recovered.

The following table provides a rollforward of our allowance for credit losses balance:

(in thousands)	<b>Allowance for Credit Losses</b>	
<b>December 31, 2019</b>	\$	8,072
Impact of adoption on January 1, 2020		2,042
Provision for expected credit losses		3,384
Accounts written off		(1,947)
Recoveries		1,770
Foreign currency translation		(470)
<b>September 30, 2020</b>	<b>\$</b>	<b>12,851</b>

#### NOTE 4—INVENTORIES

Inventories consisted of the following:

(in thousands)	<b>September 30, 2020</b>		<b>December 31, 2019</b>	
Raw materials	\$	140,875	\$	50,099
Work in progress		11,051		13,325
Finished goods		354,584		175,774
		506,510		239,198
Inventory reserve		(17,237)		(12,067)
LIFO adjustments		(17,942)		(15,789)
Inventories, net	<b>\$</b>	<b>471,331</b>	<b>\$</b>	<b>211,342</b>

#### NOTE 5—GOODWILL AND INTANGIBLE ASSETS

During the first quarter of 2020, certain unprecedented events caused the rapid decline of several market indicators in the oil and gas industry. Decisions by the Organization of Petroleum Exporting Countries (“OPEC”) and other oil producing nations resulted in an oversupply of crude oil. Compounding this situation, demand for oil and gas commodities declined significantly as the world was impacted by the COVID-19 outbreak, which resulted in a sharp decline in crude oil prices. Consequently, our market capitalization was negatively impacted as a result of these market conditions and overall impact to our industry.

Management determined that these events and their related impact to future revenues and cash flows constituted a triggering event in the first quarter of 2020, requiring us to perform a recoverability test of our long-lived assets and an interim impairment assessment of goodwill as of March 31, 2020.

## Goodwill

The carrying amount of goodwill, including changes therein, by reporting segment is below:

(in thousands)	Production Chemical Technologies	Production & Automation Technologies	Drilling Technologies	Reservoir Chemical Technologies	Total
<b>December 31, 2019</b>	\$ —	\$ 809,977	\$ 101,136	\$ —	\$ 911,113
Acquisition <sup>(1)</sup>	278,723	—	—	88,997	\$ 367,720
Impairment	—	(616,271)	—	—	\$ (616,271)
Foreign currency translation	243	(2,473)	—	(3)	\$ (2,233)
<b>September 30, 2020</b>	<u>\$ 278,966</u>	<u>\$ 191,233</u>	<u>\$ 101,136</u>	<u>\$ 88,994</u>	<u>\$ 660,329</u>

(1) See Note 2—Merger Transaction for additional information related to the acquisition completed during June 2020.

Goodwill is not subject to amortization but is tested for impairment on an annual basis or more frequently if impairment indicators arise.

During the first quarter of 2020, we performed a quantitative analysis for each of our reporting units to determine the existence of goodwill impairment and the amount of the impairment loss. In performing the quantitative assessment, we estimated the fair value of each of our reporting units using a combination of the income and market approaches, which determined that the fair values were less than the respective carrying values for our Artificial Lift and Automation reporting units.

Our income-based valuation method determines the present value of estimated future cash flows to estimate the fair value of a reporting unit. Significant assumptions used in estimating our reporting unit fair values include: (i) annual revenue growth rates; (ii) operating margins; (iii) risk-adjusted discount rate; and (iv) terminal value determined using a long-term growth rate. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to the reporting unit. Given the unprecedented uncertainty of both short-term and long-term market conditions, we utilized a weighted-average projection for estimated future cash flows that consists of three estimated future cash flows scenarios with the following weightings: (i) low case scenario with a 40% weighting, (ii) base case scenario with a 40% weighting, and (iii) high case scenario with a 20% weighting.

Under the market approach, we estimated a fair value based on comparable companies' market multiples of revenues and earnings before interest, taxes, depreciation and amortization and factored in a control premium. Finally, we compared our estimates of fair values to our March 31, 2020 total public market capitalization and assessed an implied control premium based on the 20-day average of our common stock.

The reporting unit carrying values were adjusted based on the long-lived asset impairment assessment noted below. Financial and credit market volatility directly impacts our fair value measurement through the weighted average cost of capital used to determine a discount rate. During times of volatility, significant judgment must be applied to determine whether credit market changes are a short-term or long-term trend. We utilized discount rates of 14.5% and 16.5% for our Artificial Lift and Automation reporting units, respectively.

During the first quarter of 2020, we recorded a \$616.3 million impairment charge to goodwill, consisting of \$539.2 million and \$77.1 million in our Artificial Lift reporting unit and our Automation reporting unit, respectively. Both reporting units are within our Production & Automation Technologies reportable segment. The goodwill impairment charge includes \$560.1 million of non-taxable goodwill, which was recognized as a discrete item in determining our effective tax rate for the period. We did not identify any triggering events at any of our reporting units during the third quarter of 2020.

### Long-lived Asset Impairment

Long-lived assets, which include property, plant and equipment, right-of-use assets, and identified intangible assets, comprise a significant amount of our total assets. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and estimated useful lives.

The negative market indicators described above, as well as the results of the previously mentioned fair value determinations of certain of our reporting units, were triggering events indicating that certain of our long-lived tangible and intangible assets may be impaired. We performed recoverability tests on our asset groups as of March 31, 2020, which indicated that long-lived assets associated with two of our asset groups within Production & Automation Technologies were not recoverable as the aggregate amount of estimated undiscounted cash flows of these asset groups was determined to be below their respective carrying values. We estimated the fair value of these intangible and fixed assets using an income approach that required us to make long-term forecasts of our future revenues and costs related to the assets subject to review. These forecasts utilized assumptions about demand for our products and services, future market conditions and technological developments. The forecasts are dependent upon assumptions including those regarding oil prices and the general outlook for the global oil and gas industry, among other factors. Financial and credit market volatility directly impacts our fair value measurement through our income forecast. Changes to these assumptions, including, but not limited to: variability of spot and futures prices for crude oil; sustained declines in worldwide rig counts below current analysts' forecasts; significant deterioration of external financing for our customers; higher risk premiums or higher cost of equity; or any other significant adverse economic news could require a provision for impairment.

Accordingly, the estimated fair value of each of these asset groups was below their respective carrying value and as a result, we recorded a long-lived asset impairment charge of \$41.0 million in the first quarter of 2020, consisting of \$40.4 million to customer relationships and \$0.6 million to trademarks. We did not identify impairment triggering events at any of our asset groups during the third quarter of 2020.

The components of our definite- and indefinite-lived intangible assets were as follows:

(in thousands)	September 30, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Definite-lived intangible assets:</b>						
Customer relationships <sup>(1)</sup>	\$ 610,091	\$ 309,762	\$ 300,329	\$ 560,316	\$ 353,189	\$ 207,127
Trademarks <sup>(1)</sup>	59,860	26,459	33,401	35,695	24,830	10,865
Patents	38,280	28,547	9,733	38,436	26,838	11,598
Unpatented technologies	128,700	15,349	113,351	13,700	9,811	3,889
Favorable supply agreements <sup>(2)</sup>	54,728	5,929	48,799	—	—	—
Drawings and manuals	1,739	1,739	—	2,558	1,758	800
Other	5,299	4,723	576	5,332	4,504	828
	898,697	392,508	506,189	656,037	420,930	235,107
<b>Indefinite-lived intangible assets:</b>						
Trademarks	3,600	—	3,600	3,600	—	3,600
Total	\$ 902,297	\$ 392,508	\$ 509,789	\$ 659,637	\$ 420,930	\$ 238,707

(1) Includes impairment of customer relationship and trademark intangible assets of \$40.4 million and \$0.6 million, respectively, all of which relate to asset groups included within our Artificial Lift business.

(2) Favorable supply agreements were entered into as part of the Merger transaction. See Note 2—Merger Transaction for further information.

**NOTE 6—DEBT**

Long-term debt consisted of the following:

(in thousands)	September 30, 2020	December 31, 2019
2018 Credit Facility	\$ —	\$ —
2018 Term Loan Facility	190,000	265,000
2020 Term Loan Facility	530,287	—
6.375% Senior Notes due 2026	300,000	300,000
Finance lease obligations	9,561	9,375
Total	1,029,848	574,375
Net unamortized discounts and issuance costs	(8,688)	(9,709)
Total long-term debt	\$ 1,021,160	\$ 564,666
Current portion of long-term debt <sup>(1)</sup>	(31,470)	(4,845)
Long-term debt, less current portion	\$ 989,690	\$ 559,821

(1) Primarily includes the mandatory amortization payments due within twelve months related to the 2020 Term Loan Facility.

**2018 Credit Facility**

On February 14, 2020, the Company entered into an amendment to its existing credit facility dated May 9, 2018 (as amended, the “2018 Credit Facility”), which (i) provided for the incurrence of an additional \$150 million of revolving commitments under the 2018 Credit Facility, upon consummation of the Merger, (ii) permitted the consummation of the Merger and the incurrence of a senior secured term loan facility (“2020 Term Loan Facility”) in an aggregate amount up to \$537 million by legacy ChampionX, and (iii) continued to provide that all obligations under the 2018 Credit Facility continue to be guaranteed by certain of the Company’s wholly owned U.S. subsidiaries, including upon the consummation of the Merger, certain legacy ChampionX wholly owned U.S. subsidiaries. The weighted average interest rate on borrowings during the period was 2.69%.

**2020 Term Loan Facility**

On June 3, 2020, legacy ChampionX entered into a term loan facility for \$537.0 million (“2020 Term Loan Facility”). Proceeds from the 2020 Term Loan Facility were utilized to fund a cash payment of \$527.4 million from legacy ChampionX to Ecolab upon the completion of the Merger. We assumed the 2020 Term Loan Facility upon completion of the Merger, which is fully and unconditionally guaranteed by the Company and certain of its wholly owned domestic subsidiaries, which also guarantee the obligations under the 2018 Credit Facility. The 2020 Term Loan Facility matures at the earlier of (i) June 3, 2027 or (ii) January 30, 2026 in the event the Company’s senior unsecured notes due May 1, 2026 remain outstanding. Amounts outstanding under the 2020 Term Loan Facility bear interest, at the option of the Company, at a rate equal to (a) LIBOR plus 5.0% for eurocurrency rate loans (to the extent LIBOR is less than 1%, the LIBOR rate will be deemed to be 1%) or (b) the highest of (i) the Federal Funds Rate plus 1/2 of 1%, (ii) the “prime rate” quoted by Bank of America, N.A., (iii) LIBOR plus 1.00% and (iv) 1.00%, plus 4.0%. The 2020 Term Loan Facility contains customary representations and warranties, covenants, and events of default for loan facilities of this type. The weighted average interest rate on borrowings during the period was 6.00%.

The term loan is subject to mandatory amortization payments of \$6.7 million paid quarterly, beginning on September 30, 2020. Any voluntary prepayment of the 2020 Term Loan Facility which occurs prior to June 3, 2022, is subject to a make-whole prepayment premium on the aggregate prepaid principal amount of the 2020 Term Loan Facility.

**Senior Notes**

ChampionX has senior notes outstanding, the payment obligations of which are fully and unconditionally guaranteed by certain wholly owned subsidiaries of ChampionX on a joint and several basis. On June 18, 2020, the wholly owned subsidiaries of legacy ChampionX that guarantee the 2018 Credit Facility and the 2020 Term Loan Facility, delivered a Supplemental Indenture to join as guarantors of the senior notes.

## **NOTE 7—COMMITMENTS AND CONTINGENCIES**

The Company is subject to various claims and contingencies related to, among other things, workers' compensation, general liability (including product liability), automobile claims, health care claims, environmental matters and lawsuits. We record liabilities where a contingent loss is probable and can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the Company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. In accordance with applicable GAAP, the Company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that a material loss may have been incurred.

### **Guarantees and Indemnifications**

We have provided indemnities in connection with sales of certain businesses and assets, including representations and warranties, covenants and related indemnities for environmental health and safety, tax and employment matters. We do not have any material liabilities recorded for these indemnifications and are not aware of any claims or other information that would give rise to material payments under such indemnities.

In connection with the Company's separation from Dover Corporation ("Dover") in 2018 (the "Separation"), we entered into agreements with Dover that govern the treatment between Dover and us for certain indemnification matters and litigation responsibility. Generally, the separation and distribution agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of our business with us and to place financial responsibility for the obligations and liabilities of Dover's business with Dover. The separation and distribution agreement also establishes procedures for handling claims subject to indemnification and related matters. In addition, pursuant to the tax matters agreement, we have agreed to indemnify Dover and its affiliates against any and all tax-related liabilities incurred by them relating to the Separation and/or certain related transactions to the extent caused by an acquisition of ChampionX stock or assets or by any other action or failure to act undertaken by ChampionX or its affiliates.

Pursuant to the provisions of the tax matters agreement with Dover, we recorded an indemnification liability of \$3.4 million as of December 31, 2019, with respect to certain liabilities related to tax audits for the 2012-2016 tax years. We received notification in February 2020 that the tax audits and related assessments were completed, resulting in a final settlement amount of \$3.0 million, which was paid in April 2020.

In connection with the Merger, we entered into agreements with Ecolab that govern the treatment between Ecolab and us for certain indemnification matters and litigation responsibility. Generally, the separation and distribution agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of our business with us and to place financial responsibility for the obligations and liabilities of Ecolab's business with Ecolab. The separation and distribution agreement also establishes procedures for handling claims subject to indemnification and related matters. In addition, pursuant to the Tax Matters Agreement, we have agreed to indemnify Ecolab and its affiliates for (i) all taxes for which ChampionX is responsible as defined within the Tax Matters Agreement, (ii) all taxes resulting from a breach by ChampionX of any of its representations (but only to the extent relating to a breach occurring after the consummation of the Merger) or any of its covenants under the Tax Matters Agreement, (iii) all taxes resulting from an acquisition after the Merger of any of the stock or assets of ChampionX, other than as a result of the Merger or a repayment of the ChampionX Credit Facilities and (iv) reasonable costs and expenses (including reasonable attorneys' fees and expenses) related to the foregoing.

As of September 30, 2020 and December 31, 2019, we had \$51.6 million and \$15.7 million, respectively, of outstanding letters of credit, surety bonds and guarantees which expire at various dates through 2025. These financial instruments are primarily maintained as security for insurance, warranty and other performance obligations. Generally, we would only be liable for the amount of these letters of credit and surety bonds in the event of default in the performance of our obligations, the probability of which we believe is remote.

### **Litigation and Environmental Matters**

We are involved in various pending or potential lawsuits, claims and environmental actions that have arisen in the ordinary course of our business. These proceedings primarily involve claims by private parties alleging injury arising out of use of our products, patent infringement, employment matters, and commercial disputes, as well as possible obligations to investigate and mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and either operating or owned facilities. We review the probable outcome of such proceedings, the costs and

expenses reasonably expected to be incurred and accrued to date, and the availability and extent of insurance coverage. We accrue a liability for legal matters that are probable and can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the Company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. We are unable to predict the ultimate outcome of these actions because of the inherent uncertainty of litigation and unfavorable rulings or developments could occur, and there can be no certainty that the Company may not ultimately incur changes in excess of recorded liabilities. However, we believe the most probable, ultimate resolution of these matters will not have a material adverse effect on our condensed consolidated financial position, results of operations or cash flows.

### ***Environmental Matters***

The Company is currently participating in environmental assessments and remediation at approximately 11 locations, the majority of which are in the U.S., and environmental liabilities have been accrued reflecting our best estimate of future costs. Potential insurance reimbursements are not anticipated in the Company's accruals for environmental liabilities. As of September 30, 2020 environmental liability accruals related to these locations were \$8.9 million.

Prior to the Separation, groundwater contamination was discovered at the Norris Sucker Rods plant site located in Tulsa, Oklahoma ("Norris"). Initial remedial efforts were undertaken at the time of discovery of the contamination and Norris has since coordinated monitoring and remediation with the Oklahoma Department of Environmental Quality ("ODEQ"). As part of the ongoing long-term remediation process, Norris contracted an engineering and consulting firm to develop a range of possible additional remedial alternatives in order to accelerate the remediation process and associated cost estimates for the work. In October 2019, we received the firm's preliminary remedial alternatives for consideration. Now that we have such recommendations, we have begun discussions with ODEQ regarding our proposed long-term remediation plan. The plan is subject to ODEQ's review, input, and approval. Because we have not yet finalized a plan for further remediation at the site and discussions with ODEQ remain ongoing, we cannot fully anticipate the timing, outcome or possible impact of such further remedial activities, financial or otherwise. As a result of the recommendations in the report, we accrued liabilities for these remediation efforts of approximately \$2.0 million as of December 31, 2019. Liabilities could increase in the future at such time as we ultimately reach agreement with ODEQ on our remediation plan and such liabilities become probable and can be reasonably estimated, however, there have been no changes to our estimated liability as of September 30, 2020.

### ***Matters Related to Deepwater Horizon Incident Response***

On April 22, 2010, the deepwater drilling platform, the Deepwater Horizon, operated by a subsidiary of BP plc, sank in the Gulf of Mexico after an explosion and fire, resulting in a massive oil spill. Certain entities that are now subsidiaries of ChampionX as a result of the Merger (collectively the "COREXIT Defendants") supplied COREXIT™ 9500, an oil dispersant product listed on the U.S. EPA National Contingency Plan Product Schedule, which was used in the response to the spill. In connection with the provision of COREXIT™, the COREXIT Defendants were named in several lawsuits. Cases arising out of the Deepwater Horizon accident were administratively transferred and consolidated for pre-trial purposes under In Re: Oil Spill by the Oil Rig "Deepwater Horizon" in the Gulf of Mexico, on April 20, 2010, Case No. 10-md-02179 (E.D. La.) ("MDL 2179"). Claims related to the response to the oil spill were consolidated in a master complaint captioned the "B3 Master Complaint." In 2011, Transocean Deepwater Drilling, Inc. and its affiliates (the "Transocean Entities") named the COREXIT Defendants and other unaffiliated companies as first party defendants (In re the Complaint and Petition of Triton Asset Leasing GmbH, et al, MDL No. 2179, Civil Action 10-2771). In April and May 2011, the Transocean Entities, Cameron International Corporation, Halliburton Energy Services, Inc., M-I L.L.C., Weatherford U.S., L.P. and Weatherford International, Inc. (collectively, the "Cross Claimants") filed cross claims in MDL 2179 against the COREXIT Defendants and other unaffiliated cross defendants. In April and June 2011, in support of its defense of the claims against it, the COREXIT Defendants filed counterclaims against the Cross Claimants. On May 18, 2012, the COREXIT Defendants filed a motion for summary judgment as to the claims in the B3 Master Complaint. On November 28, 2012, the Court granted the COREXIT Defendants' motion and dismissed with prejudice the claims in the B3 Master Complaint asserted against the COREXIT Defendants. There currently remain three cases pending against the COREXIT Defendants relating to the Deepwater Horizon oil spill, all of which are expected to ultimately be dismissed pursuant to the Court's November 28, 2012 order granting the COREXIT Defendants' motion for summary judgment.

The Company believes the claims asserted against the COREXIT Defendants are without merit and intends to defend these lawsuits vigorously. The Company also believes that it has rights to contribution and/or indemnification (including legal expenses) from third parties. However, we cannot predict the outcome of these lawsuits, the involvement it might have in these matters in the future, or the potential for future litigation.

**NOTE 8 — ACCUMULATED OTHER COMPREHENSIVE LOSS**

Accumulated other comprehensive loss—Accumulated other comprehensive loss consisted of the following:

(in thousands)	Foreign Currency Translation	Defined Pension and Other Post- Retirement Benefits	Cash Flow Hedges	Accumulated Other Comprehensive Loss
<b>December 31, 2018</b>	\$ (36,146)	\$ (6,760)	\$ —	\$ (42,906)
Other comprehensive income (loss) before reclassifications, net of tax	1,090	(323)	—	767
Reclassification adjustment for net losses included in net income, net of tax	—	422	—	422
Other comprehensive income, net of tax	1,090	99	—	1,189
<b>March 31, 2019</b>	<u>\$ (35,056)</u>	<u>\$ (6,661)</u>	<u>\$ —</u>	<u>\$ (41,717)</u>
Other comprehensive income (loss) before reclassifications, net of tax	974	—	—	974
Reclassification adjustment for net losses included in net income, net of tax	—	68	—	68
Other comprehensive income (loss), net of tax	974	68	—	1,042
<b>June 30, 2019</b>	<u>\$ (34,082)</u>	<u>\$ (6,593)</u>	<u>\$ —</u>	<u>\$ (40,675)</u>
Other comprehensive loss before reclassifications, net of tax	(2,900)	—	—	(2,900)
Reclassification adjustment for net losses included in net income, net of tax	—	68	—	68
Other comprehensive income (loss), net of tax	(2,900)	68	—	(2,832)
<b>September 30, 2019</b>	<u>\$ (36,982)</u>	<u>\$ (6,525)</u>	<u>\$ —</u>	<u>\$ (43,507)</u>

(in thousands)	Foreign Currency Translation	Defined Pension and Other Post- Retirement Benefits	Cash Flow Hedges	Accumulated Other Comprehensive Loss
<b>December 31, 2019</b>	\$ (35,210)	\$ (8,827)	\$ —	\$ (44,037)
Other comprehensive loss before reclassifications, net of tax	(11,052)	—	—	(11,052)
Reclassification adjustment for net losses included in net income, net of tax	—	99	—	99
Other comprehensive income (loss), net of tax	(11,052)	99	—	(10,953)
<b>March 31, 2020</b>	\$ (46,262)	\$ (8,728)	\$ —	\$ (54,990)
Other comprehensive income before reclassifications, net of tax	5,703	—	653	6,356
Reclassification adjustment for net losses included in net income, net of tax	—	99	—	99
Other comprehensive income, net of tax	5,703	99	653	6,455
<b>June 30, 2020</b>	\$ (40,559)	\$ (8,629)	\$ 653	\$ (48,535)
Other comprehensive loss before reclassifications, net of tax	3,782	—	(862)	2,920
Reclassification adjustment for net losses included in net income, net of tax	—	99	—	99
Other comprehensive income (loss), net of tax	3,782	99	(862)	3,019
<b>September 30, 2020</b>	\$ (36,777)	\$ (8,530)	\$ (209)	\$ (45,516)

*Reclassifications from accumulated other comprehensive loss*—Reclassification adjustments from accumulated other comprehensive loss to net income (loss) related to defined pension and other post-retirement benefits consisted of the following:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line items on the condensed consolidated statements of income (loss)
	2020	2019	2020	2019	
<b>Pensions and other post-retirement benefits:</b>					
Amortization of actuarial loss and other	\$ 132	\$ 91	\$ 396	\$ 274	Other (income) expense, net
Settlement loss	—	—	—	486	Other (income) expense, net
Total before tax	132	91	396	760	Income (loss) before income taxes
Tax benefit	(33)	(23)	(99)	(202)	Provision for (benefit from) income taxes
Net of tax	\$ 99	\$ 68	\$ 297	\$ 558	Net income (loss)



**NOTE 9 — EARNINGS PER SHARE**

A reconciliation of the number of shares used for the basic and diluted earnings (loss) per share calculation was as follows:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss) attributable to ChampionX	\$ (7,914)	\$ 11,394	\$ (751,287)	\$ 53,987
Weighted-average number of shares outstanding	199,809	77,460	131,064	77,416
Dilutive effect of stock-based compensation	—	113	—	199
Total shares and dilutive securities	199,809	77,573	131,064	77,615
Basic earnings (loss) per share attributable to ChampionX	\$ (0.04)	\$ 0.15	\$ (5.73)	\$ 0.70
Diluted earnings (loss) per share attributable to ChampionX	\$ (0.04)	\$ 0.15	\$ (5.73)	\$ 0.70

For all periods presented, the computation of diluted earnings (losses) per share excludes awards with an anti-dilutive impact. For the three and nine months ended September 30, 2020, we excluded all outstanding equity awards from the calculation of weighted-average shares outstanding, because their inclusion would be anti-dilutive as we were in a loss position. For the three and nine months ended September 30, 2019, the diluted shares include the dilutive impact of equity awards except for approximately 0.4 million shares that were excluded because their inclusion would be anti-dilutive.

**NOTE 10—REVENUE**

Our revenue is generated primarily from product sales. Service revenue is generated from providing services to our customers. These services include laboratory and logistics services, chemical management services, troubleshooting, reporting, water treatment services, technical advisory assistance and field services. Lease revenue is derived from rental income of leased production equipment. These lease arrangements generally allow customers to rent equipment on a daily basis with no stated end date. Management accounts for these arrangements as a daily renewal option beginning on the lease commencement date, with the lease term determined as the period in which it is reasonably certain the option will be exercised. We do not track cost of goods sold separately for all of our revenue streams.

Within our Production & Automation Technologies and Drilling Technologies segments, substantially all of our performance obligations are recognized at a point in time and are primarily related to our product revenue derived from the sale of drilling and production equipment. Revenue is recognized when control transfers to the customer upon shipment or completion of installation, testing, or certification as required under the contract. Within our Production Chemical Technologies and Reservoir Chemical Technologies segments, revenue recognized from the sale of products and equipment is recognized at the point in time when the obligations in the contract with the customer are satisfied, which generally occurs with the transfer of the product or delivery of the equipment.

In certain markets, the Company utilizes joint ventures and independent third-party distributors and sales agents to sell and market products and services. Amounts payable to independent third-party distributors and sales agents may fluctuate based on sales and timing of distributor fee payments. For services rendered by such independent third-party distributors and sales agents, the Company records the consideration received on a net basis within product revenue in our condensed consolidated statements of income. As of September 30, 2020, accrued distributor fees were \$36.4 million and nil at December 31, 2019.

## Disaggregation of Revenue

Revenue disaggregated by revenue type was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Production Chemical Technologies:</b>				
Product revenue	\$ 361,167	\$ —	\$ 480,634	\$ —
Service revenue	46,933	—	63,165	—
Lease and other revenue	2,051	—	2,354	—
Total Production Chemical Technologies revenue	\$ 410,151	\$ —	\$ 546,153	\$ —
<b>Production &amp; Automation Technologies:</b>				
Product revenue	\$ 96,605	\$ 185,051	\$ 347,477	\$ 572,797
Service revenue	26,331	23,918	70,720	71,781
Lease and other revenue	13,985	12,993	38,944	36,161
Total Production & Automation Technologies revenue	\$ 136,921	\$ 221,962	\$ 457,141	\$ 680,739
<b>Drilling Technologies:</b>				
Product revenue	\$ 15,706	\$ 54,816	\$ 92,576	\$ 202,692
Service revenue	9	61	42	72
Total Drilling Technologies revenue	\$ 15,715	\$ 54,877	\$ 92,618	\$ 202,764
<b>Reservoir Chemical Technologies:</b>				
Product revenue	\$ 21,234	\$ —	\$ 30,473	\$ —
Service revenue	30	—	97	—
Total Reservoir Chemical Technologies revenue	\$ 21,264	\$ —	\$ 30,570	\$ —
<b>Corporate and other: <sup>(1)</sup></b>				
Product revenue	\$ 46,113	\$ —	\$ 62,980	\$ —
Service revenue	3,362	—	4,412	—
Total Corporate and other revenue	\$ 49,475	\$ —	\$ 67,392	\$ —
<b>Total Revenue:</b>				
Product revenue	\$ 540,825	\$ 239,867	\$ 1,014,140	\$ 775,489
Service revenue	76,665	23,979	138,436	71,853
Lease and other revenue	16,036	12,993	41,298	36,161
Total revenue	\$ 633,526	\$ 276,839	\$ 1,193,874	\$ 883,503

(1) Revenue generated from the Cross Supply and Product Transfer Agreement with Ecolab is recorded to Corporate. See Note 2—Merger Transaction for additional information on this arrangement.

Revenue disaggregated by geography was as follows:

Three Months Ended September 30, 2020						
(in thousands)	Production Chemical Technologies	Production & Automation Technologies	Drilling Technologies	Reservoir Chemical Technologies	Corporate	Total
United States	\$ 136,689	\$ 100,875	\$ 11,308	\$ 10,901	\$ 33,125	\$ 292,898
Canada	53,681	6,018	942	686	136	61,463
Middle East	66,352	10,899	182	4,696	6,048	88,177
Europe	45,720	1,823	1,948	715	5,822	56,028
Australia	5,944	11,266	32	82	—	17,324
Latin America	80,761	4,319	—	1,696	1,278	88,054
Asia-Pacific	11,931	1,382	818	882	3,066	18,079
Other	9,073	339	485	1,606	—	11,503
Total revenue	\$ 410,151	\$ 136,921	\$ 15,715	\$ 21,264	\$ 49,475	\$ 633,526

Nine Months Ended September 30, 2020						
(in thousands)	Production Chemical Technologies	Production & Automation Technologies	Drilling Technologies	Reservoir Chemical Technologies	Corporate	Total
United States	\$ 178,442	\$ 338,457	\$ 66,142	\$ 15,177	\$ 45,057	\$ 643,275
Canada	69,641	23,140	6,213	817	198	100,009
Middle East	94,500	33,065	722	7,583	8,485	144,355
Europe	62,864	9,481	9,543	987	7,048	89,923
Australia	7,827	32,801	101	93	—	40,822
Latin America	105,795	15,034	22	2,183	1,768	124,802
Asia-Pacific	15,623	4,653	8,495	1,155	4,836	34,762
Other	11,461	510	1,380	2,575	—	15,926
Total revenue	\$ 546,153	\$ 457,141	\$ 92,618	\$ 30,570	\$ 67,392	\$ 1,193,874

Three Months Ended September 30, 2019						
(in thousands)	Production Chemical Technologies	Production & Automation Technologies	Drilling Technologies	Reservoir Chemical Technologies	Corporate	Total
United States	\$ —	\$ 169,658	\$ 39,705	\$ —	\$ —	\$ 209,363
Canada	—	14,012	5,212	—	—	19,224
Middle East	—	16,030	286	—	—	16,316
Europe	—	4,530	5,939	—	—	10,469
Australia	—	7,919	83	—	—	8,002
Latin America	—	6,816	19	—	—	6,835
Asia-Pacific	—	2,239	3,335	—	—	5,574
Other	—	758	298	—	—	1,056
Total revenue	\$ —	\$ 221,962	\$ 54,877	\$ —	\$ —	\$ 276,839

Nine Months Ended September 30, 2019

(in thousands)	Production Chemical Technologies	Production & Automation Technologies	Drilling Technologies	Reservoir Chemical Technologies	Corporate	Total
United States	\$ —	\$ 527,893	\$ 149,880	\$ —	\$ —	\$ 677,773
Canada	—	39,712	14,296	—	—	54,008
Middle East	—	43,440	920	—	—	44,360
Europe	—	14,384	26,134	—	—	40,518
Australia	—	21,927	83	—	—	22,010
Latin America	—	23,917	19	—	—	23,936
Asia-Pacific	—	8,307	10,678	—	—	18,985
Other	—	1,159	754	—	—	1,913
<b>Total revenue</b>	<b>\$ —</b>	<b>\$ 680,739</b>	<b>\$ 202,764</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 883,503</b>

Revenue is attributed to regions based on the location of our direct customer, which in some instances is an intermediary and not necessarily the end user.

### Contract balances

Contract assets and contract liabilities from contracts with customers were as follows:

(in thousands)	September 30, 2020	December 31, 2019
Contract assets	\$ —	\$ 285
Contract liabilities - current	16,883	6,148

### NOTE 11—RESTRUCTURING AND OTHER RELATED CHARGES

Restructuring and other related charges as classified in our condensed consolidated statements of income (loss) were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Segment restructuring charges <sup>(1)</sup>:</b>				
Production Chemical Technologies	\$ 2,305	\$ —	\$ 2,305	\$ —
Production & Automation Technologies	914	1,246	9,919	2,317
Drilling Technologies	—	526	5,521	526
Reservoir Chemical Technologies	207	—	207	—
Corporate	—	—	368	—
<b>Total</b>	<b>\$ 3,426</b>	<b>\$ 1,772</b>	<b>\$ 18,320</b>	<b>\$ 2,843</b>

### Statements of Income (Loss) classification:

Cost of goods and services	\$ 2,228	\$ 1,344	\$ 12,974	\$ 1,743
Selling, general and administrative expense	1,198	428	5,346	1,100
<b>Total <sup>(1)</sup></b>	<b>\$ 3,426</b>	<b>\$ 1,772</b>	<b>\$ 18,320</b>	<b>\$ 2,843</b>

(1) Total restructuring expenses include asset write-downs, which are not included in the restructuring accrual below.

Restructuring and other related charges during the three and nine months ended September 30, 2020 included the following activities, which the Company expects will be completed by early 2021:

**Production Chemical Technologies.** Production Chemical Technologies incurred restructuring charges of \$2.3 million during the three and nine months ended September 30, 2020, primarily due to costs associated with employee severance and related benefits as a result of workforce reductions to better align the cost base with the significantly lower demand environment.

**Production & Automation Technologies.** Production & Automation Technologies incurred restructuring charges of \$0.9 million and \$9.9 million during the three and nine months ended September 30, 2020, respectively, related to various programs, primarily focused on facility closures and consolidations, exit of certain nonstrategic product lines, and workforce reductions.

**Drilling Technologies.** Drilling Technologies incurred restructuring charges of \$5.5 million during the nine months ended September 30, 2020, primarily due to costs associated with employee severance and related benefits as a result of workforce reductions and facility closures to better align the cost base with the significantly lower demand environment.

**Reservoir Chemical Technologies.** Reservoir Chemical Technologies incurred restructuring charges of \$0.2 million during the three and nine months ended September 30, 2020, primarily due to costs associated with employee severance and related benefits as a result of workforce reductions to better align the cost base with the significantly lower demand environment.

The following table details our restructuring accrual activities during the nine months ended September 30, 2020:

(in thousands)	<b>Restructuring Accrual Balance</b>
<b>December 31, 2019</b>	\$ 130
Restructuring charges and asset write downs	10,993
Payments	(12,078)
Liabilities assumed in the Merger	4,843
Other, including foreign currency translation	(39)
<b>September 30, 2020</b>	<b>\$ 3,849</b>

Our liability balance for restructuring and other related charges at September 30, 2020, reflects employee severance and related benefits initiated during the period as well as liabilities assumed in the Merger. Additional programs may be initiated during 2020 with related restructuring charges.

#### NOTE 12—EQUITY AND CASH INCENTIVE PROGRAMS

Stock-based compensation expense is reported within “Selling, general and administrative expense” in the condensed consolidated statements of income (loss). Stock-based compensation expense relating to all stock-based incentive plans was as follows:

(in thousands)	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Stock-based compensation expense	\$ 5,856	\$ 2,524	\$ 13,718	\$ 7,545
Tax benefit	(1,342)	(615)	(3,144)	(1,841)
Stock-based compensation expense, net of tax	<b>\$ 4,514</b>	<b>\$ 1,909</b>	<b>\$ 10,574</b>	<b>\$ 5,704</b>

A summary of activity relating to our share-based awards for the nine months ended September 30, 2020, was as follows:

(in shares)	<b>Stock-Settled Appreciation Rights</b>	<b>Performance Share Awards</b>	<b>Restricted Stock Units</b>	<b>Non-Qualified Stock Options</b>
Outstanding at January 1, 2020	422,361	174,726	440,048	—
Granted	—	121,261	583,814	—
Replacement awards <sup>(1)</sup>	—	—	2,357,733	7,324,853
Forfeited	(7,030)	(5,011)	(24,834)	(9,693)
Exercised / vested	—	(6,891)	(164,314)	(946)
Outstanding at September 30, 2020	<b>415,331</b>	<b>284,085</b>	<b>3,192,447</b>	<b>7,314,214</b>

(1) In connection with the Merger, the Company entered into the Employee Matters Agreement dated December 18, 2019, which provided the terms in which certain Ecolab share-based awards held by legacy ChampionX employees were replaced with share-based awards of the Company on the merger date. The fair value of the replacement awards has been allocated between each employee’s pre-combination and post-combination services. Amounts allocated to pre-combination services have been included as consideration transferred as part of the Merger. See Note 2—Merger Transaction for a summary of consideration

transferred. Compensation costs of \$15.8 million allocated to post-combination services will be recorded as stock-based compensation expense over each employees' remaining service period.

### NOTE 13—FAIR VALUE MEASUREMENTS

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. The hierarchy is broken down into three levels:

*Level 1*- Inputs are quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

*Level 2*- Inputs include observable inputs other than quoted prices in active markets.

*Level 3*- Inputs are unobservable inputs for which there is little or no market data available.

The carrying amount and the estimated fair value for assets and liabilities measured on a recurring basis are as follows:

(in thousands)	September 30, 2020					
	Carrying Amount	Fair Value Measurements				
		Level 1	Level 2	Level 3		
<b>Assets</b>						
Foreign currency forward contracts	\$ 1,392	\$ —	\$ 1,392	\$ —		
<b>Liabilities</b>						
Foreign currency forward contracts	\$ 4,647	\$ —	\$ 4,647	\$ —		

The carrying value of foreign currency forward contracts is at fair value, which is determined based on foreign currency exchange rates as of the balance sheet date and is classified within Level 2. For purposes of fair value disclosure above, derivative values are presented gross. See Note 14—Derivatives And Hedging Transactions for further discussion of gross versus net presentation of the Company's derivatives.

The carrying amounts of cash and cash equivalents, trade receivables, accounts payable, as well as amounts included in other current assets and other current liabilities that meet the definition of financial instruments, approximate fair value due to their short-term nature.

The fair value of our senior notes is based on Level 1 quoted market prices. The fair value of our term loan facilities are based on Level 2 quoted market prices for the same or similar debt instruments. The carrying amount and the estimated fair value of long-term debt, including current maturities, held by the Company were:

(in thousands)	September 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2018 Term Loan Facility	\$ 190,000	\$ 185,963	\$ 265,000	\$ 266,161
2020 Term Loan Facility	\$ 530,287	\$ 527,636	\$ —	\$ —
6.375% Senior Notes due 2026	\$ 300,000	\$ 288,300	\$ 300,000	\$ 316,710

We consider the inputs for our long-lived asset and goodwill impairment calculations to be Level 3 inputs in the fair value hierarchy. See Note 5—Goodwill And Intangible Assets for further information.

## NOTE 14—DERIVATIVES AND HEDGING TRANSACTIONS

The Company uses foreign currency forward contracts to manage risks associated with foreign currency exchange rates. The Company does not hold derivative financial instruments of a speculative nature or for trading purposes. Derivative contracts are recorded as assets and liabilities on the balance sheet at fair value. We evaluate hedge effectiveness at contract inception and thereafter on a quarterly basis. If a derivative is no longer expected to be effective, hedge accounting is discontinued. Changes in fair value are recognized immediately in earnings unless the derivative qualifies and is designated as a hedge. Changes in fair value attributable to changes in spot exchange rates for derivative contracts that have been designated as cash flow hedges are recognized in accumulated other comprehensive income (loss) (“AOCI”) and reclassified into earnings in the same period the hedged transaction affects earnings and are presented in the same income statement line as the earnings effect of the hedged item. Cash flows from derivatives are classified in the statement of cash flows in the same category as the cash flows from the items subject to designated hedge or undesignated (economic) hedge relationships.

The Company is exposed to credit risk in the event of nonperformance of counterparties for foreign currency forward exchange contracts. We monitor our exposure to credit risk by using major global banks and financial institutions as counterparties and monitoring their financial condition and credit profile. The Company does not anticipate nonperformance by any of these counterparties, and therefore, recording a valuation allowance against the Company’s derivative balance is not considered necessary.

### Derivative Positions Summary

Certain of the Company’s derivative transactions are subject to master netting arrangements that allow the Company to settle with the same counterparties. These arrangements generally do not call for collateral and as of the applicable dates presented in the following table, no cash collateral had been received or pledged related to the underlying derivatives. We have elected to present our derivative balances on a gross basis on the condensed consolidated balance sheet.

The following table summarizes the gross fair value of the Company’s outstanding derivatives and the lines in which they are presented on the condensed consolidated balance sheet. We did not have outstanding derivatives at December 31, 2019:

(in thousands)	September 30, 2020	
	Derivative Assets	Derivative Liabilities
Prepaid expenses and other current assets	\$ 1,392	\$ —
Accrued expenses and other current liabilities	—	4,647
	<u>\$ 1,392</u>	<u>\$ 4,647</u>

The following table summarizes the notional values of the Company’s outstanding derivatives:

(in thousands)	September 30, 2020	December 31, 2019
Notional value of foreign currency forward contracts	\$ 457,239	\$ —

### Cash Flow Hedges

The Company utilizes foreign currency forward contracts to hedge the effect of foreign currency exchange rate fluctuations on forecasted foreign currency transactions, primarily related to inventory purchases. These forward contracts are designated as cash flow hedges. The changes in fair value of these contracts attributable to changes in spot exchange rates are recorded in AOCI until the hedged items affect earnings, at which time the gain or loss is reclassified into the same line item in the condensed consolidated statements of income (loss) as the underlying exposure being hedged. The forward points are marked-to-market monthly and recognized in the same line item in the condensed consolidated statement of income as the underlying exposure being hedged.

### Derivatives Not Designated as Hedging Instruments

The Company also uses foreign currency forward contracts to offset its exposure to the change in value of certain foreign currency denominated assets and liabilities, primarily receivables and payables, which are remeasured at the end of each period. Although the contracts are effective economic hedges, they are not designated as accounting hedges. Therefore, changes in the

value of these derivatives are recognized immediately in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities.

### Effect of Derivative Instruments on Income

The loss of all derivative instruments recognized is summarized below:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Loss reclassified from AOCI to income on cash flow hedges:				
Cost of goods and services	\$ 19	\$ —	\$ 34	\$ —
Loss on derivatives not designated as hedging instruments:				
Other (income) expense, net	772	—	1,483	—
Total loss of derivative instruments	\$ 791	\$ —	\$ 1,517	\$ —

### NOTE 15 — SEGMENT INFORMATION

Upon completion of the Merger, the Company re-evaluated its reporting segments. Our determination of reporting segments was made on the basis of our strategic priorities within each segment and corresponds to the manner in which our chief operating decision maker reviews and evaluates operating performance to make decisions about resources to be allocated to the segment. In addition to our strategic priorities, segment reporting is also based on differences in the products and services we provide. As a result, we added two new reportable segments - Production Chemical Technologies and Reservoir Chemical Technologies. The legacy Apergy reportable segments remain unchanged.

Our reporting segments are:

- Production Chemical Technologies—provides oil and natural gas production and midstream markets with solutions to manage and control corrosion, oil and water separation, flow assurance, sour gas treatment and a host of water-related issues.
- Production & Automation Technologies—designs, manufactures, markets and services a full range of artificial lift equipment, end-to-end digital automation solutions, as well as other production equipment. Production & Automation Technologies' products are sold under a collection of brands including Harbison-Fischer, Norris, Alberta Oil Tool, Oil Lift Technology, PCS Ferguson, Pro-Rod, Upco, Unbridled ESP, Norriseal-Wellmark, Quartzdyne, Spirit, Theta, Timberline and Windrock.
- Drilling Technologies—designs, manufactures and markets polycrystalline diamond cutters and bearings for use in oil and gas drill bits under the US Synthetic brand.
- Reservoir Chemical Technologies—manufactures specialty products that support well stimulation, construction (including drilling and cementing) and remediation needs in the oil and natural gas industry.

Business activities that do not meet the criteria of an operating segment have been combined into Corporate and other. Corporate and other includes (i) corporate and overhead expenses, and (ii) revenue and costs for activities that are not operating segments.



Segment revenue and segment operating profit were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Segment revenue:</b>				
Production Chemical Technologies	\$ 410,151	\$ —	\$ 546,153	\$ —
Production & Automation Technologies	136,921	221,962	457,141	680,739
Drilling Technologies	15,715	54,877	92,618	202,764
Reservoir Chemical Technologies	21,264	—	30,570	—
Corporate and other <sup>(1)</sup>	49,475	—	67,392	—
<b>Total revenue</b>	<b>\$ 633,526</b>	<b>\$ 276,839</b>	<b>\$ 1,193,874</b>	<b>\$ 883,503</b>
<b>Segment operating profit (loss):</b>				
Production Chemical Technologies	\$ 35,172	\$ —	\$ 45,094	\$ —
Production & Automation Technologies	(7,454)	18,917	(693,213)	51,849
Drilling Technologies	(5,127)	13,797	2,421	64,853
Reservoir Chemical Technologies	(3,819)	—	(6,630)	—
<b>Total segment operating profit (loss)</b>	<b>18,772</b>	<b>32,714</b>	<b>(652,328)</b>	<b>116,702</b>
Corporate and other <sup>(1)</sup>	14,131	8,111	93,192	16,668
Interest expense, net	15,935	9,590	36,236	30,226
<b>Income (loss) before income taxes</b>	<b>\$ (11,294)</b>	<b>\$ 15,013</b>	<b>\$ (781,756)</b>	<b>\$ 69,808</b>

(1) Corporate and other includes costs not directly attributable or allocated to our reporting segments such as corporate executive management and other administrative functions, and the results attributable to our noncontrolling interest. Additionally, the sales and expenses related to the Cross Supply Agreement with Ecolab are included within Corporate and other. See Note 2—Merger Transaction for further information.

Legacy ChampionX has an integrated supply chain function that serves the Production Chemical Technologies and Reservoir Chemical Technologies reportable segments. As such, asset information for these reportable segments has not been provided and is not available, since the Company does not produce or utilize such information.

#### NOTE 16—CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

(in thousands)	Nine Months Ended September 30,	
	2020	2019
<b>Non-cash information:</b>		
Finance lease additions	\$ 4,071	\$ 3,990

#### Lease program

Our ESP leased asset program is reported in our Production & Automation Technologies segment. At the time of purchase, assets are recorded to inventory and are transferred to property, plant, and equipment when a customer contracts for an asset under our lease program. During the nine months ended September 30, 2020 and September 30, 2019, we transferred \$26.5 million and \$61.2 million, respectively, of inventory into property, plant, and equipment as a result of assets entering our leased asset program.

Expenditures for assets that are placed into our leased asset program expected to be recovered through sale are reported in leased assets in the operating section of our condensed consolidated statements of cash flows. All other capitalizable expenditures for assets that are placed into our lease asset program are classified as capital expenditures in the investing section of our condensed consolidated statements of cash flows. During the nine months ended September 30, 2020 and 2019, such expenditures were estimated to be \$12.9 million and \$13.9 million, respectively.

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Management’s discussion and analysis is our analysis of our financial performance, financial condition and significant trends that may affect our future performance. It should be read in conjunction with the condensed consolidated financial statements, and notes thereto, included elsewhere in this report. It contains forward-looking statements including, without limitation, statements relating to ChampionX’s plans, strategies, objectives, expectations and intentions that are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are often identified by the words “believe,” “anticipate,” “expect,” “may,” “intend,” “foresee,” “guidance,” “estimate,” “potential,” “outlook,” “plan,” “should,” “would,” “could,” “target,” “forecast” and similar expressions, including the negative thereof. We undertake no obligation to publicly update, revise or correct any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise, except to the extent required under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the disclosures under the heading “CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS.”*

### EXECUTIVE OVERVIEW AND BUSINESS OUTLOOK

ChampionX is a global leader in chemistry solutions and highly engineered equipment and technologies that help companies drill for and produce oil and gas safely and efficiently around the world. ChampionX’s products provide efficient functioning throughout the lifecycle of a well with a focus on the production phase of wells. Our Production Chemical Technologies segment provides chemistry solutions to maximize production from flowing oil and gas wells, and our Reservoir Chemical Technologies segment provides chemistry solutions used in drilling and completion activities. ChampionX’s Production & Automation Technologies offerings consist of artificial lift equipment and solutions, including rod pumping systems, electric submersible pump systems, progressive cavity pumps and drive systems and plunger lifts, as well as a full automation and digital offering consisting of equipment and software for Industrial Internet of Things (“IIoT”) solutions for downhole monitoring, wellsite productivity enhancement, and asset integrity management. ChampionX’s Drilling Technologies offering provides market leading polycrystalline diamond cutters and bearings that result in cost effective and efficient drilling.

On June 3, 2020, the Company and Ecolab completed a Reverse Morris Trust transaction in which Ecolab transferred their upstream energy business to legacy ChampionX and, thereafter, distributed all of the shares of legacy ChampionX common stock to certain Ecolab stockholders. Immediately following the Distribution, a wholly owned subsidiary of the Company merged with and into legacy ChampionX, with legacy ChampionX continuing as the surviving company in the Merger and as a wholly owned subsidiary of the Company. The Merger constitutes a business combination, with the Company (formerly known as Apergy) treated as the accounting acquirer and legacy ChampionX treated as the acquired company for accounting purposes. In association with the completion of the Merger, the Company has changed its name from Apergy Corporation to ChampionX Corporation, and common shares began trading on the New York Stock Exchange under the symbol “CHX”. See Note 2—Merger to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

In connection with the Merger, we reorganized our reportable segments. As a result, we have identified two new reportable segments, Production Chemical Technologies and Reservoir Chemical Technologies, which include the results of operations of legacy ChampionX. The legacy Apergy reportable segments remain unchanged. The results of operations of legacy ChampionX have been reflected in our accompanying condensed consolidated financial statements from the closing date of the Merger through September 30, 2020. Results for the periods prior to June 3, 2020 reflect the financial and operating results of legacy Apergy and do not include the financial and operating results of legacy ChampionX. As such, our historical results of operations are not comparable from period to period and may not be comparable to our financial results of operations in future periods.

#### *Basis of Presentation*

We revised our previously issued financial statements for the three and nine months ended September 30, 2019, for the correction of immaterial errors. In addition, we made certain reclassifications to conform to the presentation of the current period financial statements. Refer to Note 1—Basis of Presentation to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. For more information on our segments, see Note 15 — Segment Information to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## **Business Environment**

We focus on economic- and industry-specific drivers and key risk factors affecting our business segments as we formulate our strategic plans and make decisions related to allocating capital and human resources. Our business segments provide a broad range of technologies and products for the oil and gas drilling and production industry and, as a result, are substantially dependent upon activity levels in the oil and gas industry. Demand for our products, technologies and services is impacted by overall global demand for oil and gas, ongoing depletion rates of existing wells which produce oil and gas, and our customers' willingness to invest in the development and production of oil and gas resources. Our customers determine their operating and capital budgets based on current and future crude oil and natural gas prices, U.S. and worldwide rig count and U.S. well completions, among other factors. Crude oil and natural gas prices are impacted by supply and demand, which are influenced by geopolitical, macroeconomic and local events and have historically been subject to substantial volatility and cyclicalities. Future higher crude oil and natural gas prices typically translate into higher exploration and production budgets. Rig count, footage drilled and exploration and production investment by oil and gas operators have often been used as leading indicators for the level of drilling and development activity in the oil and gas sector.

## **Market Conditions and Outlook**

During the first half of 2020, certain unprecedented events caused the rapid decline of oil prices. Decisions by the Organization of Petroleum Exporting Countries ("OPEC") and other oil producing nations resulted in an oversupply of crude oil. Compounding this situation, demand for oil and gas commodities declined significantly as the world was impacted by the novel coronavirus ("COVID-19") outbreak, which resulted in a sharp decline in crude oil prices. In response to the significant reduction in oil prices, customer spending associated with drilling and exploration and production (E&P) activity deteriorated at a rapid pace due to reduced drilling activities, lower budgeted capital and operating expenditures and cost cutting initiatives.

Although oil prices rebounded moderately, we are still below average oil prices experienced during 2019. We expect market conditions to remain challenging throughout the remainder of 2020 and into 2021 as we believe it will take time for global oil demand to recover from the COVID-19 pandemic and for oil supplies to return to normal levels. Outside of the incremental revenues associated with the Merger, we experienced a sequential increase in revenue in North America, primarily within our Production and Automation Technologies segment. This increase was driven by higher volumes across our artificial lift portfolio as customer spending began to recover from the compressed levels experienced during the second quarter. Internationally, markets have been more resilient, particularly in Australia and the Middle East, as the need for artificial lift in those regions is increasing and the international sales cycle is longer than the North American cycle.

## **Response to the COVID-19 Pandemic**

In response to impacts of the COVID-19 pandemic, we implemented a set of immediate actions to reduce operating costs and capital spending. These actions are expected to generate annualized operating cost savings of \$135 million during fiscal year 2020 and include:

- reduction in total ChampionX headcount;
- company-wide salary reductions, including steeper reductions for executive management and the highest reduction for our chief executive officer; and
- facility rationalization and elimination of non-essential expenses.

Additionally, we have significantly reduced capital expenditures and expect a full year reduction of approximately \$50 million, including ESP leased assets within our Production & Automation Technologies segment. On our recently acquired Chemical Technologies business, we have reduced capital spend by 50% against prior year levels. We are continuing to monitor market developments and will take additional restructuring actions should further declines in oilfield service activities occur.

Ensuring the health and safety of our employees is paramount. As our businesses are classified as critical infrastructure, our manufacturing and field locations continue to operate and support the vital oil and gas infrastructure around the world. In order to protect our employees during this period, we mobilized our crisis management team and have adopted a comprehensive response plan, which includes:

- taking precautions consistent with local, state, and national government health authority guidelines, including the Centers for Disease Control and Prevention and the World Health Organization;

- meetings between the crisis management team and executive management to ensure real-time understanding of developments as they occur such that our communications and responses are appropriate and timely;
- equipping our employees with additional personal protective equipment;
- introducing new employee screening procedures in our operations; and
- enacting social distancing procedures, including staggering shifts, implementing rotating work schedules, and modifying workspaces and break areas.

## **CRITICAL ACCOUNTING ESTIMATES**

Refer to our “Critical Accounting Estimates” included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019, for a discussion of our critical accounting estimates, together with the following additional critical accounting estimate:

### ***Determination of Fair Value in Business Combinations***

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets acquired and liabilities assumed at their respective fair values. The determination of fair value requires the use of significant estimates and assumptions, and in making these determinations, management uses all available information. If necessary, we have up to one year after the acquisition closing date to finalize these fair value determinations under the applicable GAAP. For tangible and identifiable intangible assets acquired in a business combination, the determination of fair value utilizes several valuation methodologies including discounted cash flows which has assumptions with respect to the timing and amount of future revenue and expenses associated with an asset. The assumptions made in performing these valuations include, but are not limited to, discount rates, future revenues and operating costs, projections of capital costs, and other assumptions believed to be consistent with those used by principal market participants. Due to the specialized nature of these calculations, we engage third-party specialists to assist management in evaluating our assumptions as well as appropriately measuring the fair value of assets acquired and liabilities assumed.

**CONSOLIDATED RESULTS OF OPERATIONS**  
**THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

(dollars in thousands)	Three Months Ended		Change	
	September 30,			
	2020	2019	\$	%
Revenue	\$ 633,526	\$ 276,839	356,687	128.8%
Cost of goods and services	505,066	184,140	320,926	*
<b>Gross profit</b>	<b>128,460</b>	<b>92,699</b>	<b>35,761</b>	<b>38.6%</b>
Selling, general and administrative expense	122,156	68,405	53,751	78.6%
Interest expense, net	15,935	9,590	6,345	66.2%
Other (income) expense, net	1,663	(309)	1,972	*
<b>Income (loss) before income taxes</b>	<b>(11,294)</b>	<b>15,013</b>	<b>(26,307)</b>	<b>*</b>
Provision for (benefit from) income taxes	(3,962)	3,425	(7,387)	*
<b>Net income (loss)</b>	<b>(7,332)</b>	<b>11,588</b>	<b>(18,920)</b>	<b>*</b>
Net income attributable to noncontrolling interest	582	194	388	*
<b>Net income (loss) attributable to ChampionX</b>	<b>\$ (7,914)</b>	<b>\$ 11,394</b>	<b>(19,308)</b>	<b>*</b>
<i>Gross profit margin</i>	20.3%	33.5%		(1320) bps.
<i>SG&amp;A expense, percent of revenue</i>	19.3%	24.7%		(540) bps.
<i>Effective tax rate</i>	35.1%	22.8%		1230 bps.

\* Not meaningful

**Revenue.** Revenue increased \$356.7 million, or 128.8%, in the third quarter of 2020 compared to prior year as a result of \$481.2 million of incremental revenues from our recently acquired Chemicals Technologies business. Offsetting these incremental revenues was a \$85.0 million decrease in revenue in our Production & Automation Technologies segment driven by a decline in drilling and completion activities and related reduced customer spending in North America and internationally, which affected our artificial lift, digital products, and other production equipment offerings. Additionally, there was a \$39.2 million decrease in revenue in our Drilling Technologies segment primarily due to a steep decline in U.S. land-based rig count and drilling activity in the first quarter of 2020.

**Gross profit.** Gross profit increased \$35.8 million, or 38.6%, in third quarter of 2020 compared to the prior year mainly due to \$100.1 million of gross profit generated by our recently acquired Chemicals Technologies business, offset by lower sales volume at both Production & Automation Technologies and Drilling Technologies segments, and an increase in depreciation expense of \$23.2 million primarily due to a change in salvage value estimate for certain of our leased assets, and depreciation expense incurred on assets acquired related to the Merger.

**Selling, general and administrative expense.** Selling, general and administrative expense increased \$53.8 million, or 78.6%, in the third quarter of 2020 compared to the prior year primarily due to \$68.0 million of selling, general and administrative expense generated by our recently acquired Chemicals Technologies business subsequent to the acquisition date. The increase also includes acquisition and integration costs of \$8.4 million associated with the merger with legacy ChampionX. The increase in selling, general and administrative expense was partially offset by cost savings resulting from restructuring actions taken in the latter half of 2019 and the second quarter of 2020.

**Interest expense, net.** Interest expense, net increased \$6.3 million in the third quarter of 2020 compared to prior year primarily due to incremental interest expense related to the term loan assumed as part of the Merger.

**Provision for (benefit from) income taxes.** Our provision for (benefit from) income taxes reflected effective tax rates of 35.1% and 22.8%, in the third quarter of 2020 and 2019, respectively. The effective tax rate was impacted by the effects of valuation allowances in loss jurisdictions and foreign branch earnings.

**CONSOLIDATED RESULTS OF OPERATIONS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

(dollars in thousands)	Nine Months Ended		Change	
	2020	2019	\$	%
Revenue	\$ 1,193,874	\$ 883,503	\$ 310,371	35.1 %
Cost of goods and services	950,845	579,033	371,812	64.2 %
<b>Gross profit</b>	<b>243,029</b>	<b>304,470</b>	<b>(61,441)</b>	<b>(20.2)%</b>
Selling, general and administrative expense	330,956	199,221	131,735	66.1 %
Goodwill impairment	616,271	—	616,271	*
Long-lived asset impairment	40,980	1,746	39,234	*
Interest expense, net	36,236	30,226	6,010	19.9 %
Other (income) expense, net	342	3,469	(3,127)	(90.1)%
<b>Income (loss) before income taxes</b>	<b>(781,756)</b>	<b>69,808</b>	<b>(851,564)</b>	<b>*</b>
Provision for (benefit from) income taxes	(31,922)	15,274	(47,196)	*
<b>Net income (loss)</b>	<b>(749,834)</b>	<b>54,534</b>	<b>(804,368)</b>	<b>*</b>
Net income attributable to noncontrolling interest	1,453	547	906	*
<b>Net income (loss) attributable to ChampionX</b>	<b>\$ (751,287)</b>	<b>\$ 53,987</b>	<b>(805,274)</b>	<b>*</b>
<i>Gross profit margin</i>	<i>20.4%</i>	<i>34.5%</i>		<i>(1410) bps.</i>
<i>SG&amp;A expense, percent of revenue</i>	<i>27.7%</i>	<i>22.5%</i>		<i>520 bps.</i>
<i>Effective tax rate</i>	<i>4.1%</i>	<i>21.9%</i>		<i>(1780) bps.</i>

\* Not meaningful

**Revenue.** Revenue for the first nine months of 2020 increased \$310.4 million, or 35.1%, year-over-year driven by \$644.5 million of incremental revenues associated with our recently acquired Chemicals Technologies business. The increase in revenue was offset by a decrease in Drilling Technologies revenue of \$110.1 million year-over-year due to lower volumes and pricing pressure. Additionally, Production & Automation Technologies revenue decreased \$223.6 million year-over-year, driven by lower volumes in North America and internationally, and the disposition of our pressure vessel manufacturing business in the second quarter of 2019.

**Gross profit.** Gross profit for the first nine months of 2020 decreased \$61.4 million, or 20.2%, year-over-year, reflecting lower sales volumes in our Production & Automation Technologies and Drilling Technologies segments. The decrease is also attributable to an increase in depreciation expense of \$45.8 million, primarily due to a change in salvage value estimate for certain of our leased assets and incremental depreciation expense incurred on assets acquired related to the Merger. The decrease in gross profit in Drilling Technologies and Production & Automation Technologies is partially offset with gross profit of \$127.0 million generated subsequent to the Merger date by our recently acquired Chemicals Technologies business.

**Selling, general and administrative expense.** Selling, general and administrative expense for the first nine months of 2020 increased \$131.7 million, or 66.1%, year-over-year, primarily due to \$92.7 million of selling, general and administrative expense generated subsequent to the acquisition date by our recently acquired Chemicals Technologies business as well as acquisition and integration costs of \$78.0 million related to the Merger. The increase also includes an increase of \$4.2 million for restructuring charges, and \$5.3 million for professional fees incurred related to material weakness remediation. The increase in selling, general and administrative expense was partially offset by cost savings from restructuring actions taken in the second half of 2019 and the second quarter of 2020.

**Interest expense, net.** Interest expense, net in the first nine months of 2020 increased \$6.0 million year-over-year due to a draw on our revolving credit facility during the second quarter, as well as incremental interest expense related to the term loan assumed as part of the Merger, partially offset by the repayment of \$75 million of the Company's term loan during the quarter.

**Provision for (benefit from) income taxes.** The effective tax rates for the first nine months of 2020 and 2019 were 4.1% and 21.9% respectively. The tax benefit recognized during 2020 reflects the loss before income taxes, largely due to goodwill and intangible asset impairment charges recorded during the first quarter. The effective tax rate was primarily impacted by the tax effects of impairment of non-taxable goodwill of \$560.1 million, recognized as a discrete item. Other items impacting the rate include the effects of valuation allowances in loss jurisdictions and foreign branch earnings.

**SEGMENT RESULTS OF OPERATIONS**  
**THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

**Production Chemical Technologies**

(dollars in thousands)	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020 <sup>(1)</sup>	
Revenue	\$	410,151	\$	546,153
Operating profit		35,172		45,094
Operating profit margin		8.6%		8.3%
Depreciation and amortization	\$	26,407	\$	33,364

(1) The results of operations of the Production Chemical Technologies segment have been reflected in the table above from the closing date of the Merger through September 30, 2020.

**Revenue.** Production Chemical Technologies revenue is primarily generated from providing E&P and other customers in the oil and natural gas production and midstream markets with solutions to manage and control corrosion, oil and water separation, flow assurance, sour gas treatment and a host of water-related issues. Revenue was \$410.2 million for the period. Deteriorating market conditions during the second and third quarters of 2020 have significantly impacted customer demand; however, as Production Chemical Technologies mostly supports existing production, sales are somewhat less sensitive to changes in customers' capital and operating expenditure budgets related to the exploration for and development of new oil and natural gas reserves, which are more directly affected by trends in oil and natural gas prices.

**Operating profit.** Production Chemical Technologies generated operating profit of \$35.2 million during the three months ended September 30, 2020, which includes depreciation and amortization expense of \$26.4 million and an increase to cost of goods sold related to the step-up of inventory as part of the purchase price allocation of \$7.6 million.

**Production & Automation Technologies**

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Revenue	\$ 136,921	\$ 221,962	(85,041)	(38.3)%
Operating profit (loss)	(7,454)	18,917	(26,371)	(139.4)%
Operating profit (loss) margin	(5.4)%	8.5%		(1390) bps.
Depreciation and amortization	\$ 30,221	\$ 27,196	3,025	11.1 %
Restructuring and other related charges	914	2,194	(1,280)	(58.3)%
Environmental costs	—	1,988	(1,988)	(100.0)%
Acquisition transaction costs	250	167	83	49.7 %

\* Not meaningful

**Revenue.** Production & Automation Technologies revenue decreased \$85.0 million, or 38.3%, as compared to the prior year, primarily due to a decline in customer spending as a result of deteriorating market conditions during the second and third quarters of 2020. The decline in customer spending led to lower volumes and associated lower revenue in our artificial lift, digital products and other production equipment offerings in North America and international markets.

**Operating profit.** Production & Automation Technologies operating profit decreased \$26.4 million in the third quarter of 2020 compared to the prior year primarily due to lower sales volume as noted above. The decrease in costs of goods and services of approximately \$42.9 million as well as a \$14.5 million reduction in selling, general and administrative costs partially offset the decline in revenue. The decline in costs is predominantly volume driven, further supplemented by various cost reduction initiatives initiated during the latter part of 2019 and first half of 2020 in response to the economic downturn. These cost initiatives were implemented to better align the segment's cost base with the significantly lower demand environment.

(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Revenue	\$ 457,141	\$ 680,739	(223,598)	(32.8)%
Operating profit (loss)	(693,213)	51,849	(745,062)	*
Operating profit (loss) margin	(151.6)%	7.6%		(15920) bps.
Depreciation and amortization	\$ 99,327	\$ 82,177	17,150	20.9 %
Goodwill impairment	616,271	—	616,271	*
Long Lived Asset Impairment	40,980	1,746	39,234	*
Restructuring and other related charges **	9,919	6,225	3,694	59.3 %
Environmental costs	—	1,988	(1,988)	(100.0)%
Acquisition transaction costs	910	167	743	*

\* Not meaningful

\*\* Includes a \$2.5 million loss on disposal during the nine months ended September 30, 2019, related to our pressure vessel manufacturing business.

**Revenue.** Production & Automation Technologies revenue for the nine months of 2020 decreased \$223.6 million, or 32.8%, year-over-year, driven by lower volumes in North America and internationally due to deteriorating market conditions during the first half of 2020, and the disposition of our pressure vessel manufacturing business in the second quarter of 2019.

**Operating profit.** Production & Automation Technologies operating profit decreased \$745.1 million year-over-year primarily driven by goodwill and long-lived asset impairment charges of \$616.3 million and \$41.0 million, respectively, in the first quarter of 2020. Excluding impairment charges, operating profit decreased \$89.6 million, primarily due to lower sales volume, an increase in depreciation and amortization expense of \$17.2 million primarily related to a change in salvage value estimate for certain of our leased assets, and increased restructuring expense and other related charges of \$3.7 million, partially offset by decreased environmental costs of \$2.0 million.

#### Drilling Technologies

(dollars in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Revenue	\$ 15,715	\$ 54,877	(39,162)	(71.4)%
Operating profit (loss)	(5,127)	13,797	(18,924)	(137.2)%
Operating profit margin	(32.6)%	25.1%		(5770) bps.
Depreciation and amortization	\$ 1,936	\$ 2,244	(308)	(13.7)%
Restructuring and other related charges	—	526	(526)	(100.0)%

**Revenue.** Drilling Technologies revenue decreased \$39.2 million, or 71.4%, in the third quarter of 2020 compared to the prior year primarily due to a steep decline in U.S. land-based rig count and associated decline in customer spending on drilling activities, which negatively impacted sales volumes of our diamond cutters and diamond bearings products.

**Operating profit.** Drilling Technologies operating profit decreased \$18.9 million in the third quarter of 2020 compared to the prior year period primarily due to lower revenue.



(dollars in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Revenue	\$ 92,618	\$ 202,764	(110,146)	(54.3)%
Operating profit	2,421	64,853	(62,432)	(96.3)%
Operating profit margin	2.6%	32.0%		(2940) bps.
Depreciation and amortization	\$ 6,045	7,079	(1,034)	(14.6)%
Restructuring and other related charges	5,521	526	4,995	*

**Revenue.** Drilling Technologies revenue decreased \$110.1 million, or 54.3%, year-over-year primarily due to a steep decline in U.S. land-based rig count and associated decline in customer spending on drilling activities, which negatively impacted sales volumes of our diamond cutters and diamond bearings products.

**Operating profit.** Drilling Technologies operating profit decreased \$62.4 million year-over-year due to lower revenue and increased restructuring charges of \$5.0 million associated with employee severance and related benefits, partially offset by productivity savings.

### Reservoir Chemical Technologies

(dollars in thousands)	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020 <sup>(1)</sup>	
	Revenue	\$	21,264	\$
Operating loss		(3,819)		(6,630)
Operating loss margin		(18.0)%		(21.7)%
Depreciation and amortization	\$	1,923	\$	4,141

(1) The results of operations of the Reservoir Chemical Technologies segment have been reflected in the table above from the closing date of the Merger through September 30, 2020.

**Revenue.** Reservoir Chemical Technologies revenue is primarily comprised of the sale of specialty products that support well stimulation, construction (including drilling and cementing) and remediation needs to service and equipment companies that support global E&P companies. Revenue was \$21.3 million for the period. Reservoir Chemical Technologies products are sensitive to changes in its customers' capital expenditure budgets as they relate closely to the exploration and development of new oil and natural gas reserves. This exploration and development activity is affected by trends in oil and natural gas prices and its customers' corresponding levels of drilling activity, capital investment and well development.

**Operating profit.** Reservoir Chemical Technologies generated operating loss of \$3.8 million in the third quarter of 2020, which includes depreciation and amortization expense of \$1.9 million. Reservoir Chemical Technologies generated operating loss of \$6.6 million for the nine months of 2020, which includes depreciation and amortization expense of \$4.1 million and an increase in cost of goods sold related to the step-up of inventory as part of the purchase price allocation of \$0.5 million.

### CAPITAL RESOURCES AND LIQUIDITY

#### Overview

At September 30, 2020, we had cash and cash equivalent balances of \$171.5 million for the primary purpose of working capital and operational support needs. During the second quarter, in order to ensure appropriate liquidity as a result of the industry downturn, the negative business impacts of COVID-19, and to have sufficient funds to extinguish merger-related transaction expenses, we borrowed \$125 million against our revolving credit facility. As a result of ongoing robust cash generation throughout the second and third quarters, the Company was able to fully repay the \$125 million borrowing during the second quarter as well as an additional \$82 million during the third quarter.

All of our cash held outside the United States could be repatriated; however, we have not provided for foreign withholding taxes on our undistributed foreign earnings from jurisdictions which impose such taxes since we have determined that such earnings are indefinitely reinvested in those jurisdictions.

Our primary source of cash is from operating activities. We have historically generated, and expect to continue to generate, positive cash flow from operations. Cash generated from operations is generally allocated to working capital requirements, investments in facilities and systems, acquisitions that create value with add-on capabilities that broaden our existing businesses and overall growth strategy, and debt repayments.

At September 30, 2020, we had a long-term debt balance of \$989.7 million, net of the current portion of long-term debt of \$31.5 million, primarily consisting of our term loan due 2027 with a principal amount of \$530.3 million, our senior notes due in 2026 with a principal amount of \$300.0 million, and our term loan due in 2025 with a principal amount of \$190.0 million. We also have access to a revolving credit facility which expires in May of 2023, which had an unused capacity of \$355.4 million at September 30, 2020.

## Outlook

We expect to generate our liquidity and capital resources through operations and, when needed, through our revolving credit facility. The volatility in credit, equity and commodity markets resulting from current market conditions can create uncertainty for our businesses. However, the Company believes, based on our current financial condition and current expectations of future market conditions, that we will meet our short- and long-term needs with a combination of cash on hand, cash generated from operations, our use of our revolving credit facility and access to capital markets.

Given the uncertainty created by the lack of visibility of future operating conditions in the current market environment and over the remainder of the year, we are restricting our capital expenditures to maintenance requirements and integration related investments only. We expect our full year 2020 capital expenditures, combined with investment in leased assets in the net cash from operating activities section of our consolidated statement of cash flows, to be between \$50 to \$55 million.

## Cash Flows

(in thousands)	Nine Months Ended September 30,	
	2020	2019
Cash provided by operating activities	\$ 189,432	\$ 123,390
Cash provided by (used in) investing activities	34,714	(43,329)
Cash used in financing activities	(93,445)	(80,949)
Effect of exchange rate changes on cash and cash equivalents	5,471	(317)
Net increase (decrease) in cash and cash equivalents	\$ 136,172	\$ (1,205)

### Operating Activities

Cash provided by operating activities in the nine months ended September 30, 2020 increased \$66.0 million compared to 2019. The increase in cash provided by operating activities was primarily driven by increases from changes in our operating assets and liabilities in 2020 as compared to 2019, primarily due to an increase in cash received related to the collection of trade receivables and a reduction in our cash outflows for inventory procurement and cash outflows on leased assets due to strict adherence to cost and capital discipline. Partially offsetting the increase in cash provided by operating cash flows was lower net income, adjusted for non-cash items, and merger related acquisition and integration costs incurred during the period.

Expenditures for assets that are placed into our lease asset program expected to be recovered through sale are reported in leased assets in the operating section of our condensed consolidated statements of cash flows. All other capitalizable expenditures for assets that are placed into our lease asset program are classified as capital expenditures in the investing section of our condensed consolidated statements of cash flows.

### Investing Activities

Cash provided by investing activities was \$34.7 million for the nine months ended September 30, 2020, and was primarily comprised of cash acquired in the merger with legacy ChampionX of \$57.6 million and \$9.3 million of cash proceeds on sale of fixed assets, partially offset by capital expenditures of \$32.2 million.

Cash used in investing activities was \$43.3 million for the nine months ended September 30, 2019 and was primarily comprised of capital expenditures of \$31.6 million, a \$12.5 million payment to acquire a business comprising certain assets used in the manufacturing of downhole monitoring systems, and a \$2.2 million payment related to the sale of our pressure vessel manufacturing business in our Production & Automation Technologies segment, partially offset by \$3.0 million of cash proceeds from the sale of fixed assets.

#### *Financing Activities*

Cash used in financing activities of \$93.4 million for the nine months ended September 30, 2020, was primarily the result of repayments totaling \$81.7 million on our Term Loan Facilities, \$4.4 million in debt issuance costs related to the amendment of the credit agreement, as discussed in Note 6—Debt to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, \$4.5 million of payments of finance lease obligations, and a distribution of \$2.2 million to one of our non-controlling interests. Net borrowings under our revolving credit facility totaled zero in 2020 as we borrowed and fully repaid the borrowing within the same period.

Cash used in financing activities of \$80.9 million for the nine months ended September 30, 2019, was primarily the result of \$111.5 million of debt repayment on the principal balance of our term loan and payments totaling \$4.1 million for finance lease obligations, partially offset by proceeds on long-term debt of \$36.5 million.

#### **Long-term Debt**

##### *Senior Notes*

Refer to Note 10—Debt, included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019, for information related to our Senior Notes, which are fully and unconditionally guaranteed by certain 100-percent-owned subsidiaries (the “Guarantors”) of ChampionX on a joint and several basis. On June 18, 2020, the wholly-owned subsidiaries of legacy ChampionX that guarantee the 2018 Credit Facility and the 2020 Term Loan Facility, delivered a Supplemental Indenture to join as guarantors of the senior notes.

The Senior Notes indenture restricts the ability of the Guarantors to pay dividends or other distributions, make loans or advances, or sell, lease or otherwise transfer property and other assets to certain restricted subsidiaries or the Parent.

As part of the Senior Notes indenture, a guarantee of the senior notes by ChampionX or a Guarantor is subject to release in the following circumstances:

- the sale, exchange or transfer (by merger or otherwise) of (i) the capital stock of the Guarantor after which the Guarantor is no longer a restricted subsidiary or (ii) all or substantially all of the assets of such Guarantor made in a manner not in violation of the indenture;
- the release or discharge of the guarantee by, or direction obligation of, such Guarantor with respect to the Senior Credit Facilities or capital markets debt securities that resulted in the creation of such guarantee, except a discharge by or as a result of payment under such guarantee;
- the designation of the subsidiary as an unrestricted subsidiary under the indenture;
- the legal defeasance or covenant defeasance of the Senior Notes in accordance with the terms of the indenture;
- the merger or consolidation of any Guarantor with and into the Issuer or another Guarantor that is the surviving person in such merger or consolidation, or upon the liquidation of such Guarantor following the transfer of all its assets to the Parent or another Guarantor; or
- an amendment of the Senior Note indenture agreement.

The obligations of each Guarantor under its note guarantee are limited as necessary to prevent such note guarantee from constituting a fraudulent conveyance under applicable law.

The following summarized financial information presents the Parent and Guarantors (collectively and together with the Parent, the “Obligor Group”) on a combined basis:

**Condensed Combined Statement of Loss of the Obligor Group**

(dollars in thousands)	<b>Nine Months Ended September 30, 2020</b>	
Total Revenue	\$	1,113,381
Cost of goods and services		882,034
Selling, general and administrative expense		318,327
Goodwill impairment		(396,017)
Long-lived asset impairment		(40,980)
Loss before income taxes		(559,541)
<b>Net loss</b>	<b>\$</b>	<b>(533,277)</b>

**Condensed Combined Balance Sheets of the Obligor Group**

(dollars in thousands)	<b>September 30, 2020</b>		<b>December 31, 2019</b>	
<b>Current assets:</b>				
Current assets	\$	1,264,872	\$	419,692
<b>Non-current assets:</b>				
Goodwill		611,223		639,280
Advances due from affiliates		17,421		18,534
Other non-current assets		1,230,457		430,553
<b>Total assets</b>	<b>\$</b>	<b>3,123,973</b>	<b>\$</b>	<b>1,508,059</b>
<b>Current liabilities:</b>				
Current liabilities	\$	652,004	\$	173,372
<b>Non-current liabilities:</b>				
Advances due to affiliates		91,686		87,682
Other non-current liabilities		1,279,455		664,581
<b>Total liabilities</b>	<b>\$</b>	<b>2,023,145</b>	<b>\$</b>	<b>925,635</b>

*Senior Secured Credit Facilities*

In May 2018, we entered into a credit agreement (“credit agreement”) governing the terms of our senior secured credit facilities, consisting of (i) a seven-year senior secured term loan B facility (“term loan facility”) and (ii) a five-year senior secured revolving credit facility (“revolving credit facility,” and together with the term loan facility, the “senior secured credit facilities”). Refer to Note 10—Debt included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019, for additional information related to our senior secured credit facilities.

On February 14, 2020, we amended our credit agreement, which (i) provides for the incurrence of an additional \$150 million of revolving commitments under the amended credit agreement, upon consummation of the Merger, (ii) permits the consummation of the Merger and the incurrence of a senior secured term loan facility in an aggregate amount up to \$537 million by ChampionX, and (iii) continues to provide that all obligations under the amended agreement continue to be guaranteed by certain of our wholly-owned U.S. subsidiaries.

During the nine months ended September 30, 2020, we made a \$75.0 million payment on our 2018 Term Loan Facility and amortization payments of \$6.7 million on the 2020 Term Loan Facility.

### Revolving Credit Facility

A summary of our revolving credit facility at September 30, 2020, was as follows:

(in millions) Description	Amount	Debt Outstanding	Letters of Credit	Unused Capacity	Maturity
Five-year revolving credit facility	\$ 400.0	\$ —	\$ 44.6	\$ 355.4	May 2023

Additionally, we have a letter of credit outside of the revolving credit facility of approximately \$0.2 million. As of September 30, 2020, we were in compliance with all restrictive covenants under our revolving credit facility.

### 2020 Term Loan Facility

On June 3, 2020, prior to the closing of the Merger, legacy ChampionX entered into a term loan facility for \$537.0 million (“2020 Term Loan Facility”). Proceeds from the 2020 Term Loan Facility were utilized to fund a cash payment of \$527.4 million from legacy ChampionX to Ecolab prior to the closing of the Merger. We assumed the 2020 Term Loan Facility upon completion of the Merger, which is fully and unconditionally guaranteed by the Company and certain of its wholly-owned domestic subsidiaries, which also guarantee the obligations under the 2018 Term Loan Facility. The 2020 Term Loan Facility matures at the earlier of (i) June 3, 2027 or (ii) January 30, 2026 in the event the Company’s senior unsecured notes due May 1, 2026 remain outstanding. Amounts outstanding under the 2020 Term Loan Facility bear interest, at the option of the Company, at a rate equal to (a) LIBOR plus 5.0% for eurocurrency rate loans or (b) the highest of (i) the Federal Funds Rate plus 1/2 of 1%, (ii) the “prime rate” quoted by Bank of America, N.A., (iii) LIBOR plus 1.00% and (iv) 1.00%, plus 4.0%. The 2020 Term Loan Facility contains customary representations and warranties, covenants, and events of default for loan facilities of this type.

### OFF-BALANCE SHEET ARRANGEMENTS

Information related to guarantees is incorporated herein by reference from Note 7—Commitments And Contingencies to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 3—New Accounting Standards to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We may be exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. This risk arises primarily as a result of potential changes in the fair market value of financial instruments due to adverse fluctuations in commodity prices, foreign currency exchange rates, and interest rates as discussed below. We do not use derivative financial instruments where the objective is to generate profits solely from trading activities.

#### Commodity Price Risk

We use a variety of raw materials, primarily metals and semi-processed or finished components, that are generally available from various sources. Commodity pricing for metals, such as nickel, chrome, molybdenum, vanadium, manganese and steel scrap, fluctuate with the market. As a result, our earnings are exposed to commodity market price fluctuations. Although some cost increases may be recovered through increased prices to customers, we attempt to control such costs through fixed-price contracts with suppliers and various other programs, such as our global supply chain activities.

## Foreign Currency Risk

We conduct operations around the world in a number of different currencies. Many of our foreign subsidiaries have designated the local currency as their functional currency. Our earnings are therefore subject to change due to fluctuations in foreign currency exchange rates when the earnings in foreign currencies are translated into U.S. dollars. We do not hedge this translation impact on earnings. When transactions are denominated in currencies other than our subsidiaries' respective functional currencies, both with external parties and intercompany relationships, these transactions result in increased exposure to foreign currency exchange effects. The Company uses foreign currency forward contracts to manage risks associated with foreign currency exchange rates. As of September 30, 2020, the amount of gain or loss in the fair value of derivative instruments that would have resulted from a 10 percent increase or decrease in the underlying price of the contracts was not material.

## Interest Rate Risk

Our use of fixed- or variable-rate debt directly exposes us to interest rate risk. Fixed-rate debt, such as the senior notes, exposes us to changes in the fair value of our debt due to changes in market interest rates. Fixed-rate debt also exposes us to the risk that we may need to refinance maturing debt with new debt at higher rates, or that we may be obligated to pay rates higher than the current market rate. Variable-rate debt, such as our term loan or borrowings under our revolving credit facility, exposes us to short-term changes in market rates that impact our interest expense.

As of September 30, 2020, we had unhedged variable rate debt of \$190.0 million related to our 2018 Term Loan Facility with an interest rate of 2.69%. A hypothetical 10% adverse movement in the interest rate, or 27 basis points, would result in an increase to interest expense of \$0.5 million on an annualized basis.

We also had unhedged variable rate debt of \$530.3 million related to our 2020 Term Loan Facility with an interest rate of 6.00%. A hypothetical 10% adverse movement in the interest rate, or 60 basis points, would result in an increase to interest expense of \$1.9 million. As the 2020 Term Loan Facility was acquired as part of the Merger on June 3, 2020, we have calculated the interest rate sensitivity on the interest expense expected to be incurred for the period subsequent to the Merger date through December 31, 2020.

## Fair Value of Financial Instruments

The fair value of our fixed rate long-term debt and variable rate debt is estimated based on quoted market prices or prices quoted from third-party financial institutions. We do not currently intend to enter into any interest rate hedging agreements, but will continue to monitor interest rate exposure. See Note 13 —Fair Value Measurements to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion of our financial instruments.

## ITEM 4. CONTROLS AND PROCEDURES

With the participation of management, our principal executive officer and principal financial officer carried out an evaluation, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of September 30, 2020 because of the material weaknesses in internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) described in Item 9A - Controls and Procedures in our Form 10-K for the year ended December 31, 2019.

In conducting management's evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2020, we have excluded the operations of ChampionX Holding Inc. ("legacy ChampionX") as permitted by the SEC. As part of our ongoing integration of legacy ChampionX, we continue to incorporate our controls and procedures into legacy ChampionX subsidiaries and to expand our company-wide controls to reflect the risks inherent in an acquisition of this size and complexity. The legacy ChampionX subsidiaries account for approximately 51.1% of our total assets as of September 30, 2020.

Notwithstanding the material weaknesses noted above, our management, including our principal executive officer and principal financial officer, has concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with GAAP for each of the periods presented.

## Remediation Activities

As described in Item 9A - Controls and Procedures in our Form 10-K for the year ended December 31, 2019, we identified material weaknesses in our internal control over financial reporting. Management, with oversight from the Audit Committee, developed a remediation plan to address the material weaknesses. As part of our remediation plan, we have implemented new and enhanced processes, procedures and controls to address certain control deficiencies that led to the material weaknesses. Specifically, management has:

- Reviewed staffing competencies and resource requirements at ESP and within the Artificial Lift business and used the results of our review as part of our overall financial statement risk assessment process.
- Made personnel changes, including terminations and hiring of staff for both current and newly created positions, at ESP and within the Artificial Lift business in order to strengthen the control environment and to ensure we have a sufficient complement of resources with an appropriate degree of knowledge, expertise and skills commensurate with our financial statement requirements.
- Engaged third party experts to assist management in assessing and designing new and enhanced processes, procedures, and controls, including automation of certain processes and controls, at ESP and within the Artificial Lift business.
- Implemented policies, procedures and controls at ESP and within the Artificial Lift business to (i) ensure price and quantity are accurately recorded and supported by agreements with customers as part of the revenue recognition process and (ii) properly calculate and support management's review and assessment for the valuation of accounts receivable reserves.
- Implemented policies, procedures and controls at ESP to (i) ensure manual journal entries are properly prepared and reviewed for accuracy and appropriate supporting documentation and (ii) properly account for inventory transfers and fixed asset deployments and disposals as part of ESP's leased asset program.
- Conducted policies and procedural training for all personnel responsible for the performance of control activities over financial reporting as well as specific training for personnel responsible for control activities associated with manual journal entries, revenue recognition, accounts receivable, inventory and fixed assets at ESP and within the Artificial lift business.
- Enhanced and formalized certain elements of our Enterprise Risk Management program, including our review and response to significant business changes, within our risk assessment process.
- Implemented controls to ensure proper segregation of duties associated with user access rights to system capabilities within the general ledger, specifically the restriction of a system user's ability to both prepare and post journal entries.

## Changes in Internal Control Over Financial Reporting

Except as described above, there were no changes in internal control over financial reporting identified in the evaluation for the quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are involved in various pending or potential legal actions in the ordinary course of our business. Management is unable to predict the ultimate outcome of these actions because of the inherent uncertainty of litigation. However, management believes the most probable, ultimate resolution of these matters will not have a material adverse effect on our condensed consolidated financial position, results of operations or cash flows. See Note 7—Commitments And Contingencies to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ITEM 1A. RISK FACTORS

Information concerning our risk factors is contained in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 and is incorporated by reference herein.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) None.
- (b) None.
- (c) None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

#### Iran Threat Reduction and Syria Human Rights Act of 2012

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, the Company is required to disclose in its periodic reports if it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with entities or individuals designated pursuant to certain Executive Orders. Disclosure is required even where the activities are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and even if the activities are not covered or prohibited by U.S. law.

As authorized by the U.S. Treasury's Office of Foreign Assets Control (OFAC), a non-U.S. subsidiary of the Company which is part of legacy ChampionX completed sales of products used for process and water treatment applications in upstream oil and gas production related to the operation of and production from the Rhum gas field off the Scottish coast (Rhum) totaling \$0.13 million during the period from July 1, 2020 to September 30, 2020. The net profit before taxes associated with these sales for each period were nominal. Rhum is jointly owned by Serica Energy plc and Iranian Oil Company (U.K.) Limited. Our non-U.S. subsidiary intends to continue the Rhum-related activities, consistent with a specific license obtained from OFAC by its customers, and such activities may require additional disclosure pursuant to the abovementioned statute.



**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
<a href="#">22.1</a>	<a href="#">List of Issuer and Subsidiary Guarantors of Guaranteed Securities (incorporated by reference to Exhibit 22.1 to ChampionX's From 10-Q for the quarterly period ended June 30, 2020 filed August 7, 2020)</a>
<a href="#">31.1</a> *	<a href="#">Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">31.2</a> *	<a href="#">Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">32.1</a> **	<a href="#">Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.</a>
<a href="#">32.2</a> **	<a href="#">Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith

\*\* Furnished herewith

† Denotes management contract or compensatory plan or arrangement

## SIGNATURES

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

### **CHAMPIONX CORPORATION**

(Registrant)

/s/ ANTOINE MARCOS

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Antoine Marcos

Vice President, Corporate Controller and Chief Accounting Officer

(Principal Accounting Officer and a Duly Authorized Officer)

Date: October 30, 2020

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Sivasankaran Somasundaram, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ChampionX Corporation (the “registrant”);
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.

Date: October 30, 2020

/s/ SIVASANKARAN SOMASUNDARAM

\_\_\_\_\_  
Sivasankaran Somasundaram  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Jay A. Nutt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ChampionX Corporation (the “registrant”);
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.

Date: October 30, 2020

/s/ JAY A. NUTT

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Jay A. Nutt  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

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

I, Sivasankaran Somasundaram, President and Chief Executive Officer of ChampionX Corporation (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: October 30, 2020

/s/ SIVASANKARAN SOMASUNDARAM

Sivasankaran Somasundaram  
President and Chief Executive Officer  
(Principal Executive Officer)

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

I, Jay A. Nutt, Senior Vice President and Chief Financial Officer of ChampionX Corporation (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: October 30, 2020

/s/ JAY A. NUTT

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Jay A. Nutt

Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)